

EMERGING EUROPE

SPECIAL REPORT: **OUTLOOK ON BELARUS 2016**

FOREIGN INVESTORS:

Belarus offers opportunities but improvements are needed

WORLD BANK:

Belarus has to make an extra effort to change investors' perceptions

OECD:

Belarus has to find its own model to emerge

THE BELARUSIAN FINANCIAL SECTOR

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PALAZO

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- Planned Opening April 2018.



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FROM THE EDITOR

At the end of October 2016, the World Bank published its “Doing Business 2017” report and ranked Belarus 37th. It also included the country in the list of the ten most-improved economies. This clearly reflects the changes the country has been going through over the last few years, and there are quite a few of them.

I went to Minsk for the first time in 2014, and at that time, the country ranked 63rd in the report. Even though I am frequent traveller who tends to have an open mind when going to a new place, I must admit I was positively surprised by what I saw: modern and trendy restaurants and cafes, clean and safe streets and welcoming, hospitable and helpful people.

I also remember how happy and proud Belarusians were of the 2014 Ice Hockey World Championships, which were hosted in Minsk. The event attracted over 640,000 viewers, the second highest audience since the beginning of the century. Only the Championship held in the Czech Republic in 2015, had a higher attendance.

The last two years have been quite good for Belarus, as far as awareness of the country is concerned. The country has been involved in the peace negotiations between Ukraine and the Russian Federation. In February 2016, the European Union lifted most of the sanctions that had been imposed more than a decade ago, citing “improving EU-Belarus relations,” and in October, the country resumed its trade dialogue with the EU. Next, in June 2019, Belarus will hold the second edition of the European Games.

These changes are also noticeable in the society. There is a misconception that Belarus is a locked country and that Belarusians travel only to Russia. While it might still take a long time and a mountain of documents to obtain a visa at an EU embassy there are plenty of people who are applying. In fact, Belarus sends the largest number of Schengen visa applications per capita. In 2015, eight per cent of Belarusians, or 750,000, asked to travel to Europe and only 0.3 per cent were denied a visa, which is the lowest ratio compared to any other country.

Moreover, not only do Belarusians seem open-minded and curious about the west but they are also easy-going and have a sense of humour and self-irony. In June 2016, President Lukashenko made his infamous faux-pas at the People’s Congress, saying “innovations, IT-technologies, privatisation — it is all clear. We’ve conquered all of them. But everything is very simple; one should get undressed and work.” That triggered a nation-wide flash mob on the internet and made hundreds of people post photos of themselves naked at work.

But speaking seriously; having relied significantly on its large neighbour for the last quarter of century, as well as having had the same person in power for more than two decades, Belarus has an international image that does not reflect its reality.

Despite being ranked 37th in the Doing Business report, Belarus is no New Zealand, who is the new leader, having overtaken Singapore in the latest edition. The country still has plenty of reforms to introduce and challenges to overcome. The good thing is that the changes are taking place.

The *Emerging Europe* Outlook on Belarus is here to discuss the country and to give you a better understanding of where Belarus stands and what trade and investment opportunities it offers.

Enjoy!



**ANDREW
WROBEL**

*Editor-in-chief
Emerging Europe*

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is more interesting
than the misconceptions



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TABLE OF CONTENTS

8 | Belarus in brief

10
Foreign Investors: Belarus offers opportunities but further improvements are needed

14
Belarus has to make an extra effort to change investors' perceptions

19
Belarus is where the new Silk Road heads for Europe

22
EBRD Emerging Europe Outlook on Belarus – view from speakers



ECONOMY

28 | Belarus' economy is slowly recovering from past declines

29 | Belarusian economic recovery may downgrade intended reforms for competitiveness

30 | Belarus on the way to a market economy

32 | Belarus has to find its own Belarusian model to emerge

33 | Encouraging SME's development will help build Belarusian economy

34 | IMF believes state-owned enterprises must be reformed

35 | Business opportunities in Belarus encourage outside interest

36 | Belarus 2020: Turning the vicious circle into an upward spiral

38 | Changing old ideas and mixing with the new in Belarus' export market

40 | Belarusian economy on a diet to change its financial outlook

44 | Belarus and the EBRD: working to expand the country's strengths and success

46 | The deep roots of currency crises in the former Soviet Union



REAL ESTATE

92 | A new modern mall hopes to draw Belarusians back to the home market

94 | Office space vacancy is currently low but building standards cause concern

95 | The shopping experience is set to go global in Belarus from 2017 onwards



POLITICS

48 | Belarus's election tests the EU's global strategy

50 | The Eurasian Economic Union fails to bring Belarus closer to Big Brother

52 | The EU's benign neglect of Eastern Europe

53 | Will European business and institutions bolster the new trends that have appeared in Belarus?

54 | One belt one road: a big task for Europe

56 | While the EU makes plans for CEE China makes investments

58 | A strategic asset for regional growth and development in the EU

FINANCE

60 | The Belarusian financial sector: an industry in the process of restructuring

63 | The proof of a country's readiness to attract foreign investors lies in the development of the insurance market

64 | The Belarusian banking sector moving towards modernisation despite some challenges

66 | Winds of change for Belarus' reinsurance industry?

68 | Belarus and Singapore share the same factors for economic success

70 | Belarus is making the first steps onto the international finance floor

INFRASTRUCTURE

96 | Minsk International Airport widens its international reach

97 | The Great Stone Industrial Park — making doing business easy in Minsk

98 | Belarus has set an example for others to follow



ICT

71 | ICT in brief

72 | HTP: Belarus' engineers are leading a cool revolution

74 | Belarusian tech companies are leading a global technological advance in outsourcing and product development

78 | Young well-paid IT specialists are making Belarus known internationally

81 | Belarus is one of the top outsourcing destinations of 2016

82 | Business mentors helping to solve business development problems first

84 | Belarus is ready to begin with venture capital investments

85 | Falling student numbers and declining R&D result from lack of funds

86 | Innovation brings great opportunities to the Belarusian economy

87 | Why is Belarus tech booming?

88 | Rolling sales procedures together so everyone succeeds

90 | Outsourcing in Germany: stop talking at and start talking to



BREXIT

100 | UK shores the new frontier, a view on a series of fortunate events

101 | Brexit makes waves across the European Union and beyond



RELATIONS

102 | Belarus-US business relations thrive as conditions improve

104 | The UK and Belarus a partnership to introduce the real Belarus to Europe

106 | Italy and Belarus: a relationship based on complementarities and history

108 | Germany is not letting Belarus' small downturns put it off looking for investment opportunities

110 | Germany and Belarus thinking globally acting locally

112 | Belarus MOST builds a bridge to the future

113 | Long-time neighbours need to share awareness, plus trade and investment

114 | From Denmark to Belarus – a personal experience of business

115 | Veni, vidi, vici, or my personal experience of doing business in Belarus



AFTER HOURS

116 | Life in Belarus as seen by foreigners

117 | Belarus serves up some recipes for success

118 | Bringing Belarus' cultural past to life for Belarusians and the world

120 | Using words to paint a picture - Belarus' Nobel Prize winning novelist

122 | Feel the vibe of the city of Minsk



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In **JANUARY**, the first Belarusian communications satellite, Belintersat-1, was successfully launched in China. It was designed to provide a full range of advanced satellite services to Europe, Africa and Asia, as well as to ensure global coverage in the eastern hemisphere. The satellite cost \$296 million and is expected to be operational for 15 years. It is the largest telecommunications' project ever implemented in Belarus' history.

The retirement age is going up. Starting from **JANUARY 1** 2017, it will be raised by six months every year until it reaches 63 years for men, and 58 for women. Currently, Belarusian women retire at 55 and men at 60, so currently every fourth Belarusian is a pensioner. Because of the low retirement age, Belarus is among the leading countries for numbers of pensioners, even though it is not listed amongst the "old" European countries.

Belarus has taken new steps to facilitate visa procedures for foreign tourists. In **APRIL** it granted visa-free entry for citizens of the UAE and again in **AUGUST**, to Chinese tourists arriving in groups. At the end of **NOVEMBER**, visa-free trips to Belarus will become possible for Brazilian citizens. In **OCTOBER**, Belarus signed an intergovernmental agreement on visa-free travel for citizens of Argentina. In addition, in **OCTOBER**, the Augustów Canal Park in the Grodno region became visa-free for visits lasting up to five days. The country also continues visa-related discussions with the EU. In 2017, Belarus may also start issuing digital visas.

Belarus continues construction work on its first nuclear plant, located in the Astravets district of the Grodno region. In April, the IAEA Director General Yukiya Amano visited the site. The European Commission's Deputy Director General for Energy, Gerassimos Thomas, was another visitor and he focussed on the evaluation of risks and safety. Belarus initially planned to set the first unit of the NPP into operation in 2018, and the second one in 2020. However, in the meantime, the plant was forced to replace the reactor vessel following a transportation incident, which may result in delays.

In **JUNE**, a single antimonopoly body, the Ministry of Antimonopoly Regulation and Trade, was set up under the aegis of the Belarusian Trade Ministry. It's tasked to prevent monopolistic activities and to promote competition in commodity markets, prices and tariffs, public procurement, advertising and consumer protection. The government believes the new ministry will protect the country's internal market by creating equal conditions for all participants.

In **JULY** the National Bank devalued and denominated the Belarusian currency. The operation had been planned in 2008, but was postponed due to the global financial crisis. Now its goal was to improve money circulation, streamline accounting and settlements, as well as reduce public expenditure on servicing cash circulation, the National Bank of Belarus said. The currency code was changed from BYR to BYN and four zeroes were cut, making room for eight coins to be brought back into circulation.

Also in **JULY**, Belarus tightened employment rules for foreigners working for foreign companies. Since July 15, 2016, non-resident companies have been able to hire foreigners to work in the country only in two cases: if permission is granted by the president, or if the number of foreigners working in their Belarusian offices does not exceed five. Foreign companies can register a legal entity in Belarus; they can ask a Belarusian partner company to employ foreign specialists they need or they can hire Belarusians and foreigners who have legal residency in Belarus.

The Belarusian economy has been in a state of recession for the second consecutive year. Some major state-owned enterprises have been declared bankrupt. Many major companies have been affected by lay-offs. However, after strong fluctuations in the beginning of 2016, the national currency has shown a continued stability. By the end of 2016, inflation may fall and reach between 10-12 per cent, as projected by the government.

In **SEPTEMBER**, almost 500 candidates put themselves forward for the parliamentary election. The voting turnout reached 74.8 per cent. The opposition is now represented in the Parliament, for the first time in 12 years. They acquired two seats in the 110-seat chamber. The OSCE said the parliamentary elections of 2016 were efficiently organised and there were visible efforts to address some long-standing issues, however a number of systemic shortcomings remained. In **OCTOBER**, following the results of the elections, the US extended the suspension of sanctions against Belarusian companies for six months.



In **SEPTEMBER**, president Lukashenko visited China to hold a number of high-level meetings and to deliver a speech at Beijing University. Belarus and China signed a number of agreements and memorandums of cooperation in various fields, including the development of the Chinese-Belarusian Industrial Park project, the joint financing of scientific and technical projects, the environment, commerce, trade, banking and other spheres. The value of all the arrangements and agreements signed during the visit is estimated at \$11 billion.

In **OCTOBER**, Belarus ranked 37th among 190 economies in the World Bank's Doing Business. That's 13 places higher than in the 2015 edition. The country was also included in the world's top 10 improvers, based on reforms undertaken; alongside Brunei, Kazakhstan, Kenya, Indonesia, Serbia, Georgia, Pakistan, the United Arab Emirates and Bahrain. The report considered reforms conducted between June 2015 and June 2016.

In **OCTOBER**, Prince Michael of Kent arrived in Belarus to participate in business and cultural events. During a meeting with President Lukashenko, Prince Michael noted that road security was one of the main issues on the agenda of his visit and agreed that it is essential to develop and improve Belarus-UK relations. He also met with the Minister of Foreign Affairs Vladimir Makei. Prince Michael of Kent was the first member of the British royal family to visit the country.

OCTOBER brought yet another important development: Belarus was granted the right to host the second edition of the European Games in 2019. It has been decided that sportspeople will compete in some 12-14 sport disciplines based on the capacities of the already existing and planned sports' infrastructure. The ballpark figure for the budget of the European Games 2019, according to international experts' estimates, is \$30-40 million. Part of these expenses will be covered by the European Olympic Committee (EOC).

The global fall in oil and gas prices sparked a conflict between Minsk and Moscow. Belarus insisted the price of gas, imported from Russia, be lowered and received an 'out of the question' reply. In **MAY** Gazprom said the Belarusian gas debt had grown to \$200 million and reduced the gas supply. In the autumn, the debt grew to \$300 million. In response, Belarus decided to raise tariffs on oil and gas transit and insisted on a lower price. In **NOVEMBER**, the Belarusian prime minister said that the country would continue paying \$132 per 1,000 cubic metres for Russian gas, adding that Belarus was satisfied with other conditions the two parties had agreed on.

In **2016**, the Eurasian Fund for Stabilisation and Development Eurasia promised to allocate \$2 billion to Belarus. Two tranches totalling \$800 million have already arrived with the next expected before the end of 2016. Belarus expects to conclude talks about a credit programme with the International Monetary Fund (IMF). The country is negotiating a loan of \$3 billion for ten years at 2.28 per cent per annum. The fund will approve the credit programme on the condition that the Belarusian economy is liberalised.

Written by
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KORNUYSHKO**
In collaboration with
 **BelarusFeed**

Foreign investors: Belarus offers opportunities but further improvements are needed

“I wouldn’t say that it’s easy to operate in Belarus. What I can say is that, for some reason, the brand ‘Belarus’ appears worse than it actually is, at least for investors in the western world. Hopefully, with the recent improving trends together with the increasingly better relations with the European Union, that will change.”



A Velcom shop in Minsk (courtesy of Velcom)

By 2014, €15.8 billion, or over 23 per cent of Belarus’ GDP, was foreign direct investment (FDI) stock in the country, according to UNCTAD’s World Investment Report from 2015. Foreign companies invested €1.7 billion in Belarus in 2013 alone. 2014 and 2015 saw an FDI of about €1.4 billion respectively, according to the Vienna Institute for International Economic Studies (WIIW).

Andrew Wrobel spoke to the CEOs of Austrian Velcom; Swiss Stadler; Priorbank, owned by Austrian Raiffeisen; Irish Pure Energy Intelligence and senior representatives of Austrian Kapsch and German Salamander about their experiences in Belarus.

So far, the largest investment in the country has been the Telekom Austria Group’s acquisition of Velcom in November 2007.

Strategic investments

“The mobile telecommunication market in Belarus was liberalised in 2007, but its penetration level of 66 per cent is quite low compared to other emerging markets in the region,” says Helmut Duhs, CEO of Velcom, who has managed the company since 2007. “The Belarusian government started flirting with investors. We invested €1.3 billion first and then about €500 million more. Overall our operations in Belarus are better than our European

peers and it is constantly growing,” he adds.

Currently the company is looking to start operating in the fixed line sector but this market hasn't been liberalised yet and is under a state monopoly. The same applies to the energy sector, where Irish Pure Energy Intelligence operates.

“We are a boutique investment company. We specialise in renewable energy development. We have projects in Canada, Ireland and Chile. We have been in Belarus since 2010 and have invested about €1.6 million,” says Torsten Merkel, the company's CEO.

“When we arrived in Belarus, we had already demonstrated a strong market footprint in Russia and Ukraine and Belarus was another regional market with huge potential for developing the banking sector,” says Christof Danz, Head of International PR in the group, which acquired Priorbank from the European Bank

hubs. “The government had the political desire, and the economic background, to monetise transit facilities in the most effective way and it decided in favour of one of the world's most highly regarded providers of intelligent transportation systems (ITS) after a careful evaluation of the business case,” says Sergey Boury, Marketing, PR and Liaisons Manager at Kapsch Belarus.

Kapsch signed an investment agreement with the government and thus started the first public-private partnership project (PPP) in the country, in 2012, with an investment of €267 million.

“An investment agreement is usually signed if an investor wants to receive some additional preferences from the state for a certain period of time. At the same time it is not an obligation, but one of the possibilities for an investor. A number of international companies operate efficiently in Belarus without having investment



for Reconstruction and Development (EBRD).

Sergey Kostyuchenko, Chairman of the Board at Priorbank, Raiffeisen Bank International AG and an Honorary Consul for Austria in Belarus, says the Raiffeisen Bank made a conscious decision to come to Belarus.

Spotting opportunities

“In all of our 12 years of operation in the Belarusian market, Raiffeisen has been receiving a steady income,” he adds.

Austrian Kapsch entered the Belarusian market because its geographical location, as one of Europe's most important traffic

agreements,” explain Priorbank's Mr. Kostyuchenko.

Velcom has recently announced its plans to invest in Pure Energy Intelligence's solar-energy park, the first large-scale solar PV plant in the country. “This project was launched 30 years ago after the Chernobyl disaster and is backed by an appropriate investment contract with the state. We believe that with such an investment, it is necessary to define the framework over a longer period of time before investing. In our core-industry we don't engage in this way but rather push for a general and transparent setup,” says Velcom's Mr Duhs.

Looking to the East

In 2015, Felice Massaro, previous CEO of Stadler Belarus, told *Emerging Europe* that the management of Stadler had carried out a very thorough market investigation before it made the decision to invest in Belarus. The reason behind establishing the factory in Fanipol was the available qualified workforce, its proximity to broad gauge countries and the country's Customs Union with Russia and Kazakhstan. But the fact that by that time, the company had already received orders from BZD was also a driving force to vote for Belarus.

"What we can confirm is the fact that Belarus is part of the Customs Union was a key point when we made our decision to invest here. Because of this we are able to comply with the current conditions in Russia, where in the case of any procurements being required, the local added value has to be at least 80 per cent. If Belarus was not part of the Customs Union, we could not comply with this condition," Mr Massaro added.

In 2016, Stadler plans to invest €4-5 million in the plant in Fanipol. German Salamander, which boasts an almost 90 year history of shoe production, has also been producing window profiles for over three decades and the latter is what the company produces in Belarus.

"We have been in Belarus since 2008. We bought shares in an existing company, which we took over entirely in 2010. That was an investment of about €11 million," says Peter Kogge, Global Head of customer service at Salamander Industrie-Produkte.

"The original idea was to get closer to our Russian customers and to avoid expensive imports from the EU. Now we benefit from the stable market in Belarus and compensate our missing business from Russia with sales to other countries such as Kazakhstan, Armenia and Uzbekistan etc. and as well as Romania and Turkey."

Incentives on offer

The company operates in the Brest Free Economic Zone (FEZ) and just like Stadler they invested in Belarus in order to reach out to Russia and the other Eurasian Economic Union (EEU) countries. Investing in a FEZ granted Salamander free rent for the first five years and now they are paying \$0.10 per square metre for the next 94 years. They also enjoyed no tax on profit for the first five years and reduced VAT (50 per cent) on domestic sales.

"The main advantage was the possibility to import raw material (PVC) from the EU without duty. This benefit will stop for sales in the Customs Union by the end of 2016. This will force us to use special reports and separate booking processes," Mr Kogge adds.

Stadler's factory is located in the Minsk FEZ. "Making such a serious investment is a great challenge in any country, but the best example of how Stadler was able to carry out the project is that the factory in Minsk was built in just 18 months, which was possible because of the special attention we receive in Belarus and the support and assistance we got from local authorities," said Mr Massaro.

"Telekom Austria Group is by far the biggest western FDI in Belarus; they don't ask for any asymmetrical incentives but rather they continue to argue for the same conditions as every other market participant. Judging by their continuously increasing revenue-market share, this approach is the right one and is the most sustainable one for Belarus," says Velcom's Mr Duhs.

In his opinion, one of Belarus' greatest advantages is its people. "It was one of the key arguments that were advanced when we



Train production at Stadler (courtesy of Stadler)

discussed investing in Belarus. In the technical area people have outstanding skills. When it comes to other areas, such as the commercial, strategic and branding fields we have had to develop know-how on our own," Mr Duhs says.

"The professional skills of our employees are really impressive; all of them have a great deal of experience of working in other companies. That was a common input from both sides: they gave us their personal knowledge and skills and on our side, for instance, we organised training in Switzerland, Poland, Hungary and the Czech Republic," said Mr Massaro.

Mr Merkel believes that there is a sufficient supply of well-educated dynamic young people with a modern mind-set in the country, especially in the Minsk area. "They should also be less modest as they are probably much better than they think they are," adds Pure Energy's CEO.

Benefits and challenges

Investors also point to the labour costs, which are lower compared to the Eastern European markets. They also believe that the government should do away with the bureaucratic red tape but that it is manageable for the moment.

"You need to invest time and people to deal with that. You need to identify the right person who is responsible for a certain thing, but if you are aware of that and prepare for it in advance, you are fine. We haven't been forced to delay any of our projects because of that so far," says Salamander's Mr Kogge.

"The bureaucratic machine works very accurately so that if you are notified that you will receive a reply within 30 days, for example, you can be sure that you will. The governmental agencies stick to what they have promised," Mr Merkel adds.

"When the related areas are properly regulated it adds assurance and confidence to your business. The investment legislation in Belarus regulates all the key areas correctly and secures your investments. But multiple collateral procedures such as certification, licensing, getting numerous permissions and approvals, especially on local levels – are complicated and definitely require the resource of local experts to handle them properly," says Kapsch's Mr Boury.

Velcom's Mr Duhs says that on top of the typical challenges that face telecommunication companies, e.g. weak regulation regarding fair competition in state dominated sectors compared to



Priorbank's offices (courtesy of Priorbank)

retail price-regulation in markets under high competition, Belarus' macroeconomic environment has showed very high volatility in the last seven years.

"Such challenges allow, or force you if you don't adopt them in time, to reinvent your business model, which can create sustainable value. As an example, Velcom with its scheme of micro-financing electronic equipment has a benchmark-setup in Europe," he adds.

Priorbank's Mr Kostyuchenko believes that the formula of a successful business is precisely the ability to manage all the opportunities offered by the country properly, regardless of the country. "There are obstacles and difficulties in any business. It is more important to see the possibilities," he adds.

Dealing with external factors

According to the official exchange rate of the National Bank of Belarus, on June 1st 2014, \$1 cost BYR10,090 (BYN 1.01). Two years later the price has gone up to BYR19,788 (BYN 1.98). How is that affecting businesses?

"Heavily," says Velcom's Mr Duhs. "Naturally, if you are an exporter it's an advantage, if you are an importer it's a disadvantage and we import and sell in local currency only. If we look at the long-term line of our revenues, we are growing not shrinking so we have been able to overcome this. This didn't happen immediately, but we managed to be very efficient, for example, we have the lowest

revenue per user in Europe, but the highest margin," he adds.

The recession in Russia, which was a prospective market for some foreign investors in Belarus, could be another obstacle.

"Because of either, the exchange rate of the Russian rouble or the low world price of oil and gas, the economic situation in the CIS region has had quite a serious impact on the railway industry and we have also experienced this in Russia and the surrounding countries. However, the Russian Federation still remains strategically important market for us, but obviously when a market is slowing down we need to explore other opportunities as well, so that we have the capacity we need to feed orders. We believe that the current situation is only temporary and we are ready to race when the competition opens up again," said Mr Massero.

When asked, all investors unanimously agree that investing in Belarus was a good decision. Is it easy to operate? Here the answers are less similar.

"I wouldn't say that it's easy to operate in Belarus. What I can say is that, for some reason, the brand 'Belarus' appears worse than it actually is, at least for investors in the Western world. Hopefully, with the recent improving trends together with the increasingly better relations with the European Union, that will change," concludes Velcom's Mr Duhs. ●



Belarus has to make an extra effort to change investors' perceptions

After nearly a quarter of a century of development cooperation with Belarus, the World Bank's active project portfolio has reached \$1 billion. The organisation is now engaged in projects in just about all major development areas and maintains a strong policy dialogue on the country's structural reforms' agenda.

Young Chul Kim, the World Bank's country manager for Belarus, talked to Andrew Wrobel about the opportunities for sustained growth that exist in Belarus and the changes the country is making in order to attract more foreign investment. They also discussed the advantages that the country has to boast about.

The World Bank has been working in Belarus for the last 24 years. What projects have you been engaged in over that time?

Over the years, we have financed the country's development project portfolio to the tune of over \$1.5 billion. Initially, having focused our cooperation mostly on infrastructure services; now, we are working in all the key developmental areas. In particular, we have significantly expanded the size and the scope of the programme, since rolling out our Country Partnership Strategy (CPS) for Belarus, in June 2013. We are now implementing projects in road transport, energy, water and sanitation, solid waste management, forestry, education, and public financial management.

Three years ago, our active project portfolio was worth about \$375 million. Now, it is worth \$998 million and will soon reach \$1.2 billion, when two new projects for the private sector and health sector development are added this year.

This expansion is notable not only in the sense that the amount of financing is increasing but also, and more importantly, because we have been able to build a strong mutual trust with Belarusians. Projects in education and health care represent the first time that Belarus is borrowing from foreign partners for social sector development. In health, the forthcoming project will bring e-health

solutions, specialised training labs for general physicians and the refurbishment of a neo-natal care unit.

We are also continuing with our policy dialogue on key structural reform areas, including measures to enhance the competitiveness of the Belarusian producers.

I believe an analysis of the country's economic challenges and opportunities, which the World Bank completed in 2013, is one of such projects.

Yes, you are referring to the 2012 Country Economic Memorandum for Belarus. Based on this report, which we prepare every five-six years, the government asked us to help the country overcome some of the structural challenges the report had identified. After year-long discussions, we came up with a roadmap for reform last year that identifies six main challenges.

What are the main challenges?

I would say macro stability is the most important challenge. The argument there is: if I am an investor who is interested in bringing my capital to Belarus, I shouldn't need to worry about how much that money will be worth in, say, six, months. In an unstable economy, the invested capital can be subject to devaluation, depreciation and inflation etc. As we know, a stable economic environment is needed to foster investment. During the past 18 months, there has been a consistent and prudent macroeconomic policy in place, so the first condition for long-term investment has been met.

Another challenge is for state-owned enterprises (SOEs) to become more efficient and competitive. If they make progress in reducing cost and raising productivity, there will be more investors interested in entering into joint-ventures with them. Then, the SOEs will rely less on state subsidies because they generate more profits on their own. This in turn means that financial resources in



Young Chul Kim (right, courtesy of UNITER)

the economy can flow more towards the private sector. However, making SOEs more efficient and competitive requires streamlining their product range and opening new markets which naturally takes time and money.

In a planned economy, the state gives state-owned companies quantitative production targets and budgetary funds with which to reach those targets, so there is no real incentive to improve the quality of their products. In addition, there are implicit and explicit price ceilings, vis-à-vis consumer goods and component suppliers, which are often very inflexible. This meant that you can't adjust your prices based on economic principles. The market is left with unmet demand at the price ceiling rather than clearing at the equilibrium price where supply and demand curves meet. So if you operate under a price ceiling, you have to overproduce because the market would ask for more quantities when prices are lower than the equilibrium. As a producer, you either need to acquire more budgetary funds to produce them or you have to lower the quality, in order to meet those quantities.

That sounds unsustainable, doesn't it?

Yes, this is what may have happened in Belarus in the past and why price deregulation is so important for firms' competitiveness. The country has also been very much dependent on exports to Russia which, in retrospect, may have reduced the need for product upgrading in Belarus.

There are many academic papers suggesting that Russia has been suffering from "Dutch disease" associated with oil and gas resource boom. Associated with the Russian boom, Belarusian exports to Russia also grew, although relatively less than those from China. Now that exports to Russia have collapsed, we now need to discover new markets which require the upgrading of a wide range of products through introduction of new designs and technologies.

How can Belarus do that, now?

Well, first of all, you cannot do it all at once, across the board, because it costs a lot to upgrade; you need to be selective. There is little room within the budget to support product upgrading after meeting the country's social spending. You also have to find a transformation strategy which maximises the viability of the existing production system. Otherwise, you can end up de-industrialising the economy.

It is a delicate and difficult task to preserve Belarus' significant industrial capacity, without keeping inefficient companies afloat in order to provide employment. It is even more difficult during a recession to achieve product upgrading, discovery of new markets, and transformation to higher value production. We will have to find a strategy to bring external or foreign savings to Belarus preferably in the form of investment rather than loans, and to find ways for foreign investors to put up their money, work with Belarusian producers to upgrade products and open new markets, and make decent profits together.

Some monumental change is already happening in Belarus, first in the business culture – a move from a philosophy based on quantity toward one focusing on quality, from a system relying on subsidies and state loans to one driven by own-generated profits, toward a business mind set which optimises the level of inventories and minimizes how much operating capital you have to carry.

All of these represent a very determined strategy for change, not just a routine modernisation. Now Belarus needs to further develop the logic of change and sell it to potential investors, I would argue, far better than its neighbours. There have recently been many encouraging signs of a systematic effort being made by Government and industries alike in order to overcome the structural constraints. The policy on phasing out directed lending is one of such signs.



(courtesy of the World Bank)

Do you think the Belarusian government is close to understanding that logic?

Indeed, I have had enough discussions with people in government and the political leadership to know that there is not only an understanding but also increasing interest and commitment. The debate during the two and half years I have been working in Belarus was more on how to do this, not on whether to do it.

Although Belarus does not have many natural resources, it does have a deep tradition and capability in sciences, engineering, and innovation. On top of this, Belarusians are very hospitable and decent people who have exceptionally strong work ethics. So I am an optimist about Belarus!

I don't think Belarus is in the top ten investment destinations for foreign companies, is it? What can be done to attract foreign investors?

Well, part of this is comes from the stigma of its being labelled as a centrally planned economy, heavily controlled by the State. The market tends to see things wholesale based on news headlines — that nothing operates on market principles and that there is excessive regulation. That may have been true in the past, to some extent, but there are also quite a few misperceptions. The part of the investor perception that is not true or exaggerated is the stigma.

So when we look at the current image of Belarus as an investment destination, how much do you think is reality and how

much are misconceptions or so-called stigma, if you will?

I think the stigma has had a significant impact on foreign investment. It is not easy to get potential investors who have never set foot in the country to change their minds about the news that they assumed was true. Belarus has to make an extra effort to change perceptions and actively reach out to the investor community in order to overcome the stigma.

They say “seeing is believing” — foreigners who come to Belarus invariably leave with a positive feeling and affinity for the Belarusian people.

In this respect, I hope more foreigners will come to Belarus to take a look. For instance I would love to see changes that make it easy and cheap to get visas for businessmen or tourists. E-visas issued on the web could represent a radical but powerful solution to tell foreign investors unequivocally that they are welcome to look around for opportunities.

There are other things that can be done which don't cost a lot of money. For instance, it costs nothing to uphold principles such as sanctity of contracts and protection of private property, etc. Such principles are now explicitly mentioned in several draft decrees and amendments under discussion, and will go a long way in undoing misperceptions.

One other thing I would do is to put all the relevant legal protection of investors into a special decree and showcase it as part of an outreach campaign to the investors' community, together with

investor facilitation measures. With time and a consistent track record, we will be able to remove the stigma and draw investor's attention to all the strength and benefits this country offers.

And as you said, these steps do not cost much. I believe there are other steps that are more expensive, aren't there?

Sure. We've already talked about state-owned enterprises, which are the largest employers in the country. As we said earlier, they are neither as efficient nor competitive as they can be; plus there is over-employment now that the market is down. But it's not only excess labour that keeps operational costs high. During the last decade, companies imported a lot of new machinery and equipment but they haven't fully paid back the debt incurred during the factory modernisation phase. So servicing that debt makes up a significant share of today's costs. One can consider some restructuring options such as debt-equity swaps to reduce debt overhang, provided that SOEs have strong rationalisation plans.

The other effort that is being made in the SOEs is to streamline product offerings, open new markets, and focus on raising profitability and sustainability. This trend represents the soft re-engineering of business lines whose benefits will likely surpass the impact of plant and equipment modernisation.

Companies are very interested in doing serious market research to see which five models in their business line are the best-selling ones and have prospects for market growth. Then they concentrate money and effort on those five, which is a different business model than the quantitative target model of the past. It is now thought to be better to enter into joint ventures with foreign partners who not only can bring new financing but also their market-tested product designs, production techniques, and their established marketing and supply chain networks.

I think there is now a greater awareness of this approach and some company directors have already started contacting potential investors. One positive side-effect of the Russian market collapse in 2015 is that it set in motion the adaptation and coping mechanisms in Belarus which were badly needed. I believe the transformation has started already.

As you said, this would be very expensive for the entire economy.

Yes, if all mid-course corrections were to be done at once, it would require a lot of financing which the country doesn't have at the moment. So, Belarus has to be selective, and do its best to attract foreign investment. If we look at the rest of the CEE region, the countries which embarked on structural reforms ahead of others have already managed to overcome these challenges, and are moving into higher value industrial segments. They were lucky in the sense that when they joined the European Union and started their privatisation process, there had already been some European investors interested in finding alternative production sites in order to reduce their own costs. They were also mentally ready to re-establish the historical links. There were also a lot of public funds available to be spent on capacity building and entrepreneurship development.

Belarus doesn't have that kind of support, neither from the Eurasian community nor from global financial markets. In effect, it has never had support comparable to that of EU accession countries. Even the Russian energy subsidies of earlier days are becoming less generous and less predictable.

Belarus needs to stand on its own and build on its own merits.

Comparing the country to other former Soviet countries, we find that it has many strengths, it is resilient, and is better equipped in many sectors to compete in the global market. Besides, Belarus is quite clean, as far as corruption is concerned. Just look at our Minsk-Gomel highway project — European highway standard at one of the lowest construction costs per kilometre in the region.

Belarus is open for business and will facilitate investors who can bring technology, financial resources and their market networks.

When we look at the Doing Business report, Belarus ranks 44th. It seems that on the one hand there has been a lot of improvement in the business climate, but on the other hand, we see countries which have climbed up the ladder where businesses don't see much improvement in their day to day operations. In an interview two years ago, former Minister of Economy, Nikolai Snopkov, told me I would see Belarus leap in the ranking.

Ten years ago, Belarus ranked 106th out of 155 countries in the DB ranking. Now it ranks 44th out of 189 countries. So in ten years, the country moved from the bottom third group to the top quarter group which is remarkable. The rapid climb in the ranking was possible, to some extent, because the government focused on reforms that would have larger effect on the ranking. There have also been changes in the DB methodology which have helped Belarus. However, it is difficult to explain a consistent climb in the ranking without policy changes that are good for business.

I was not here ten years ago, but I will bet my house that the investment climate in Belarus is better now than it was a decade ago and will get better still.

I think it is important for the government now to ask a different question: if we have climbed up in the ranking so much, why haven't we seen a stronger inflow of investment? In addition to all that has been done over the years to achieve the current position, what should the government do in order to translate the Doing Business indicators into actual investment?

Clearly, I think Belarus should ask which of the 43 countries ranking higher on Doing Business have also been able to attract investors. What have they done in addition to improving their Doing Business performance? Moving beyond the mechanical introspection on how it does on various country rankings, Belarus needs to study countries which have attracted large amounts of investments and recreate the conditions they offered to investors.

When your talk to foreign investors what questions do they usually ask you?

I would say they often ask about the regulatory environment and property rights. We talked about this earlier. I spend a lot of time telling investors why they should be the first movers in developing business ties with Belarus. When they have specific concerns about investing in Belarus, we, as the World Bank, do our best to bring them to the attention of the government so that necessary changes can be made.

I also tell investors to look at the scientific and engineering tradition which is still strong in Belarus. The first fully manufactured truck in Belarus was produced in 1947. To put it into perspective, South Korea, my own country, today produces Hyundai and Kia cars on a global scale. Not many people know that Korea produced its first own-brand vehicle only in 1975. Belarus' broad industrial base is a big advantage for investors looking at new production sites. Belarus also has the inherent capability to innovate if pro-



(courtesy of the World Bank)

vided with a reliable platform and a bridge to the global market.

Another advantage is the education system, capable of producing skilled labour. Skills regeneration capacity has been retained here, with a significant portion of public spending going to education. Skilled labour in Belarus is cheap and abundant compared, not only to the EU, but also Saint Petersburg or Kaluga.

Now what you need to do is to translate these advantageous factors to access the global market, right?

If you are a European producer of factory equipment or high precision instruments, for example, China is already at your doorstep. In terms of proximity to the market, as well as factor costs, a joint venture with a Belarusian company can still give you a fair chance of competing with emerging low cost producers and buy you the time needed to innovate yourself into higher added value, high technology, upper-tier market.

What would be the profile of a European company that could benefit from investing in Belarus?

I think companies whose traditional business lines face increasingly stiff competition from Asian producers should look at Belarus which has a good skills base and offers relatively low factor cost. The Carl Zeiss Group entered into a joint venture with BelOMA to produce high precision camera lens and microscopic equipment. Moscow Aeroexpress line is being upgraded with trains made in Belarus. There is interest from global medical equipment companies to produce X-rays, CT scanners, components for MRI scanners in Belarus.

However, I need to also mention that some of these products are already produced in Belarus and exported globally!

To me, I think a win-win solution can be found for many European producers if they would just come to Belarus and look around. One can definitely create higher value at lower cost in Belarus, and that is where the investment opportunities are.

We were talking about the negative image of Belarus; we need to add there are many people who make generalisations and sometimes make comments even though they have never been here.

Well, before I came to Belarus, I also came across a lot of articles which were negative about the country. Over time, I found that some of the same old articles from the past were being recycled by the media. New stories were being re-written on the basis of old pieces. So it is difficult to get outsiders to take a fresh look at the country – we called it the stigma earlier. It is like phantom pain of a severed limb.

Belarus has many scars from the past. If we look at the Chernobyl catastrophe, the country is still suffering. Chernobyl was actually a nuclear power facility in Ukraine not in Belarus but it was Belarus that got bombarded with nuclear fallout. Did anyone compensate Belarus for the damage? Since its independence, Belarus has spent \$22.5 billion in direct costs to take care of its Chernobyl victims. If Belarus had a spare \$22.5 billion today, it would be able to pay for a good chunk of the cost of transforming itself into a high-income economy.

However, since the reality dictates otherwise, Belarusians will do their part to attract investors who are willing to take the first step. I am sure Belarus will soon establish itself as a hospitable and friendly investment destination. I just bet my house on it, didn't I? ●

Written by

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Belarus is where the new Silk Road heads for Europe

“Instead of investing in a production plant in China, companies from Europe can have Chinese partners at Great Stone. I see great opportunities for European companies to be closer to China, to be the neighbour of a Chinese company without facing the biggest disadvantages of operating a plant in China.”



Belarusian president, Alexander Lukashenko, is off to China to meet his counterpart, Xi Jinping, during a three day visit at the end of September. “We need a breakthrough in our relations. We need to not just take relations with the People’s Republic of China to the next level, but to shift them into a new orbit. You can see that they are ready for this,” President Lukashenko said, in July, when he appointed Kiryl Rudy as the new ambassador to China.

According to the Chinese statistics, bilateral trade reached \$3.2 billion, in 2015, having increased by 5.6 per cent. The Asian giant has become Belarus’ third largest trading partner. China’s total investment in Belarus amounts to \$1.34 billion. The two countries are implementing 30 joint projects in electricity, energy, the electrification of railways, the reconstruction of roads, the construction of cement plants, car assembly facilities, small and medium-sized businesses and other areas.

The apple of the eye

“One of the elements in the strategic cooperation between Belarus and China is the project to build the Chinese-Belarusian Great Stone Industrial Park. The park is a most important and exemplary joint project,” Nikolai Snopkov, Deputy Head of the Belarus President Administration and former Minister of Economy, said during the Belarusian-Chinese intergovernmental committee for cooperation, held in August 2016, and as reported by the BelTA News Agency.

The idea of creating the park was first voiced by Xi Jinping, then China’s Vice President, during his visit to Belarus in March, 2010. In October, during Mr Lukashenko’s official visit to China the Belarusian Ministry of Economy and the Chinese engineering company, CAMC, signed an intergovernmental agreement which was ratified in, January 2012. The joint Chinese-Belarusian

company for the development of the park, in which China owns 60 percent of the shares and Belarus, 40 per cent, was set up in August 2012.

“Belarus was the first country to support the idea to renovate the ancient Silk Road, which has been developed. Since then the Chinese government has been focussed on the creation of a new route. Belarus’ location predetermined its position within the Silk Road [aka One Belt, One Road] and made the industrial park a key element of that route. For this reason, Great Stone can be thought of, not only as a location for transfers, but also as a place where goods can be stored, packaged and even produced,” says Krill Koroteev, First Deputy General Director of the Great Stone Industrial Park Development Company.

An innovate eco-city in the making

Ansgar Rudolph, project manager at InSite Bavaria, a German competence centre for industrial site development that is owned by the Technical University of Munich, says investment opportunities in Belarus are little known in the West. “It is important to remember that the Industrial Park is at the crossroads of Western and Eastern Europe, on the way from Berlin to Moscow but also connecting the Baltic Sea with the Black Sea,” he adds.

The park is located close to Minsk International Airport on the E30 European route which stretches from Ireland to Siberia and it is 500 km away from the nearest harbour – Klaipeda in Lithuania. Its total area amounts to 91 sq. km and the park holds the status of an economic free-zone.

“The main idea behind the Industrial Park was to establish an innovative and high-tech manufacturing site with high export potential. The requirements for becoming a park resident are higher than in the other six Belarusian SEZs, in order to guarantee that innovative projects are attracted. Additionally, park residents enjoy greater tax benefits. Most importantly, Great Stone is not only a place for doing business, but also an eco-city with comfortable living conditions for approximately 200,000 people and is located close to Minsk,” Mr Koroteev adds.

The park’s current residents have planned investment projects in telecommunications, railway vehicle production, biotechnology, mechanical engineering, R&D and logistics, with the latter being the driving force behind the park. Other sectors favoured by the

park are electronics, pharmaceuticals, fine chemicals, machinery and new materials.

European expansion plans

For the ZTE Corporation, a global telecommunications leader and an industrial park resident, it is the actively developing telecommunications market Belarus which encouraged the company to invest here. Now the company wants to create a research centre to analyse and predict the development of the European telecommunication’s market.

Another resident, Chengdu Xinzhu Silk Road Development, part of the Xinzhu Corporation, is one of the main suppliers of international road and bridge construction equipment: They are currently assessing the process of implementation for electric buses with supercapacitors (SC) in Belarus, which will help to introduce Chinese technology into the country and, eventually, enable Xinzhu to introduce their products into the CIS and EU countries.

“The construction of the new Silk Road, which will connect China with Europe and strengthen cooperation with Asia and Africa, is the creation of a trade corridor for the direct delivery of goods from East to West. The Xinzhu Corporation intends to carry out further international cooperative development but at the same time they would like to minimise the risks and barriers to trade and investment,” Venera Gundar, chief lawyer at Chengdu Xinzhu Silk Road Development, told *Emerging Europe*.

“ZTE Corporation considers this initiative a unique chance to make a big step forward, because the most active development of the company is connected with global cooperation,” says Siamion Dzirko, Chief Commercial Officer at the Belarus Development Office of ZTE Corporation.

Safer access to the Chinese market

China’s One Belt, One Road project aims to make central Asia more connected to the world, but the country is not the only investor in central Asian connectivity. Multilateral financial institutions, such as the Asian Development Bank, the European Bank for Reconstruction and Development and the World Bank have been investing in the region’s infrastructure for a long time. Countries such as Kazakhstan, Turkey, the US, and even the EU have also made improving Eurasian connectivity a part of



Construction works at the industrial park (courtesy of Great Stone)

their foreign policy. International businesses are also looking for potential benefits in this area.

“We are working on an agreement between a German park, a Chinese park and Great Stone to create a chain of free economic zones along the Northern Corridor of the One Belt One Road in order to facilitate the transportation of products from Western Europe all the way to China and back. This is not only to let them pass, but also to integrate locations along the way into a value chain route, according to common standards. I see an opportunity for Western companies to get into this production value chain with Chinese companies, right there in the Great Stone Industrial Park,” says InSite Bavaria’s Mr Rudolph.

“Currently all the land routes of the new Silk Road Belt start in China and come to Europe. China is the European Union’s number one importer. That means that any economic risks related to the Industrial Park are on a minimal level. Conversely, investing in the park may provide plenty of opportunities. First of all, the industrial park may be considered a platform for the markets of Eurasian Economic Union (EEU) members through the use of a preferential regime. Secondly, they can enjoy the support and assistance of their Chinese partners, in a logistic sub-park that promote goods to the Chinese market,” Mr Koroteev adds.



Kirill Koroteev (courtesy of UNITER)

A threat or an opportunity

“Instead of investing in a production plant in China, companies from Europe can have Chinese partners at Great Stone. I see great opportunities for European companies to be closer to China, to be the neighbour of a Chinese company without facing the biggest disadvantages of operating a plant in China. Great Stone is the first transnational industrial area that provides a common ground for European and Chinese companies and that implements common standards for the two business worlds,” says Mr Rudolph.

“Great Stone is going to be an international area with businesses that represents various nationalities but we are also very close to the European Union, which offers new technologies, high levels of management, high standards of quality of manufacturing and high ecological standards. At the moment we are in the process of obtaining the Eco-Management and Audit Scheme (EMAS) certification,” says Mr Koroteev.

There are concerns that the One Belt, One Road initiative,



Xi Jinping and Alexander Lukashenko (courtesy of president.gov.by)

which according to Beijing is set to eventually reach 4.4 billion people in more than 65 countries, is designed, not just to create new trade and investment opportunities for China, but to accelerate the build-up of Chinese influence in Asia, Africa and most importantly in Europe. China has started to engage Central and East European (CEE) countries which are hungry for foreign direct investment in a new corporation framework thus making them dependent on Chinese capital.

“By aligning its existing approach to Central Asia with the Silk Road, the EU could use the security dimension of the infrastructure network that Xi Jinping himself has imbued it with. The EU could become not just part of, but a contributor to a Eurasian security network in the making. [...] By devising a common European response to the Silk Road, the EU can move from economic considerations at the FDI level, to incorporating the Silk Road into its own Global Strategy,” analysts of the Netherlands Institute of International Relations Clingendael wrote in their paper ‘One Belt, One Road’ — An Opportunity for the EU’s Security Strategy, published in December 2015.

Building a bridge

“China and the EU share common values: smart sustainable and inclusive growth; enlarging and deepening cooperation; the importance of networking in the framework of our mutual dialogue,” said Corina Crete, European Commissioner for Regional Policy, after the roundtable discussions held in May 2016, in Brussels.

For Belarus, which is naturally counting on more Chinese investment, the relations with China may be strategic, as the country is positioning itself as a bridge between the EU and China and President Lukashenko’s ninth visit to Beijing is bound to strengthen the relations.

“By facilitating the two giant economic entities [i.e. China and the European Union] coming together through the Great Stone Industrial Park route, Belarus has set an example for others to follow,” Dr Mohammed Alzarooni, Chairman of the World Free Zones Organisation, said in an interview with *Emerging Europe*. ●

The country shows promise but needs some reforms

Written by

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All photos:

Dermot Doorly
(courtesy of the EBRD)

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On 24 October 2016, policymakers, investors and prominent business people got together to discuss the economic outlook on Belarus as well as investment opportunities in the country. *Emerging Europe* asked some of them what they saw as prospects for and obstacles to the country's development.

Alain Pilloux, vice president of Banking, European Bank for Reconstruction and Development:

"Our shareholders approved a new country strategy for Belarus on the seventh of September, this year. The first point is that we will continue to emphasise activities in the private sector, both with local and foreign companies who are resident in the country, and who are using both the debt instrument and the equity instrument. However, within the context of the new strategy, we would also like to expand our activity into the municipal sector, which is so important in the life of ordinary citizens.

Today, I signed three projects in the municipal sector, with the Belarus authorities, in the towns of Orsha, Polatsk, and Lida which are about wastewater treatment. We would also like to do more to commercialise and improve the governance of state owned companies within our strategy, as well as doing more in the infrastructure and energy sectors. This is provided the Belarusian authorities can come up with some reforms.

We are working with the Belarusian authorities on the possible privatisation of a state-owned bank. As part of this process the Belarus authorities have had to do a lot of things in order to transfer non-performing loans so that they could dispose of non-core assets, etc. They are completing their part of the deal and we will be doing our part of. It will be exactly the same process in other sectors. What is important is, of course, the willingness on the part of Belarus to move forward.

It is a good timing in Belarus, perhaps because of the economic woes and the country's urgent need to grow and revitalise productivity. It is not a good moment to move ahead with reform and to make sure that the country achieves growth which is consistent with its plans."

Alexander Zaborovsky, First Deputy Minister of Economy of Belarus:

"Sometimes, there are a lot of different perceptions. Of course, every investor wants to understand the risks beforehand and in order to create really successful projects, our main message is: visit Belarus; see the real opportunities. The Belarusian government will help secure some risks because we have a variety of instruments to do that.

Currently we see that it is a good moment to cooperate with Europe and with the United States. We are usually a very open and friendly country. The main ideology of Belarus is to unite - to be a bridge between Europe and Eurasia.

Our government supports the ideas of: creating opportunities and environments, equal opportunities, of each business units supporting the private sector and finding niches for real business cases. In reality, the main, or a big part of, the economic policy it's to create an equal opportunity for all companies – for regional companies, for Belarusian companies, for foreign investors, for multi-national corporations. Our agenda is to create a good framework for competition, in order to develop successful business projects.

That's the main idea and, of course, we see that the private sector delivers some products and services in a more efficient way than some state-owned companies. We do not want to have an ideology behind that. We want to have our feet on the ground. We want to support the private sector and we are doing this. We see a lot of

challenges in the region. We also see a rising uncertainty around the world but it would be too optimistic to say that we have blue sky ahead of us. We do see risks. We have to take prudent, very tangible measures to find the answers to these challenges and I believe that 2017 will be a year of economic growth in our country.

We believe that 2017 will be a year of economic growth and this growth will accelerate based on private investment, on FDI, and on policy measures that the Belarusian government will undertake now and in the future.”

Olga Sherbina, Head of the Belarus Office, International Finance Corporation (World Bank Group)

“When I look at the different sectors, I see different opportunities that are arising, which were not present before. So for example, the first set of opportunities would lie in infrastructure. If you look at infrastructure, Belarus is one of those European countries which is marked by very high levels of urbanisation. Over 77 per cent of population live in cities and towns. So, we are talking about public transportation in big cities, airports, solid waste management, sanitation. A lot of these infrastructure problems and infrastructure gaps can be resolved through mechanisms of public-private partnerships.

Another set of opportunities similar to infrastructure is in renewable energy. Right now, the feed-in tariffs are very attractive to foreign investors. Manufacturing, agribusiness and services are the sectors where the IFC has been very involved, traditionally, and we have a really good track record. There are opportunities in the financial sector and in the banking sector. The government was very open about its commitment to privatise several banks. The government is following up on these promises and they’re doing

everything they can to promote this privatisation.

Today, it is important to look at the history of reforms in Belarus. I mean you can’t just take the situation as it is right now. You need to understand that Belarus is gradually moving forward on the path to reforms, and what’s important is that Belarus is gradually adopting more and more market practices and more and more international practices. Belarusian officials are very keen to learn about different practices in different countries.

There are a lot of changes happening. There is a good investment law, a PPP law that was adopted in 2015 and a number of regulations to reduce the regulatory burden. Of course, there is still a lot to be done and we continue to work with the government on these issues. We advise them on how they can improve their administrative procedures and introduce anti-monopoly and competition regulations.”

Ewa Synowiec, principal advisor to the Director General, DG Trade, European Commission:

“We are trying to resume positive agenda for Belarus and, first of all, from the trade angle, we would like to be engaged with Belarus as concerns the accession to World Trade Organisation as we consider that subscribing to the international rule book on trade will be very positive for Belarus in terms of attracting investors. Therefore, we are hoping that WTO accession process will resume soon. We are happy that Belarus has declared that they want to accelerate that process.

Another issue is the bilateral angle, which we consider very important, and because of this, we launched a so-called trade dialogue, in October. It’s very important to build a foundation that will replace the lack of contractual relations with Belarus



somehow, and we will also concentrate on discussing trade barriers to the WTO accession process, the exchange of information and trade flows. We consider it as an indication from Belarus of their looking for opportunities to diversify trade policy and to detach a little bit from Russia, which dominates in Belarusian trade.

The EU is currently a secondary trading partner but we think that making more trade with the EU will give Belarus more know-how about trade diversification because it creates opportunities for transferring know-how and new technologies, as well as diversifying good structures in exports. Up until now, it is mainly mineral products and simple components, that dominate exports from Belarus and we want the country to be modernised also where trade is concerned.”

David Dalton, Analyst, Belarus, Ukraine, Poland, Economist Intelligence Unit:

“The interesting thing about Belarus is that it’s one of the most successful countries post-transition. It had extremely fast growth between 1996 and 2011, and it’s only been pulled down since Russia went into the slowdown in 2012, and then with the commodity folds. This has brought back the question of – which comes back every few years – which is: can Belarus marketise? can it have deep, structural reforms?”

Belarus’ main problem is that it has uncompetitive exports. This means that it produces large external deficits. It has to borrow money from abroad to prop up the currency, and this cycle tends to go around and around. They borrow money from abroad. They boost wages. It opens up the external deficit. They tighten policy. It’s going around in a circle.

Well, what President Lukashenko does is when the economy is in trouble, he moves towards the West, not to get any money from the West, which he doesn’t think he’ll get; it’s to demonstrate his value as an ally of Russia. Then when things are good, he moves back, and he’s been doing that for about 25 years now.

Belarus is a particular type of social formation; it’s a historically unusual one between systems that’s formed its own logic, its own reproduction. And there is difficulty within the system to initiate change, not just from the government’s side, but from the population’s side as well. There’s a very conservative political culture, for example.”

Alex Kokcharov, principal analyst, IHS Country Risk:

“We’ve had various accounts of the situation in Belarus now; how much it has changed over the years and what the prospects are. We have heard about various opportunities, and also about various risks and issues to consider. I think it’s important to have a balanced view on what’s happening in the country before any decisions have been made.

Every investor has their own risk appetite and their own view of opportunities. Clearly, in terms of the risk, it’s all relative. Obviously, some of the operational risks in Belarus are higher than in Western Europe, or even in parts of Eastern Europe, but at the same time, they’re lower than in Belarus’ neighbours such as Russia or the Ukraine.

The same goes for tax risks, which are relatively high in Belarus because the economic situation raises presence but which are not particularly high for the region, as a whole. Security risks are pretty much negligible and political risks are improving. Policy risks are going down. We’re seeing very positive developments on

the policy front, so there is significant expectation that things are going to be changing, for the better, in many areas across the board.

The current economic conditions are actually pushing the government to go with policy changes and to reform some of the elements which have been left resolved for a long time. As a result of the economic crisis, their labour force is relatively cheap, but at the same time, it’s still very skilled. So there is a lot of opportunity for productivity gain and for significant productivity improvement.

Many businesses realise this and I know that a lot of companies are considering investment or, at least, outsourcing to companies in Belarus to take advantage of the opportunity of getting an inexpensive, but skilled workforce.”

David Baron, Chairman of the Belarus-U.S. Business Council and a shareholder in the International Law Firm of Greenberg Traurig:

“Ten years ago, Belarus and the IT sector was really nowhere. With the concentration of the government and the facilitation of new opportunities, free economic zones and tax holidays, they’ve created an environment that last year did \$800 million worth of trade with the world; almost half of it with the United States. Joint ventures and companies that are working in the United States are discovering Belarus for IT, for R&D, for the areas where the Belarusians really bring tremendous value and intellectual capital into the equation. It’s a great opportunity.

At the moment, the biggest initial challenge is even discovering that there is opportunity in Belarus and that’s something we are working to develop. The second challenge is the perception of the political risk, because the picture that you see in America is not necessarily the picture that you see when you walk the streets and you talk to the people in Belarus. Then, the third challenge is to find people to support you; to provide the financing and to open doors; to create opportunities.

I run the Belarus U.S. Business Council and some of the things that we’ve worked on with the Belarusian government are helping to redevelop and rewrite certain laws and rules. For example, we rewrote the rules, or rather worked with them to develop rules, on intellectual property protection. Enforcement of that is sometimes an issue and is sometimes something people complain about. Our members and companies are also concerned about stability and tax issues.

For this reason, we are working with the Belarusian government to try and address those issues, to provide stability in order to



David Dalton, Economist Intelligence Unit



Alexander Zaborovsky, First Deputy Minister of Economy of Belarus

understand what the rules of the game will be so that when you bring your money into the country, you know what's going to happen. When you bring your intellectual property in, you know what's going to happen. The more stability you have, the more investment follows."

Kirill Savrasov, President of the British-Belarus Chamber of Commerce and CEO, Phoenix CRetro Reinsurance:

"We've seen different time periods in British-Belarus trade relationships. However, it always interesting and various companies, from various sectors, have tried to set up businesses in Belarus. There have been a couple of success stories. The current situation and the Belarusian government's current efforts to begin real dialogue with international investors and with British investors is something we very much welcome. We really think that this is happening at completely the right time, in relation to Brexit.

Today, I think that the government needs to look into the general infrastructure, which they offer investors, and to some sectors in particular. Some core, basic infrastructural things will be the financial system, banking and insurance. Whenever investors are looking into committing their business, they want to see something that they are familiar with, that they know and understand, and it must be a conscious move on the part of the government to create of a decent infrastructure, especially when it comes to things such as insurance. It's very important to make a real investigation and to implement solutions that create an insurance market that is up to standard with investors' expectations.

International organisations such as the World Bank, the European Bank for Reconstruction and Development, can play an important role in the process because, on one hand, they can give real advice to the government on how to construct this. On the other hand, quite a lot of investors in this area – insurance companies, banks – are looking at the attitude of the EBRD, for example, towards these types of projects in insurance."

Francis Delaey, Head of Belarus, European Bank for Reconstruction and Development:

[The new EBRD strategy] "opens up the possibility of a broader

engagement by the EBRD in Belarus, not just in the private sector, where we were already active in the past, but also in the public sector. Of course, the scope of our engagement will very much depend on the reform initiatives of the government.

I think that there's a growing awareness, at all levels of the Belarusian government, that the previous or the current state-dominated model is no longer able to secure the impressive growth factors of the previous two decades. There's a general understanding in government that a new model needs to be adopted. That new model is basically promoting private sector development in Belarus. That's very much the core of our mandate.

Our mandate is foremost to support the development of the private sector. Over the past five years, we've invested close to €1 billion in the Belarusian economy and most of that went to the private sector. As an investor, it is our role is to stimulate investment, not to replace it; that means that in addition to the €1 billion that we invested, private sector investors, both from Belarus and from outside, have invested at least as much as EBRD."

Valdas Vitkauskas, Senior Banker, Financial Institutions, Belarus & Moldova, European Bank for Reconstruction and Development:

"The role of the EBRD is to encourage market economy and to open it to competitive practices and proper corporate governance practices, so that comes as natural. In the past, in many cases, we couldn't even attempt to do that because of the restrictions that we were under. But now, we and the authorities can work more closely together, of course, with potential investor base to move that process forward faster than we have until now.

We definitely see significant improvements, not only from the position of shareholders of international financial organisations such as the EBRD, but also in terms of the sanctions regime, in terms of discussion, even trade, and from both sides. The Belarusian side is also talking again about the World Trade Organisation negotiations and things such as that. It's really a very encouraging sign.

I'm responsible for financial sector. Speaking frankly, it's quite a difficult environment for attracting investment. There is still deleveraging. There is still a need to strengthen capital. There is



still as a need to deal with some legacy problems. Really, not many financial groups are in the mood for expanding and entering new markets, especially markets that are less familiar to them. So, it will be an effort and some time will be needed before we get to the stage when we really have a good, competitive process for selling banks. Insurance companies may be a little bit easier. In leasing, we see some activity on small-scale.”



Alain Pilloux, EBRD

| **Igor Likhogrud, Chairman of the Board, Moscow-Minsk Bank:**

“I believe it’s a good time to come to Belarus, because the country has started to recover from the crisis and recession. For those who come now, they can enjoy the potential of growth, and it will be growth on a more solid basis than it was before. It’s attractive, and we’ve got a very good labour force, educated staff and good technology. Risks are always exaggerated. Whoever is brave enough to come will enjoy a high margin.

Why invest? Because the opportunities are extremely attractive. There will definitely be growth. It will be high growth and on a solid base. All those who will come now, they get a big piece of the pie at a very fair price. They will secure market share and they will make good money doing it.”

| **Rudolph Wakim Younes, the owner of RRY Capital:**

“Human capital in Belarus is a key issue. Belarus is very well positioned for the digital age, and reforms are happening, albeit slowly. Foreign investors would like them to happen overnight, but that’s not realistic. The improvements in structural reform will bring in capital. If you combine capital with the human capital, miracles could happen.

If you have long-term view, then timing is not important. With that attitude there’s a lot to like about Belarus. The average salary is almost 50 per cent below its level before the crisis. We work in construction and we’re developing a shopping mall in Belarus;

we are seeing construction costs of only about 30-40 per cent of what they were before the crisis.

So it's a good time-window to come in and to invest. Then, when the economy picks up, when purchasing power picks up, you'll have the consumers to buy more from you and you could increase your rent.

When you're building a shopping mall, you're looking 40, 50 years ahead if not more. You're not just looking at the next three or four years. On top of that, the modern format of a shopping mall was non-existent, in Belarus, a few years ago. So there's an unmet demand. Bear in mind that a lot of Belarusians travel to Vilnius by train, to shop. That's how bad things are in Belarus, in terms of availability, selection and prices."

| **Nikolay Shestak, Deputy Director, Zubr Capital:**

"The main problem for Belarus is not purely macroeconomic figures. The main problem is more about image. When you ask someone about the country they envision a dark and inaccessible place, however when they come to Belarus, they see a completely different picture. The same is true for with investors."

| **Kirill Ilinski, founding partner & chief investment officer, Fusion Asset Management:**

"There are political risks and obviously, Belarus is historically and culturally highly aligned with the Russian Federation. However, the situation between the Russian Federation and the West has obviously changed enormously in the last couple of years.

The change of the overall climate in Belarus in last 12 months has been huge. This really opens a window for external investors who have never been involved in the country before to have a look and to find potential ways to get involved. The dynamics are very positive, in terms of the business climate; both in ways to get involved and the instruments that are available.

The planned sovereign bond will be the first step. It will be a benchmark issue which will define a distinctive rate, which will be associated with the country. It will be interesting to see how the bond is placed and who, from the principle players, will be involved. After its introduction, it will effectively define the cost of capital and the effective cost of being involved in the country, and in small enterprises.

There is also a clear need to address the situation in the insurance market in Belarus, and in the reinsurance market in particular, which is 100 per cent controlled by the state. If someone wants to invest in Belarus, they would like to be able to get their reinsurance from somebody other than the state." ●



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**GREAT
STONE**

Written by

**JERRY
CAMERON**Published on
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Belarus' economy is slowly recovering from past declines

“After hitting rock bottom in Q2 2015, the contraction in economic activity has been diminishing in recent months, though economic activity still contracted at an annual rate of 2.7 per cent in the January to July period.”

The Belarusian economy is expected to grow by 0.7 per cent in 2017, says the outlook from FocusEconomics Consensus Forecast Belarus — November 2016. That growth will help GDP to slightly exceed the 2014 per capita figure of \$7,048, by 2020.

The Belarusian economy contracted sharply in 2015, because of reduced remittances' inflows, as well as a spill over effect from Russia's economic downturn. Although in all likelihood it bottomed out in 2015, the latest economic indicators confirm that economic activity remains weak.

“The private sector is persistently weak since the government's progress, in introducing more market-friendly reforms, remains slow. Activity in the third quarter did not look promising for Belarus' economy: in September, industrial production contracted for the fourth consecutive time and retail sales declined at the steepest rate since the beginning of 2015. This follows the decrease in GDP growth that was seen in Q2; suggesting the economy remains in the doldrums,” says Marlène Rump, an economist at FocusEconomics.

According to FocusEconomics, Q2's deceleration was softer than that of Q1, thanks to a milder drop in fixed investment, although private consumption decreased at a sharper rate, probably on the back of stagnant household incomes.

“Notwithstanding this, the IMF lauded the Belarusian government for its efforts to stabilise the economy, in talks in early October. The fund intends to visit the country later this year, which increases the prospects of a loan agreement being reached soon.

In other news, Gazprom and the government in Minsk agreed on a deal where Belarus will settle an old debt to Russia and receive subsidised Russian gas in turn,” Ms Rump adds.

Inflation moderated from 11.8 per cent in August to 11.1 per cent in September, as service price inflation eased. FocusEconomics expects inflation to average out at 12.4 per cent in 2016, which is down 0.2 percentage points from last month's forecast. For 2017, inflation should recede to 11.3 per cent.

“After hitting rock bottom in Q2 2015, the contraction in economic activity has been diminishing in recent months, though economic activity still contracted at an annual rate of 2.7 per cent in the January to July period. Fitch Ratings confirmed Belarus' credit rating at B- with a stable outlook in August; stating that the country's large external financing needs and low international reserves represent important external vulnerabilities, whereas public finances are healthy,” Ms Rump says.

Between 2011 and 2014 unemployment, calculated as a share in the active population, remained at 0.5 per cent. In 2015, it grew to one per cent and is expected to increase by another 0.4 percentage points in 2017. It is expected to start falling in 2018.

In July 2016, the National Bank carried out a denomination process (BYR 10,000 => BYN 1). In Q3 2016, the new rouble appreciated slightly but FocusEconomics expects the currency to depreciate in the coming months. In 2017, \$1 will cost between BYN 2.09 and 2.13 and €1 — between BYN 2.28 and 2.38. ●

Belarusian economic recovery may downgrade intended reforms for competitiveness

“Political and geopolitical factors are likely to impede much-needed structural reforms even once a weak economic recovery is achieved. The old “social contract” of borrowing to boost wages and political support, followed by financial instability and then economic policy tightening, no longer appears viable. In particular, falling living standards and rising unemployment could generate social unrest.”

The Economist Intelligence Unit (EIU) expects the Belarusian economy to recover, only weakly in 2017-18, by just above 1 per cent, on average, from the protracted recession of 2015-16 which was Belarus's first in 20 years. A modest rise in global energy prices, lifting Russian growth, will see the recently redenominated Belarusian rouble appreciate in 2017. This will encourage further disinflation, combined with weak domestic demand growth—although the rate of inflation will remain high in comparison to international figures.

The main question facing Belarus is whether it is capable of undertaking the sort of market-oriented structural reforms that are needed to raise export competitiveness, thus opening a path to the stabilisation of public finances. In the past, periodic fiscal crises have exposed the country to financial destabilisation and have forced a reliance on external funding. On balance, the EIU doubts that such reforms will actually happen once economic recovery reduces their urgency.

There is little doubt that price liberalisation, greater privatisation and enforceable private property laws are among structural reforms that would change the incentives faced by economic actors. This would occur in ways that could spur competitiveness and innovation, raise export earnings and economic growth, as well as public and private incomes; relieve the strain on public finances and reserves and help to reduce the economy's exposure to recurrent balance-of-payments crises.

Recent developments have shown that the government is tentatively trying out market-style reforms, while some specific features of the economy suggest that it is in a good position to benefit. The switch to a currency float, alongside the rise in world energy prices, has already helped to support the currency and to raise reserves. The government has liberalised some prices, cut some subsidies and raised some tariffs, in line with the latest rapprochement with the West.

Moreover, Belarusian wages are low in comparison to international standards and official corruption is low compared to neighbouring regions. Put alongside a good educational system and a long industrial history, these factors should make Belarus relatively attractive to foreign investors. The EIU also suggests that foreign investment and know-how could deliver gains to produc-

tivity and living standards. The sectors that are often picked out for special mention in this regard are logistics and IT.

However, the international outlook is unpropitious. We expect Brexit, and other political and economic challenges in Europe, to hold EU growth back in the period 2017-21, at an annual average of 1.4 per cent. In Russia, real GDP growth will be limited to an annual average of 1.3 per cent, over the next five years, by debilitating structural hindrances, a poor business environment, low investment and political uncertainty.

In 2018, we expect a “hard landing” in China, as the government attempts to rein in private debt by deflating the credit bubble. In the following year, the damage to confidence from an abrupt Chinese slowdown, alongside a tightening of US policy to coincide with the end of the business cycle, will lead to a mild recession in the US. This means that for emerging markets, such as Belarus, foreign demand growth in key markets, FDI and remittance inflows, as well as in aid, are likely to be much weaker than for those economies which have undertaken similar reforms earlier.

Political and geopolitical factors are likely to impede much-needed structural reforms even once a weak economic recovery is achieved. The old “social contract” of borrowing to boost wages and political support, followed by financial instability and then economic policy tightening, no longer appears viable. In particular, falling living standards and rising unemployment could generate social unrest. However, strong aversion to change within Belarus's political system is an impediment to undertaking the necessarily disruptive political and institutional changes needed to see through substantive economic reform.

In Belarus's case, factors that militate against this include a weak opposition and a “conservative” political culture that has probably been reinforced by the demonstration effect of events in Ukraine.

Empirical evidence suggests that authoritarian regimes are among the most stable. Moreover, the recent experience in Ukraine, and Russia's annexation of Crimea, will continue to have a chilling effect on any democratising or liberalising reforms in Belarus. The chances of Belarus moving decisively in the direction of reform appear small, as long as the Putin regime remains in charge in Russia. For these reasons, the EIU sees the regime muddling through with economic performance remaining suboptimal. ●



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Belarus on the way to a market economy

Written by

EVA KELLER

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“The main socio-economic developmental goals, as set out during the Congress, include investments that stimulate productivity growth, job creation and the formation of centres of advanced regional development, the growth and diversification goods and services’ exports as well as development of an information society and the widespread introduction of information and communication technologies.”

The most important thing, for Belarusian President Alexander Lukashenko is a clear vision of the country’s future. “We should specify the tasks required to ensure our strategic development. This is why we need an extremely sincere, honest and high-toned conversation,” Alexander Lukashenko said while speaking at the Fifth Belarusian People’s Congress on 22 of June, 2016, an event which takes place every five years.

The agenda of the Congress included discussions about the main provisions of the programme on Belarus’ social and economic development for 2016-2020.

“We understand perfectly that problems do not get solved by themselves and that crisis phenomena will not disappear with the wave of a wand. This is why the principles of progress and openness have been laid down as the basis of the program. We stake our bets on knowledge and technology. This is the key to solving the current problems and to moving forward,” said Mr Lukashenko.

DIVERSIFICATION

The president also noted that export is a continuing priority that affects the well-being of the country, so market diversification is a must. The country needs to enter new markets, in particular Asia, Africa and America, as well as normalise its relations with the EU and the USA.

The EU is Belarus’ second largest trading partner, with a 26.2 per cent share in the country’s overall trade. According to the EU Commission, the country’s exports amounted to €3.7 billion in 2015.

“Recent years have been marked by the warming of our relations [with the EU]. Their policy of lifting of sanctions against Belarus opens up new possibilities in the development of our cooperation”, said Mr Lukashenko. “A key challenge for the future is the complete normalisation of relations and the conclusion of a basic agreement between Belarus and the EU.”

Dmitry Krutoy, Deputy Minister of Economy, told *Emerging Europe* that the European Union will remain an important trading partner for Belarus. “We want to increase the percentage of our exports to the EU and to sell at least a third of our products there. The remaining two thirds should be divided roughly equally between the Eurasian Economic Union (EEU) and the rest of the world,” he added.

President Lukashenko pointed out, in his speech, that exports dropped heavily in traditional markets, e.g. Russia. This included tractors, agricultural machinery and buses, the head of state said. “However, we should not leave the Eurasian region for there are possibilities, to strengthen the position of Belarusian products, which we must take advantage of,” he said.

Maxim Yermalovich, First Deputy Finance Minister, told *Emerging Europe* that Belarusian products are of high quality and are competitive for foreign consumers. “Production costs are lower in Belarus and so are labour costs. The obstacles, that we face, to exporting more products to the EU are connected with duties,” added Mr Yermalovich.

COMPETITIVENESS

He believes that there are two challenges that the economy is facing: access to financing and the development of small and medium firms.

“By developing small businesses, the economy will be less affected by external shocks. It doesn’t mean that the development of small businesses will cross out everything we’ve done before. The strategic policy on developing basic enterprises, preserving them, increasing the output and quality of products and improving their management systems will be continued. To adapt to new conditions however, we are forced to develop small businesses, in order to make it possible for individuals to realise their potential,” explained Mr Yermalovich.

In the draft version of the social and development programme for 2016-2020, the share of small and medium-sized enterprises (SMEs) is projected to reach 40 per cent of the GDP by 2020.

Over the last few years the government has introduced a number of reforms that have resulted in a more friendly business climate. In the latest edition of the World Bank’s Doing Business, Belarus ranked 37th, ahead of a few other European Union states. In the category, ‘starting a business’, the country improved its ranking by 27 notches, within just one year. In the Social Progress Index 2016 (SPI), which measures the extent to which countries provide for the social and environmental needs of their citizens and which is published by the Social Progress Imperative, the country ranked 66th.





INVESTMENT

The main socio-economic developmental goals, as set out during the Congress, include investments that stimulate productivity growth, job creation and the formation of centres of advanced regional development, the growth and diversification goods and services' exports as well as development of an information society and the widespread introduction of information and communication technologies. The government is also planning to attract more foreign investors and to carry out several privatisation projects, which also include activation of privatisation for small and medium sized companies, and more projects to be done under a public-private partnership concession scheme.

"In 2016-2020 we need to implement over 80 big investment projects, to the total tune of more than \$27 billion. We need to attract at least \$14 billion of foreign resources, including China's credit lines and direct investment. This is our main investor," said President Lukashenko at the Congress.

"We are implementing, with the support of the World Bank, a pilot privatisation project, for which eight enterprises have been selected, and which we are going to extend in the nearest future by including more enterprises. We also recently adopted the private-public partnership (PPP) scheme and are preparing our first project, together with the European Bank for Reconstruction and Development (EBRD)," Deputy Economy Minister Krutoy tells *Emerging Europe*.

In June, Belarus also announced the establishment of the Antimonopoly Regulation and Trade Ministry – an indication that the government wants to develop a market economy. ●

Belarus has to find its own Belarusian model to emerge

Written by

EVA KELLER

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Scan the QR code
to watch the video
report



“The Belarusian government has to be more proactive in communicating investment opportunities, in the country, to the international community.”



Antonio Somma, head of the OECD Eurasia Competitive-ness Programme, says that there are several things to be done in order to convince people to invest in the country. “Belarus must be communicated as somewhere to invest and the best way to communicate about Belarus is through reforms, whether they are reforms that have already been implemented or reforms that have been planned. What people want to know, at the end of it all, is whether Belarus is a safe place to put their money,” he adds.

Another thing that needs to be done is to present business cases or business opportunities, because people will not invest in reforms or policy frameworks; they will invest in business opportunities.

“Belarus has to find its own Belarusian model in order to emerge. What we can offer, today, as the international community, and what the OECD can do, is to provide standards that are related to various elements of the economy. [These] can be offered to Belarus

to see where the gaps are and what Belarus has to decide to do, by themselves, to align themselves, or to partly align themselves, with the standards,” says Mr Somma.

He also believes the government should continue on the path of reforms that has been started and that includes small and medium enterprises, state-owned enterprises and competition policy. “Reforming state-owned enterprises without creating a space for SMEs and entrepreneurship doesn’t help the country go far from the economic point of view,” Mr Somma adds.

In his opinion, Belarus has major advantages, not natural resources but knowledge. “This couples with the fact that the labour force is still relatively cheap which makes it quite a good place to be, particularly in the knowledge-based sectors,” he adds.

Due to its strategic geopolitical position, between the EU and China, Belarus offers opportunities in the logistics sector. ●

Encouraging SME's development will help build Belarusian economy

“Although Belarus may be a latecomer, it can still learn from experience of other countries, putting more focus on innovative and technology-based SMEs and, given Belarus’ strong experience, the IT sector.”

Belarus is among the world’s top countries when it comes to the ease of starting a business. In the World Bank Group’s Doing Business report of 2016, the country is ranked 12th out of 189 economies. One needs just three days to open a new business in Belarus, which is three times less than the time it took last year.

This significant improvement is the result of several years of committed work by the government. Officials have streamlined procedures and introduced new technologies, making it easier, step by step, to start a business in Belarus. As an example, in 2013, Belarus eased the way for new businesses by reducing the registration fees and eliminating the requirement for an initial capital deposit at a bank before registration. Then the following year, Belarus went one step further by expanding the geographic coverage of online registration and improving its online services.

However, despite these improvements official figures show that the number of the newly-opened companies is actually decreasing. Macroeconomic challenges in the country and further afield in the region, including Belarus’ main exporting market Russia, are some of the factors behind this decrease. Another challenge faced by companies is access to finance. In addition foreign investors are still to discover Belarus as a destination which means Belarus has to do its homework if it wants to get investors into the country.

One of the key priorities for the near term future is support for the growth and expansion of the private sector. The Belarusian private sector’s share in total employment and value-add in gross domestic product are among the lowest in the European

and Central Asian region, reaching 35 and 48 per cent respectively in 2013 (the most recent reported data available).

Experience from other countries shows that the private sector could become a real engine for long-term sustainable growth. Private companies are also a key source for the creation of new jobs. IFC’s job study shows that the private sector provides nine out of ten jobs in developed countries.

This is particularly important for Belarus which is facing its first economic recession in many years. The World Bank expects the economy to contract by 2 per cent this year and by another 1 per cent in 2017. In 2015, the GDP fell by 3.9 per cent. Reforms, and more enabling policies that support private sector development, could help reverse the fall and spur new growth.

The government has announced its commitment to reforms and has put some of its hopes for growth into supporting the development of small and medium-sized enterprises (SMEs). Prime Minister Andrei Kobayakov recently said that he expects the contribution, to the Belarusian economy, of small and medium-sized businesses to grow considerably over the next five years reaching 50 per cent by 2020. At the moment, SMEs account for about 20 per cent of the economy. In neighbouring Poland, SMEs generate over three-quarters of the country’s GDP. In OECD countries, SMEs make up over 95 per cent of enterprises.

As a leading multinational investor in the country, IFC is ready to support the reform efforts. Our data shows that SMEs are, typically, challenged by the limited access to finance in Belarus. In order to help with that we cooperate with Belarusian private banks.



**OLGA
SHERBINA**

Head of Belarus Office
International Finance
Corporation (a member
of the World Bank Group)

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One of our most recent deals included financing to the Belarusian National Bank, one of the private financial institutions in Belarus that focusses on lending to SMEs. Another major obstacle to SME’s development continues to be the regulatory burden. Over the past few years, IFC has supported the government in helping to improve access to information about regulations, including that for SMEs. Belarus has created a single register of administrative procedures, has reduced the overall number of procedures for businesses by 19 per cent and the total number of licenses by 60 per cent, saving SMEs an estimated \$14 million a year.

But there is the potential to do more using, for example, information technology to narrow the information gap. IFC’s experts are working with the government and the private sector to help to establish an E-Registry of administrative procedures. We also support the work on designing a Belarusian development strategy for SMEs.

Although Belarus may be a latecomer, it can still learn from experience of other countries, putting more focus on innovative and technology-based SMEs and, given Belarus’ strong experience, the IT sector. Belarusian programmers have developed such worldwide hits as the World of Tanks game and the mobile messenger app Viber.

Given the export-orientation of the Belarusian economy, another focus could be to offer more support to SMEs that are keen to sell to other markets. We are already working with the government to help streamline import-export procedures and to reduce an entrepreneurs’ costs related to certifications and laboratory sampling. ●

Written by

**IGOR
SVABODIN**

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IMF believes state-owned enterprises must be reformed

The International Monetary Fund (IMF) is convinced that postponing reforms in Belarus would cause more problems than conducting them.

“Reforms are aimed at the creation of a sustainable and effective economy. Reforms can be painful but their absence will cause even bigger issues,” Bas Bakker, the IMF’s senior regional representative for Central and Eastern Europe said, in Minsk, in November.

He also explained that in the 2000s, economic growth in Belarus was secured by the high level of the state investments. Thus, the share of investments against the GDP grew from 25 per cent in 2000 to 42 per cent in 2010. Nevertheless, he said, “the high level of investments wasn’t stable, unfortunately.”

The state’s high investment activity led to the emergence of the current account deficit in the balance of payments and the subsequent devaluation of the national currency. Although the authorities have managed to stabilise the rate of the national currency, in recent years, and have decreased inflation, the country still remains in a recession.

Reforms aimed at increasing the effectiveness of the economy would help to renovate economic growth in Belarus. “In the past, Belarus received energy subsidies; nowadays economic growth should be based on improving productivity,” Mr Bakker said.

There has been a positive effect of reforms on the experience of the neighbouring countries. According to Mr Bakker, the revenues of the peoples of Poland and Ukraine were equal, in 1989, but today the incomes of the Poles, who agreed to conduct a series of economic reforms at the time, are three times higher than in Ukraine. “We sincerely hope we will be able to help Belarus to conduct the reforms,” Mr Bakker said.

He believes that Belarus remains poor not because it lacks resources but because they are spent irrationally. In particular, the growth of effectiveness is limited by the non-effective state enterprises and by an ineffective mechanism for resources’ allocation.

The Belarusian state-owned enterprises are challenged by losses, which are now planned to be covered either by means of the budget, that will reduce its financial capabilities, or through policy loans, which will provoke a new wave of devaluation.

“In order to eliminate losses, it is necessary to reform state-owned enterprises,” he said and added that Belarus should create mechanisms of social protection for those people who may lose their jobs in the state enterprises, as well as create conditions for attracting investments. ●

This is an abridged version of an article published by Charter97.org.

Business opportunities in Belarus encourage outside interest

Increasingly more foreign companies that have identified business opportunities in Belarus are setting up their offices, or investing, in the country.

“Pure Energy develops and executes renewable energy and energy efficiency projects. We have been doing it for six years and we came here because of the right economic conditions and also because of our high dependency on Russian gas. We felt that the government had a strong interest in diversifying the energy mix,” says Torsten Merkel, CEO of Pure Energy Intelligence.

The recession in some of the Commonwealth of Independent States (CIS) doesn't discourage businesses from coming to Belarus. “There is a crisis but once they recover from it, Belarus will be the first country to take off,” says Selçuk Erdoğan, managing partner at Ketenci Law.

This Turkish law firm sees opportunities in the financial market. Their lawyers already work with Belarusian banks and they are also the representative of the Istanbul Stock Exchange in Minsk, Moscow and Baku. The private-public partnership regulations, that were recently adopted, offer additional opportunities using the PPP mechanism.

“When the GDP is on the lower end, between \$10,000 and \$25,000, you always stick to the basic infrastructures, which are transport and energy. We see that [in this respect] Belarus is going in the right direction. Secondly, they started with looking at the laws, but they're not putting in a restrictive framework that says here is the law as it is and we're not going to change that. They're quite open to changing the law and to discussing it with the investors' community,” says Galymbek Mamrayev, Deputy Chairman of the Kazakhstan Public-Private Partnership Centre.

According to the World Investment Report foreign investment in Belarus was close to \$1.6 billion, in 2015.



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**PAVEL A.
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January 21, 2016



Alexander Lukashenko, Belarusian President

Belarus 2020: Turning the vicious circle into an upward spiral

“The world is clearly heading into a post-industrial and innovation-based future if it follows the current spiral of development. It is also clear that Belarus’s current economic woes are the result of state subsidies and directive planning that ignore the laws of the market and the forces of supply and demand.”

The latest presidential elections were held on 11 October 2015, when the incumbent President Alexander Lukashenko registered a first-round landslide victory with 83.5 per cent of the vote. His fifth term will end in the autumn of 2020.

In the twenty-some years since his election as the first president of Belarus, no major changes have been made that would give the economy a market orientation. The private sector still accounts for less than 30 per cent of the economy, while it has long passed the 60 per cent mark in all other countries bordering Belarus (Russia, Ukraine, Poland, Lithuania and Latvia).

There are no plans for large-scale privatisation projects, making it highly unlikely that this figure will improve much in the near future. Talks on accession to the WTO have dragged on since 1993 without visible result. The main reason in both cases is the

lack of political will and the president’s reluctance to lose any levers of control over the economy by handing the private sector more of a significant role. As a result, the economy continues to be dominated by a massive and unprofitable state sector with low labour productivity.

In the first three quarters of 2015, the top twenty five loss-making enterprises posted combined losses of nearly \$380 million. Until recently, Russia was the main source of demand for the output of Belarus state companies but, with the neighbouring countries going through an economic crisis and demand for Belarus’s products falling, the 50 per cent drop in sales to Russia seems like a catastrophe that was waiting to happen. The latter contributed to the overall negative GDP growth of 3.9 per cent in 2015, compared to positive growth in previous years (2014:

1.7 per cent GDP positive growth).

Competition can no longer be based solely on price, as this niche has been taken by more productive and profitable Chinese manufacturers. Following the recent modernisation in a number of industries, state enterprises can't repay their loans without help and are suffering an acute shortage of working capital and the country's major employers, with hundreds of thousands of employees, are unable to pay salaries. In the second half of 2015 and early 2016, the state was thus forced to provide targeted financial support to eighteen enterprises by creatively restructuring almost \$2.3 billion in debt.

A key feature of this scheme is that, if the titans of Belarus's machine building, glass, cement and wood-processing industries continue to experience financial distress, it will be up to the state to pay off their creditors using budget revenues – the taxpayers' money.

Debt restructuring is obviously no more than a stopgap; postponing the problem for two or three years but ultimately resolving nothing. Enterprises aren't interested in solving their financial problems independently. IPOs and Eurobond issues have been under discussion for the last decade but most state enterprises still don't prepare IFRS (International Financial Reporting Standards) financial statements.

At formal meetings, high-level officials with personal responsibility for the state of affairs in industry and for company investment projects report, without blinking an eye, that restructuring has resulted in rising profitability and an improved financial and economic situation, thus passing these problems on to the next generation of officials. And so the vicious cycle has continued for the last twenty years...

In early 2015, judging from a meeting of the "club of creditors of 106 state enterprises," under the direction of the National Bank's new and progressively-minded leadership, it seemed that the authorities had realised that they couldn't go on subsidising inefficient and unprofitable enterprises and were threatening to take these industrial giants off the dole. Promises to this effect were made to the Eurasian Fund for Stabilisation and Development and the International Monetary Fund, but the hoped-for assistance never materialised. The EFSD postponed a decision on \$2 billion in aid until 2016, and talks with the IMF on \$3 billion in technical aid are

still under way in the first quarter of 2016.

However, moderate growth in the private sector is still possible. Following the adoption of the PPP Law in late 2015 and the announcement of seven PPP pilot projects worth over \$1.1 billion, there is reason to hope that public-private partnerships will be introduced in 2016.

There have even been success stories: the PPP Law still hadn't been passed in February 2012 when the Austrian Kapsch began operating in the area of transport infrastructure (upwards of \$270 million in investments over the last three years).

There are also hopes for the expansion of greenfield projects. Swiss Stadler entered the market in January 2012 (€76 million in planned investment) with plans to expand throughout the Customs Union. The China-Belarus Industrial Park "Great Stone," which opened in 2014, enjoys unprecedented customs and tax benefits, but the Chinese don't seem to be in any hurry. There are still only eight residents with combined investments of \$90 million. The total investment of \$550 million is planned by 2020, but the current economic downturn in China doesn't inspire much optimism about the Great Stone's rapid development.

One successful park – the Hi-Tech Park – has indeed been gathering momentum and currently employs over 22,000 "eggheads." Over the last decade, annual growth in the park's revenue has been around 30 per cent, passing the \$600 million mark in 2015. The park's core residents – IHS, EPAM Systems and Bell Integrator – consistently rank high in ratings of global software developers. Game Stream, a development centre of the world famous Wargaming.net, is also a resident.

The world is clearly heading into a post-industrial and innovation-based future if it follows the current spiral of development. It is also clear that Belarus's current economic woes are the result of state subsidies and directive planning that ignore the laws of the market and the forces of supply and demand.

Today's top priority is to transform the entire management and corporate governance structure of state enterprises, which otherwise face economic collapse with severe social repercussions for the state. And such transformation is fastest and most effective when it involves a change in ownership all the more so, as the authorities have realised. And that happens when



issues of product quality and cost, effective management, labour productivity and diversification of sales come to the fore.

The main thrust of the needed reforms is to end the economy's domination by a massive and inefficient state sector, meaning that the state must deliberately give up some of its powers to free the economy from interference. Rapid and transparent privatisation would mean an infusion of investments and is an absolutely essential step on the path of innovation-based development.

Strange as it may seem, it would be hard to imagine a more favourable time for economic transformation. There are already new faces in the new/old government; professionals who could potentially form a team to direct reforms and take the ownership.

Following the presidential elections, the country is now, more than ever, politically and economically manageable. The authorities have already provided required social care and stable average cost of living to the "Soviet Union generation" after the USSR collapse in 1991, to ensure a smooth and clear transition to the new Belarus generation, with the overall aim to support and gradually develop a national entrepreneurial spirit.

There's no need to wait for a social consensus, as success depends on the political will of the country's leader and on the speed and scale of reform. The process must be set in motion in 2016 so that by autumn 2020, society will be able to see some of the desired economic benefits. ●



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Changing old ideas and mixing with the new in Belarus' export market

"In order to achieve a sustainable change in the export structure there is a need for more of these companies: more SMEs, which successfully develop, produce and export niche products; more western companies, who bring in modern technology and new management methods and who establish sales channels. Of course there is also a need to modernise the huge state-owned companies more, especially in the transport and machinery sectors in order for them to be able to compete on the global market once again."

When talk turns to Belarusian exports, a popular picture emerges for most foreigners, of Belarusian vehicles — well-known timber and mighty mining trucks, time-proven tractors and chipping machines and many more. Production of the huge, state-owned manufacturers was a successful export product for many years and a symbol of the Belarusian economy. But what does the big picture of the country's exports look like now and what are the challenges it has to overcome?

First some macro-economic facts: traditionally Belarus has one of the most open economies amongst CIS countries, with the foreign trade to GDP ratio being above 100 per cent. The minimum required import volumes of the country are driven by necessary energy imports and also by the modernisation constraints of the industrial economy; therefore they are on a remarkable level in relation to GDP. In addition, international reserves are traditionally low. Given the above, export — and thereby the export industry — plays a key role in ensuring macro-economic stability and also in the economic development of the country. For this reason, the recent sharp decline in exports, by 43 per cent since 2012, is a serious obstacle to overcome.

There are many reasons for the recent developments. As it often is in such cases, the decline in exports comes from a combination of exogenous shocks as well as the structure of the country's export economy. Fortunately, an inventory of the latter has given us some ideas to possible approaches to overcome the difficulties, which incidentally offers interesting possibilities for foreign investors.

Generally speaking, Belarusian export used to be concentrated in terms of export regions, as well as in terms of exported goods and services. Oil-based products (28 per cent of exports) and fertilisers (6 per cent) generate roughly one-third of the export market. A further 14 per cent is made up of edible products. Services show up first in the list, as represented by the logistics sector and account for 9 per cent of exports. Given all of the above, the dramatic fall of both oil (-58 per cent since 2013) and potash

(-39 per cent) prices has had a strong impact on Belarusian export revenues. This is despite stable export quantities for oil and even rising quantities for potash in the last year.

The second exogenous shock resulted from the recession in the economies of both of Belarus' main trading partners: Russia (37 per cent of Belarusian exports) and Ukraine (10 per cent). Declining demand from these countries is often assumed to be the driver of a drop in export revenues, however, export quantities of the main export goods: oil-based and edible products remained quite stable. In this case the main reason for the decline in revenues was also the price. Due to massive devaluations of the Russian rouble and the Ukrainian hryvna, prices on the home markets dropped sharply which is reflected in the Belarusian producers' new export contracts.

In addition, a generally cautious macro-economic environment in the region has put pressure on demand in the logistic sector which is the fourth major export area in the Belarusian economy.

So what about the transport sector, some will ask; what about the Belarusian vehicle producers we spoke about in the beginning? The difficulties of these companies are often first to be named when talk turns to the export problems in the country. However, this is not justified if we look at the figures. It is true that export volumes in this sector were halved during the last few years, and in this case we are really talking about lower export quantities. The reason for that is not only a lower demand, but also stronger competition in the main delivery market: Russia.

Western companies such as John Deere are localising their production and Russian producers have also increased their own output capacities. In the last year the transport sector generated less than five per cent of Belarusian exports. Due to the high number of employees in those companies, the difficulties in the sector are of a high socio- and employment-political importance and naturally are getting attention in the debate. However, the whole effect on the trade balance of Belarus that is caused by the

transport sector is often overestimated.

Together, the above-mentioned developments have led to a decline in Belarusian exports, which we have seen over the last years. None of the named factors is expected to change quickly, so in the short and medium-time frame the current terms will constitute the “new normal” and Belarus will have to adapt to it and to widen its export volumes once more.

In order to do this, Belarus will have to diversify its export structure, in terms of goods and services exported as well as in terms of geography. The dependency on oil-based products — especially when it comes to the EU where these products make up more than 50 per cent of the Belarusian exports — should be reduced as well as the dependency on the Russian market. A key factor here would be an increase in trade with the EU, particularly when it comes to goods and services with higher added value.

All of this, of course, is also known and is being addressed by the authorities. We can see this in quotes from high officials and also in the new strategy that was presented during the Fifth Belarusian People’s Congress. A mid-term goal has been implemented, that aims to spread exports equally between CIS, EU and the rest of the

Belaz



Development Bank



Alutech



world and which would mean increasing shares for the latter two.

So how can Belarus increase its exports to the west and reduce its dependency on oil-based products? Fortunately, the members of the country’s economy proffer the answer themselves by offering impressive success stories from within their midst.

The IT-sector proves that with creativity and brave management Belarusian companies can be successful on the global world market and can gain impressive market share: World of Tanks, Viber, EPAM and MSQRD are all well-known and respected brands in the west nowadays. Also, aside from the (rightly) spotlighted IT-sector there are also other inspiring examples of Belarusian companies which operate successfully in western markets.

The pool of these companies is formed by domestic producers such as PA Energocomplekt (cables and wires), Belarus Linen Textile, Alutech (roller-shutter systems) and many more, which sell-down vast parts of their output in the EU. It is also made up of joint ventures and subsidiaries of western enterprises such as Zeiss-BELOMO (optics, precision-mechanics), Vitella (candy ingredients), Kronospan (wood-based panels), Langheinrich (textile) and others, which have been producing successfully for the western market, in Belarus for many years.

In order to achieve a sustainable change in the export structure there is a need for more of these companies: more SMEs, which successfully develop, produce and export niche products; more western companies, who bring in modern technology and new management methods and who establish sales channels. Of course there is also a need to modernise the huge state-owned companies more, especially in the transport and machinery sectors in order for them to be able to compete on the global market once again.

For sure, this conclusion does not come as a surprise. A sustainable change in the export structure needs adaptations in the underlying export economy. As mentioned above, the authorities have already launched, and revitalised, several initiatives in order to support these adaptations.

The High Technology Park, the Chinese industrial park “Great Stone” and the free economic zones in all regions of the country offer tax benefits and further privileges to foreign investors. The jurisdictional environment is also under continuous improvement, in order to meet importers’ needs. The Development Bank started a new programme for SME-financing, thereby widening stated-backed SME-support in the country.

The modernisation of state-owned enterprises, also via considerable investments in western equipment, is being driven constantly. This adaptation is still in its beginnings, but the positive examples mentioned above as well as the displayed readiness and the competitive advantages of the Belarusian economy — in the form of its well-educated workforce, high working ethics, tradition of manufacturing industry and good infrastructure — spread confidence and mean that it will be successful.

Throughout this whole process western companies will find attractive possibilities for deals and investments in Belarus. For those, who are considering engaging with Belarus, or who have already taken this decision, the German-Belarusian Economic Club could be an interesting partner to talk to. Some of our members have already been active in the country for more than 20 years and have impressive success stories to tell. Through their work they prove that Belarus can be a very fruitful destination for those who decide to come. ●

Belarusian economy on a diet to change its financial outlook

Written by

**ANDREW
WROBEL**

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(courtesy of Kiryl Rudy)

“The financial diet is a way to point out what works well in state capitalism. It is not austerity, as state capitalism in Belarus cannot exist without capital. However, budgetary resources do have to be limited, in order to avoid constant depreciation, inflation and the need for more public debt. The external environment, in which the country finds itself, threatens long-term stagnation which underlines the importance of legal order and of both fiscal and monetary discipline.”

The Belarusian economy has not had the best time for the past two years, with a recession and a massive depreciation of the rouble.

Kiryl Rudy is President Alexander Lukashenko’s former economic adviser and the co-author of *The Financial Diet*, a book about reforming the system of public finances and rational spending of budget money. He spoke to Andrew Wrobel about the challenges that the Belarusian economy is facing now.

In your book, *The Financial Diet*, you speak about state capitalism. How would you define that?

One of the features of the Republic of Belarus is an unstable market economy in the early stages of its development. There is a variety of economic relationships that are constantly in flux, coupled with complexity and unpredictability. The market elements clash with state planning and “hands-on” management.

On the one hand, the country features state ownership of large swaths of property, with administrative or hands-on control over state-owned enterprises, with directed lending, consolidated budgetary resource and far-reaching social security. On the other hand, it has many aspects of a market economy: entrepreneurs, small and medium businesses, private and foreign businesses, a liberal banking sector, a free-floating exchange rate, market prices, elements of a public-private partnership and a functioning Hi-Tech Park.

The special nature of the Belarusian economy is sometimes reminiscent of other countries: modern Russia in the face of sanctions, other post-Soviet countries and China at a certain point in its development. The resemblance is particularly clear when we talk about the active role played by the government in the market economy, something generally referred to as state capitalism. State capitalism is understood as an economy in which the state plays the main role as entrepreneur, employer, the owner of the means of production and the allocator of profits.

So when it comes to the characteristics of the economic model, in Belarus in particular, what are they?

First of all, Belarus evolved under the influence of many factors: objective, subjective, internal, and external. In Belarus in particular these include: the country’s Soviet heritage, the crisis of an economy in transition, the social support for a socialist government during the instability of the 1990s in neighbouring countries and financial influges from outside the country.

We also need to add that state capitalism in Belarus is a model of a transition economy. It differs from Central and Eastern European shock therapy, as well as from the Chinese version of gradualism without focused structural reforms or at least without declaring them. At the same time, the structure of the Belarusian economy has changed naturally: the services and the private sectors have grown, under the influence of both regional and global processes that were unrelated to management decisions being made with transformation in mind. Ultimately, the structural change in Belarus has been subtle and it has not contradicted the country’s ideology which has managed to remain attached to state capitalism.

Because that change is subtle, can Belarusians handle the changes?

Yes, state capitalism in Belarus can only function with public support at its back. That support is based on a number of factors, the first being social equality and income growth that stopped in 2015. Periodic macroeconomic shocks and inflation have been caused by expanding the money supply and these have held back the formation of a strong middle class, demanding institutional change. The second factor is the social security provided by jobs at state-owned enterprises. The third is the economy’s socialist leanings, which have led to high tax burden and have consolidated budgetary resources.

Public capital in Belarus has been accumulated primarily through

the use of market tools such as banks with foreign capital and private businesses. At the same time, state capitalism in Belarus leans on less market-based tools such as state-owned enterprises, especially in the primary sector, as well as state banks, the Development Bank, and the National Development Fund. The general mechanism for managing those instruments is administrative; it is an approach, especially for state organisations, that includes setting goals, directing credit, budget support and using the government's administrative resources. This has been sufficient to provide short-term momentum, although over the long term it has supplanted initiative and inflated operational expenses.

So what are the advantages and drawbacks of the model?

Well, state capitalism might well be appropriate when it comes to handling short-term issues. However the assumption risks being made that it also works well over the long term and that is precisely why the current economic structure has remained in place. However, the push to hang on to the current model is limiting its flexibility and it focuses exclusively on handing out, and following up on, orders and on inflating the influence enjoyed by control and law enforcement over the economy.

The path to investment growth for state capitalism in Belarus has its pitfalls: the inflationary pressure, and the debt overhang that has accumulated, limit the government's ability to rebuild its capital and to finance the economy, in general. Conflicts between neighbouring countries eat away at international trade. High social expenditures and relatively high income levels squeeze the budget and the national economy's competitiveness. The way in which the economy is restructuring, naturally, means changes are needed in the management system and moving away from a focus on raw materials impacts currency reserves and the budget. That kind of environment slows even naturally occurring economic transformation; it reins-in growth and drops the country farther behind others who have more adaptive economic structures.

Does a financial diet seem to be a solution here?

Speaking pragmatically, the best way to overcome the pitfalls to and to bring back economic growth is to increase capital efficiency. That path is called the financial diet. It includes the optimal distribution of public financial resources, in an effort to achieve macroeconomic stability, by accumulating foreign reserves and targeting the exchange rate. It means long-term financial equilibrium (decreasing the fiscal gap) and a results-oriented focus for public financial services. It will lead to financial independence for state-owned enterprises. It even touches on the state, as well as local budgeting, strategic planning, tax services and improving state control. Bringing in professionals is a key element.

The financial diet is a way to point out what works well in state capitalism. It is not austerity, as state capitalism in Belarus cannot exist without capital. However, budgetary resources do have to be limited, in order to avoid constant depreciation, inflation and the need for more public debt. The external environment, in which the country finds itself, threatens long-term stagnation which underlines the importance of legal order and of both fiscal and monetary discipline. Unfortunately, that is not enough. Therefore, the financial diet, which is just the beginning, also includes a variety of sources Belarus can use, to replenish its capital via private and foreign investment.

I have been following the development of the Belarusian

economy for the last few years and it seems there hasn't been a better time, than now, to discuss the prospects and opportunities. Do you share this view?

I would say that from Belarus point of view the economy has always been open for business and there have always been business opportunities. It's good that all parties can see that now. International organisations, EU and US government officials have visited Belarus recently and it is a good sign for international business to be more active as it looks like another relief in Belarus cooperation with Western countries.

How would you describe the Belarusian economy now? How much has it been affected by the recession in Russia and low oil prices?

Well, it's hard keep up a good face when the GDP and real incomes decline. The Belarusian economy has definitely been affected by the regional conflict between Russia and the Ukraine, as these are Belarus' biggest trade partners.

Today, oil price fluctuations are affecting the Belarusian economy because of the flexible exchange rate and its tight ties to the Russian economy and therefore the Russian rouble's drop. So if we are outlining the external reasons for the current economic pressure, I can absolutely agree with you. But we shouldn't reassure ourselves and put all the blame outside Belarus. It's all about productivity and competitiveness. In order to be strong we need to look inside the country all the time and to make the right conclusions.

How is Belarus trying to reduce those external shocks?

There are several methods: cutting costs and improving management. Also, in order to keep macroeconomic stability there should be budget restrictions and monetary policy (monetary targeting) should be tightened.

In order to maintain the balance of payments, Belarus is discussing financial support with the IMF, the Eurasian Fund, and the Eurobond issuance. There is an agenda for structural reforms on the table with the Government, but we need to do it smoothly so we are still discussing the details with international financial organisations.

If we look at various forecasts, most of them say the economy will shrink this year and will start growing again next year. How do you see that?

There are some optimistic and pessimistic scenarios. But you can never be sure about predictions, as a lot of things (political, social and cultural) have an influence on the scenarios. The good thing is that it looks like Belarus doesn't want to sit by, waiting for good times and getting used to becoming poorer. The country thinks, discusses different options and acts. Let's see where it goes.

When you look at the World Bank's Doing Business ranking, you see how much progress Belarus has made over the last decade. In 2006, the country was ranked 129th, five years ago it was 68th and in 2015 it was 44th. What reforms do you think should be introduced now?

Well, there is a Brazilian proverb: "the economy only grows at night when the government sleeps". There are new options for interaction between business and the government in IT development. I think the introduction of IT into all business operations will make them easier, faster and more efficient. So e-government would be the most the complex but also the best

channel for the further reforms.

Belarus is looking to diversify its trade partners and to attract more foreign investors. What are the products and services where Belarus can compete on the European and the global market?

One of the key issues of trade diversification is fair competition. It's all about tariffs and non-tariff barriers, so if we get a predictive environment where we can sell our products, then FDI will rush to use the opportunity. Right now Belarus is mostly known, worldwide, for its raw materials: potash and oil products. Belarus is famous in Russia for its agricultural products, trucks and tractors.

The best way for FDI diversification is to join the international stock exchange. As the necessary legislation is in place now, I hope Belarus will choose some attractive state-owned enterprises for several IPOs in the European markets.

When I speak with experts, they say state enterprises need to become more competitive and that they are actually hugely in debt. How do you think their situation could be improved and what does it mean for the labour market?

The government is solving the problem of SOE debts and they can do so by restructuring and adding these debts to government

debt. However that's a temporary solution. As I mentioned earlier other options are cutting costs and new management. If that doesn't work, bankruptcy is an option. Incentives are the issue. If each SOE continues to hope for government salvation, this is the wrong incentive. If some SOEs close down, this would be new for all of them. Yes, it means a more flexible labour market; new jobs need to be created and there needs to be a better unemployment support system.

I recently spoke to a few foreign investors who are operating inside the country, during a panel discussion, which was part of the EU-Belarus Forum in Vienna. They are all satisfied with the outcome of their investment in the country. Where do you see opportunities for foreign companies in Belarus now?

Seeing is believing. The more forums we have, the better the understanding of opportunities. I see that cooperation on a regional level has a huge potential. Local authorities are responsible for the creation of jobs, so FDI is the best channel for them. I invite all international investors to participate at the regional investment forums in Belarus and they will see the opportunities with their own eyes. ●





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Belarus and the EBRD: working to expand the country's strengths and success

“Our experience as an institutional investor has been largely positive. Despite there having been a volatile macroeconomic environment over the past two decades, we have not suffered a single loss on our investment portfolio. Our experience also demonstrates that it is possible to engage with the Belarusian authorities constructively.”

With street names like Komsomolskaya, Karl Marx and Lenin, it is easy to portray Belarus as a remnant of the Soviet Union. The truth is more interesting, like a painting by Marc Chagall, one of Belarus' illustrious sons.

Situated halfway between Berlin and Moscow, Belarus was devastated during the Great Patriotic War. Between two and three million Belarusians perished (about a quarter to a third of the total population). 72 per cent of its cities and more than one million buildings were razed to the ground, obliterating the country's rich cosmopolitan heritage. Much of what is visible today was built

by Soviet architects in a typical social realist style that reinforces Belarus' Soviet appearance.

But appearances can be deceptive. Based on my own experience, and that of our clients, it is easier to do business in Belarus than in other CIS countries. Unlike other countries in the region, Belarus did not engage in mass privatisations following its independence. Instead, the country continued to build on its Soviet economic heritage while slowly (some might say too slowly) liberalising the economy.

Today, much of the Belarusian economy continues to be dom-



inated by the state. From Minsk Traktorni Zavod (one of the largest tractor manufacturers in the world) to BelAZ (which holds the Guinness Book World Record for the largest mining dump truck), the country's main industrial assets remain firmly under state control. The state plays a central role in virtually every sector of the economy and acts as the employer of final choice.

To some extent this state-dominated model has served the country well. The economy was supported by low energy prices from Russia and a favourable external environment, which helped it to grow by 7.5 per cent, on average, annually during the decade from 2002 to 2011. Absolute poverty declined from 30 per cent to 4.6 and the country has the highest ranking, among CIS countries, on the Human Development Index.

Because there was no large scale privatisation, Belarus also avoided the advent of the oligarchs and kleptocracy which plague much of the post-Soviet space. By regional standards, Belarus' business environment is remarkably transparent.

Nevertheless, the Belarusian state-dominated model seems to have exhausted itself. Since 2011 Belarus has been unable to generate the impressive growth figures of the previous decade. In 2015, for the first time in 19 consecutive years of positive growth, the economy contracted. As a result of the economic turmoil in Russia, Belarus' GDP declined by 3.9 per cent year-on-year in 2015. The economy is expected to contract by an additional 3 per cent in 2016, before resuming modest growth in 2017.

The government is coming to understand the limitations of the existing growth model and the imbalance it generates. While Belarus is unlikely to abandon its state-dominated model overnight, the authorities see private sector development as the main driver of long-term sustainable growth.

Few outsiders realise that Belarus is home to world class private companies that compete successfully across the globe. Its burgeoning IT sector includes international stars such as EPAM, one of the fastest growing publicly listed tech companies according to Forbes; MSQRD, a selfie app which was acquired by Facebook earlier this year for an undisclosed amount and Wargaming, the creators of the insanely popular World of Tanks.

But Belarus' potential is not limited to its IT sector. The country has some highly innovative companies in the manufacturing sector. US border guards use handheld radiation detection devices produced by Polimaster. The coating technology used for the touchscreens of Samsung smartphones was developed by Izovac. The enamelled glass panels deployed inside Heathrow Airport were manufactured by Glassbel. Danish Customs use body scanning systems developed by Adani. These hidden champions underscore Belarus' true potential.

The European Bank for Reconstruction and Development (EBRD) has assisted Belarus to unleash this potential by promoting private sector development and the adoption of market based principles. To date the EBRD has invested more than €1.8 billion in over 70 projects.

Among others the EBRD acts as a catalyst for investors who introduce modern technologies and know-how,

set new benchmarks and provide access to new markets. Some of our projects — for instance, in the forestry sector — are starting to have a transformational impact with repercussions across the sector.

Our experience as an institutional investor has been largely positive. Despite there having been a volatile macroeconomic environment over the past two decades, we have not suffered a single loss on our investment portfolio. Our experience also demonstrates that it is possible to engage with the Belarusian authorities constructively.

Belarus may be widely portrayed as “the last dictatorship in Europe”, but its government officials are technically competent and surprisingly open. Over the past year we have been working closely with the government to modernise waste-water utilities in secondary cities, to support the privatisation of Belinvestbank and to prepare a pilot public-private partnership (PPP) project for the rehabilitation of the M10 motorway.

Based on this successful track-record, the EBRD adopted a new country strategy in September 2016, which significantly expands the scope of our operations in Belarus. While we will continue to focus primarily on private sector development (which is at the heart of our mandate), the new country strategy also enables us to provide pre-privatisation assistance to state-owned entities and to support reform initiatives in the municipal, transport, power and energy sectors. Together with the international community, the EBRD stands ready to help Belarus navigate a difficult transition to a more stable economic model and to unleash its true potential. ●



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The deep roots of currency crises in the former Soviet Union

Since the end of the 1980s, when the centrally planned Soviet economic system entered the final phase of its agony, at least five rounds of region-wide macroeconomic turbulence (which led to currency crashes) have been recorded. These include: the collapse of the Soviet monetary system (1989-1993), monetary instability and high/hyperinflation in the newly established successor states of the former Soviet Union (FSU) (1992-1995), the Russian and Commonwealth of Independent States (CIS) financial crisis of 1998-1999, fallout from the global financial crisis of 2007-2009 and the most recent crisis of 2014-2016. Furthermore, some countries have experienced individual currency crises, such as Belarus in 2000 and 2011.

In a similar manner to the 1998-1999 and 2008-2009 crises, the most recent crisis of 2014-2016, which affected nearly the entire region (Figure 1), was caused by a combination of global, regional and country-specific factors.

The global factors included tighter US monetary policy, slower global growth and declining commodity prices – especially oil.

Many analyses focus on the close interrelation between the price of oil and the exchange rate of the Russian rouble (RUR) (Figure 2) and stop there. Indeed, the fact that oil prices more than halved, in the second half of 2014, generated a huge shock to growth prospects, the balance of payments and the fiscal accounts of hydrocarbon exporters such as Russia, Kazakhstan, Azerbaijan, Turkmenistan

and Uzbekistan. This list also included Belarus, which had benefited from the transiting, processing and reselling of Russian oil to Western Europe, on preferential terms, for a long time. In addition, the simultaneous collapse of metal and agricultural commodity prices also hit Russia, Kazakhstan, Ukraine and several other FSU countries.

Nevertheless, the size of the depreciation of FSU currencies and the GDP decline were considerably larger when compared with other net oil exporters. This means that other region-specific factors were in play. Amongst the geopolitical factors, the Russian-Ukrainian military, political, and trade conflict and, consequently, the Western financial and economic sanctions against Russia and the Russian counter-sanctions against the European Union and the United States, caused considerable damage, not only to Russia and Ukraine but also to their neighbours—in particular, Russia's partners from the Eurasian Economic Union.

However, this is not the end of the story. One may ask why the FSU is so vulnerable to various external economic and financial shocks (as in 2008-2009). Especially given the relatively prudent fiscal and macroeconomic policies of oil producers after the 1998-1999 crisis which were reflected in an increase in the central banks' international reserves, the development of sizeable sovereign wealth funds (during periods of high oil prices) and positive current account balances.

The right answer should point to a legacy of past financial crises which undermined the credibility of national currencies, domestic financial systems and, more generally, state institutions. When an adverse shock hits a highly dollarised economy that has deeply entrenched devaluation expectations, domestic economic agents abandon the domestic currency and immediately withdraw deposits from domestic banks. This is exactly what happened in 1998-1999, 2008-2009, and 2014-2015.

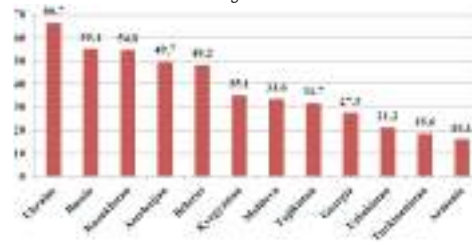
FSU economies also suffer from numerous microeconomic rigidities; structural distortions; insecure property rights; poor business and investment climates; an absence, or weak rule, of law and widespread corruption. To protect themselves against these vulnerabilities and weaknesses in governance, large domestic companies (owned by the so-called oligarchs) remain in close ownership relationships with their foreign subsidiaries or parent companies. This, in turn, helps with capital outflow whenever economic and political uncertainty increases.

To overcome the current crisis, and to pre-



“When an adverse shock hits a highly dollarised economy that has deeply entrenched devaluation expectations, domestic economic agents abandon the domestic currency and immediately withdraw deposits from domestic banks.”

Figure 1



Nominal depreciation of one unit of national currency against USD between December 2013 and December 2015 in %

vent new crises, FSU nations must embark on deep structural and institutional reforms. This would allow them to improve their business and investment climates, to eliminate macroeconomic vulnerabilities and to diversify their economies. More specifically, helpful policy changes should lead to the elimination of the administrative “red tape” that discourages business activity and increases business costs.

Law enforcement agencies (which currently act as parasites on business rather than protecting it) should be overhauled; an independent, impartial and more professional judiciary should be instituted and the privatisation of state-owned companies should be returned to. The country should be genuinely opened up to foreign investment; the market should be allowed to price domestic energy supplies; social entitlements (particularly the early retirement age) which are unsustainable in the context of a rapidly ageing population should be reviewed; public investment projects and military expenditures should be rationalised and measures to fight corruption should be legislated.

On the macroeconomic front, a true independence of central banks and constitutionally determined balanced-budget rules are sorely needed, to boost confidence in domestic currencies and domestic financial systems.

The Russian-Ukrainian conflict, which has played a major role in triggering and deepening the current macroeconomic crisis in Russia, Ukraine and the entire region, requires a rapid resolution based on respect for international law and the territorial integrity of each country. A peaceful and sustainable solution would yield high economic pay-offs to each side. ●

Crude oil prices, in USD per 1 barrel (left axis) and RUR per 1 USD exchange rate (right axes, reverse scale), 2013-2016



Figure 2

Belarus's election tests the EU's global strategy

On September 11, Belarus is holding a parliamentary election. The EU will need to respond to this vote in a carefully calibrated manner. While the union is presently focused on other priorities, Belarus presents important geostrategic challenges that will test the EU's ostensibly new European Neighbourhood Policy (ENP) and its global strategy.

Less than a year ago, in October 2015, Belarus held a presidential election. Although the Organisation for Security and Cooperation in Europe (OSCE) gave a largely negative assessment of the conditions under which the ballot was held, the EU has since inched toward deeper engagement with Minsk.

In 2016, the EU has lifted almost all sanctions against Belarus and dialogue has become more intensive and multifaceted, including on human rights. Yet the current rapprochement does not represent a sufficiently strategic or comprehensive policy.

Western officials see the parliamentary election as another test for Minsk. Some in the EU are showing impatience that Belarusian President Alexander Lukashenko is not reciprocating the relaxation of sanctions by loosening the government's grip on power. For his part, Lukashenko is expressing frustration that the EU is delaying tangible advances in cooperation, dismissing the union as a *govorilnya*, or talking shop. Suspicion and mistrust remain on both sides.

It will be important to avoid the dramatic breakdown of relations that occurred after the presidential election in December 2010, when after a period of rapprochement EU-Belarusian relations stalled overnight as a result of a brutal crackdown on demonstrators.

This time around, both the Belarusian authorities and the opposition have said they want to avoid anything similar. The political opposition and NGO community have signalled little appetite for postelection protests. At the same time, the election will not be free and fair, and the vote is unlikely to win a particularly positive assessment from OSCE monitors. Belarus has implemented only a few of the 30 recommendations made by the OSCE after the presidential election last October.

Both Belarus and the EU want to deepen the current rapprochement. As long as no major crackdown or violence occurs, the two sides will be looking for new ideas and milestones to invest their relations with greater substance. The two big items on the bilateral agenda are visa liberalization

“Both Belarus and the EU want to deepen the current rapprochement. As long as no major crackdown or violence occurs, the two sides will be looking for new ideas and milestones to invest their relations with greater substance.”



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for Belarusians traveling to EU countries and talks about a political agreement. Belarus remains the only country in the Eastern Partnership, which covers six of the union's Eastern neighbours, without a contractual agreement with the EU.

While these steps may well be merited, EU-Belarusian relations need a longer-term and realistic strategic vision. A reality check is required to manage expectations on both sides. Moreover, the delicate geopolitical context and Belarus's domestic situation make this one of the first and thorniest test cases for building "resilience"—the concept that the EU's June 2016 global strategy suggests will now define EU foreign policy in the neighbourhood.

On the one hand, the EU needs to understand the multiple geostrategic threats to Belarus's resilience and think how it can help the country minimize these fragilities. This means tackling the country's vulnerability to Russian geostrategic aims in a regional context that has been fraught since Moscow's March 2014 annexation of Crimea. The EU (together with NATO) will need to offer more meaningful bilateral confidence-building measures in the security sphere and help Belarus develop its desired role as a regional neutral ground for peace and security negotiations.

On the other hand, Belarus is an example of how state resilience, regime resilience, and societal resilience do not necessarily go hand in hand. This is a mismatch the global strategy skates over and will need to address as the document moves into its implementation phase.

In concrete terms, this will entail getting a grip on Belarus's evolving domestic context. The EU rapprochement with Belarus must include a recalibrated effort to advance civil society and freedoms. The EU has traditionally dealt mainly with a familiar circle of opposition leaders. As the current election campaign has confirmed, these leaders are now relatively marginal to everyday civil society activity. In the eyes of many young Belarusians, the EU has become too closely associated with the personal political agendas of these opposition leaders, and this has undercut the union's ability to reach out to newly organizing layers of society.

The domestic context has changed, as a focus on building and defending national identity and autonomy has come to the fore—a result of Russian actions in Ukraine. Most Belarusians are now cooler toward the prospect of any sharp political rupture, as they fear this would weaken the country vis-à-vis Russia. But the EU should not take this to mean there is no need to support alternative voices in civil society. After the election, this needs to be a more prominent part of the EU's support for resilience.

The EU should do this by paying closer attention to incipient civic initiatives that include diverse population groups across the whole country. Many of these are organized around the aim of national resilience and independence, in a significant interlinking of domestic change and geopolitical factors.

The global strategy's promise of "principled pragmatism" is the right approach toward Belarus. However, Sunday's election is likely to reveal how much work remains for the EU to clarify what its new ENP and global strategy mean in practice for a strategically complex case like Belarus. In particular, the union will need to show how it intends to deal with the interactions between the principled and the pragmatic parts of this equation. Only by developing a much broader form of engagement that matches ongoing societal changes in Belarus will the EU begin to show that resilience could be more than a soon-to-be-forgotten and hollow slogan. ●



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“Without Belarus the EEU will become a virtually pointless project for Moscow. For this reason, Belarus’ weight in the EEU is greater than its actual advantages as an ally.”

Belarusian President Alexander Lukashenko and members of the Belarusian Government have repeatedly and harshly criticised Moscow’s trade policy with its allies, during recent integration summits: the Eurasian Economic Union (EEU) Summit in Astana, the Forum of Regions in Minsk and in bilateral meetings with the Russian leadership.

Lukashenko’s reproaches are not groundless. Not one single economy that joined the EEU projects has reaped the benefits to which it is entitled. Russia made three promises when it established the Eurasian Economic Union (and consequently this set Belarus’s expectations when it acceded to the EEU). They were: a harmonised customs’ policy, access to the Russian market for Belarusian commodities and services (i.e. a free flow of goods and services) and an

The Eurasian Economic Union fails to bring Belarus closer to Big Brother

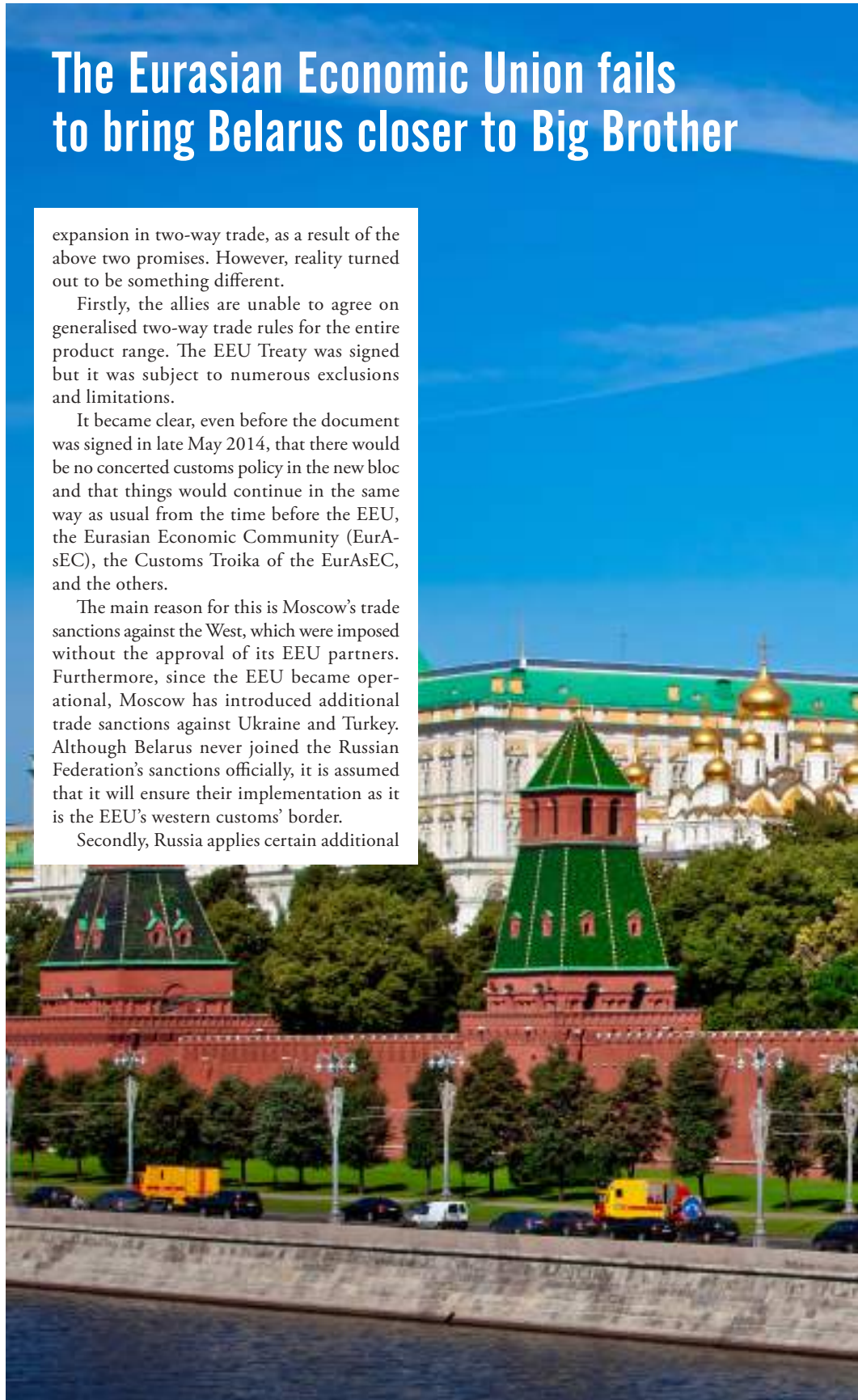
expansion in two-way trade, as a result of the above two promises. However, reality turned out to be something different.

Firstly, the allies are unable to agree on generalised two-way trade rules for the entire product range. The EEU Treaty was signed but it was subject to numerous exclusions and limitations.

It became clear, even before the document was signed in late May 2014, that there would be no concerted customs policy in the new bloc and that things would continue in the same way as usual from the time before the EEU, the Eurasian Economic Community (EurAsEC), the Customs Troika of the EurAsEC, and the others.

The main reason for this is Moscow’s trade sanctions against the West, which were imposed without the approval of its EEU partners. Furthermore, since the EEU became operational, Moscow has introduced additional trade sanctions against Ukraine and Turkey. Although Belarus never joined the Russian Federation’s sanctions officially, it is assumed that it will ensure their implementation as it is the EEU’s western customs’ border.

Secondly, Russia applies certain additional



discriminatory measures to Belarusian goods, alongside a slew of protectionist ‘tricks’ designed to create non-competitive advantages for Russian manufacturers in the Russian domestic market. These limitations apply to Belarus’s key exports to Russia: mechanical engineering products, farm machines and food. For its part, Belarus also restricts the access of Russian goods to its domestic market.

Thirdly, in the wake of falling oil prices, depreciation of the Russian rouble and the above ‘anti-sanctions’ and discriminatory policies, two-way trade shrank by 26.3 per cent in 2015 (the first year of the operation of the EEU), from the level reported for 2014, and it continues to fall. In 2015, Belarus’s export deliveries to Russia dropped by 31.6 per cent year-on-year to \$10.38 billion and export supplies from Russia went down by 22.8 per cent to \$17.1 billion. Two-way trade remains asymmetrical — Russia’s key exports to Belarus include raw materials, whereas Belarus supplies finished products.

Although the year 2015 saw global oil and natural gas prices dropped quickly, Russian rates for crude oil, natural gas and electricity, for Belarus, fell a lot more slowly than the prices of the Belarusian engineering products and food that were delivered to Russia.

In other words, since the EEU has become operational, the terms for two-way trading have deteriorated rather than improved, for Belarus, contrary to the country’s original expectations. Lukashenko’s criticism predictably is made in the quest for equal trading terms. The Government, including Belarus’s representatives in EEU institutions, has been set the same task.

As a result of effective lobbying within the EEU institutions, the negative elements of two-way trade slowed in 2016, but Belarus still remains underprivileged. Trade between Belarus and Russia fell by 12 per cent year-on-year in the January–April 2016 period and exports from Belarus to Russia edged down by 6.4 per cent, while imports from Russia dropped by 15 per cent. Notwithstanding this slight improvement, when it comes to equal access for Belarusian and Russian commodities into the Russian market, this is likely to remain a problem for a long time.

The deterioration of the terms for two-way trading, since the launch of the EEU project, is further exacerbated by the challenges that the two countries are facing in their bilateral contacts over some of the issues that are critically important to Belarus. Primarily these concerns the gradual loss of the price advantages in purchases of Russian natural gas and crude oil, which also causes tensions between the two allies.

The benefits to Belarus, from its economic integration with Russia, keep narrowing but so does its dependence on its “big brother.” Belarus is one of the three founding states of the EEU and is, essentially, the western ‘show country’ for the Russian integration initiative. Without Belarus the EEU will become a virtually pointless project for Moscow. For this reason, Belarus’ weight in the EEU is greater than its actual advantages as an ally. The Kremlin will have to put up with Minsk’s official criticism until this balance changes. ●





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The EU's benign neglect of Eastern Europe

“The EU is also fumbling in Belarus. There, the EU’s approach is either to leave the country in a state of political isolation or to engage with it regardless of its brutal political regime.”

The EU has been consistently very weak in dealing with post-Soviet countries (except the Baltic states) compared with the former Communist countries of Central Europe and South-eastern Europe. The latter knew exactly where they wanted to be after 1989: part of the Euro-Atlantic constellation. Joining the EU and NATO was their goal. It was about coming home to a reunited Europe.

When it comes to Eastern Europe, the EU is making fatal mistakes that leave the region without a perspective and render it even more unstable than it already was. Yet these shortcomings could be easily remedied with political will.

The biggest shortcoming is the lack of a long-term strategy toward any of these countries. Even in Ukraine, the EU has no idea what perspective to offer this big country whose political and economic stability has enormous consequences for Europe.

Even more worrying, the EU is not applying sufficient pressure on Ukrainian President Petro Poroshenko to implement reforms. Nor is it doing what it has persistently failed to do in both old and new members as well as candidate countries: reach out, as Mikhail Minakov from Kyiv wrote, “to local governments and pro-reform NGO networks.”

If the EU wants to have an impact, it is not going to achieve this by talking to the governing elites while failing to engage genuinely independent civil society movements. Didn't it learn anything from its misguided policies in the Middle East prior to the Arab Spring? Seemingly not.

Look at the EU's policy toward Azerbaijan. As Emin Milli from Baku wrote, “European countries allowed Azerbaijan to chair the Council of Europe in 2014 while back home the authorities shut down the country's few remaining independent NGOs and jailed many of their leaders as well as various journalists, politicians,

activists, and human rights defenders.” He added that “instead of human rights and democracy, European politicians now speak vaguely of economic engagement.” The ranking of inadequate is generous.

The EU is also fumbling in Belarus. There, the EU's approach is either to “leave the country in a state of political isolation or to engage with it regardless of its brutal political regime,” wrote Andrei Yahorau from Minsk.

Yet where the EU does engage intensively, it doesn't have much to show. Over the past several years, Brussels has consistently propped up successive governments in Moldova, believing the pro-European rhetoric of the country's political elites but at the same time blind or unwilling to address the endemic corruption among those elites. That corruption, exemplified by a huge recent banking scandal, has left the elites intact but the citizens disgusted and disillusioned with their leaders and the EU. No wonder Moldova is rich pickings for Russia.

The EU could adjust its policies toward its Eastern neighbours. It has the tools to do so. One is leverage. Why couldn't the EU introduce smart and targeted sanctions on some key figures in the Azeri government if Brussels is that committed to defending human rights activists?

Another option would be to reach out in a much more systematic way to civil society, be it movements or individuals. That would mean engaging civil society in the allocation of EU funds and supporting independent media. It would also mean the EU breaking out of its obsession of dealing with political elites and being entrenched in the capitals while ignoring the provinces and local activists.

Then there's the role of student and postgraduate exchanges as well as focusing on building up a strong and independent judiciary, as Nino Lejava from Tbilisi argues. The hunger for access to education through the EU's Erasmus student exchange program is immense, with both sides coming out as winners.

Above all—and this is the EU's fundamental failing in Eastern Europe—neither the institutions in Brussels nor the member states have considered the future status of the region. Most of the countries in the Eastern neighbourhood do not want to remain the lands in between. They want to be somewhere and something, instead of being stuck in a perpetual but uneven tug-of-war between Russia and the EU. The longer this precarious status continues, the greater the instability will be. ●



Donald Tusk, Jean-Claude Juncker, Petro Poroshenko

The editorial (here abridged) was originally published on Judy Dempsey's Strategic Europe blog.

Will European business and institutions bolster the new trends that have appeared in Belarus?

“Now that the country’s president has made his unequivocal statement about the need to invest in Belarus, the moment for European investors to step forward has never been better.”

It’ll take at least a \$1.5 worth of net foreign direct investment (FDI) to stimulate economic growth in Belarus in 2016. These words were said by Belarusian President Alexander Lukashenko, in his annual Address to the Belarusian Nation and National Assembly. A statement of this calibre would seem to be targeting European investors, given the EU Foreign Affairs Council’s decision to lift the bulk of the restrictive measures against Belarus.

The Russian economic crisis has limited Belarus’ ability to tap into its traditional funding sources. China only gives tied loans and meeting the International Monetary Fund’s requirements is becoming more of a challenge. A new thaw between the EU and Belarus has set the stage for Belarus to make the quest for the EU and European Free Trade Association’s (EFTA) FDI a priority.

However, it is not just the thinning might of Belarus’ traditional financial patrons that is guiding this country towards EU investment. Belarus’ upper economic echelons are now welcoming a fresh batch of managers with foreign experience, who want to follow the path of reform and are determined to stand their ground. This trend’s future relies, among other factors, upon European business and institutions who are willing to bolster the aspirations of the ambitious, intelligent and hardworking Belarusians.

The last twenty-six years of independent Belarusian history has built an unusual system. It is a country in a “manual operation,” where the government has a more than eighty per cent share in the economy. However, at the same time Belarus boasts a range of cutting-edge productions and unique information technologies (EPAM, Wargaming, Viber, MSQRD) nestled in the Free Economic Areas and the High-Tech Park where private investors, foreign as well as domestic, enjoy a preferential status.

As an investment destination, Belarus’ key selling arguments are the workforce which is more skilful and cheaper than its Russian or Kazakhstani counterparts, as well as a viable productive capacity, a



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Published on
June 1, 2016

quality infrastructure, privileges for responsible foreign business, a developed banking system, political stability and low corruption. Now that the country’s president has made his unequivocal statement about the need to invest in Belarus, the moment for European investors to step forward has never been better.

Investments to diversify Belarusian export, to create 100 per cent private companies and joint ventures would be a win-win deal because such projects will receive guaranteed support from all authorities. State-owned enterprises are also desperately seeking potent European partners with the ability to transform backbone industrial enterprises into international type holdings whilst staying focused on the social priorities. Some of the items on the European investors’ potential to-do list are marketing Belarusian goods and improving the manufacturing quality of the high added value goods and services.

European investors are still likely to face some post-Soviet bureaucratic red tape which has developed new defensive mechanisms, however the situation is changing. The modern legal system in Belarus is helping to eliminate excessive paperwork. An emerging dialogue between the government, society and the private sector is proving instrumental in removing barriers for businesses and is building an environment that enables investment.

To be a success in Belarus, European investors would largely need to unite and vigorously promote their interests through a joint national platform — the European Business Association — as well as through other branch NGO’s. ●





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*Published on
October 19, 2016*

In autumn 2013, the strong and charismatic Chinese leader, Xi Jinping, announced the Silk Road Economic Belt and Maritime Silk Road of the 21st Century (in short: One Belt, One Road — OBOR). The project is currently shaping up to be the largest infrastructure-based, financially supported and economically vibrant geostrategic project on the globe today.

After the previous mantra of the visionary reformer Deng Xiaoping of China's keeping a low profile and concealing its capabilities whilst trying to avoid the limelight; of not allowing the country to be a leader on international scene, we now have the opposite situation: of China's emerging as a global superpower in a new and, once again, multipolar world, where Beijing is fighting for its place.

Officially, OBOR is a concept for interconnectivity between Asia, Africa and Europe. However, what should be strongly stressed that its end point and its focus is Europe, with the terrestrial Silk Road having to make its final stop somewhere in either Berlin or Rotterdam, with the maritime road possible ending in Piraeus, Greece or even Venice. China wants Europe for its modernity, technology, trademarks, quality of goods and innovations. For this reason it prefers fusions and mergers to new “grassroots” investments.

OBOR is deeply Chinese, but it looks like a new chapter in a classic geostrategic handbook, where the terrestrial road is nothing less than famous the Heartland of John Mackintosh and the maritime road is a Rimland by Nicholas Spykman. It is a maritime fringe surrounding Eurasia, or the

Heartland, where — to quote Zbigniew Brzezinski — a new chessboard has been set up. However, it should not be ignored that OBOR is not only an economic and financial project, but it is also, to a large extent, the greatest security initiative, one which, according to Michael Pillsbury, is to engage the West and the US especially in a new “one hundred-years’ marathon”.

While the US and its security establishment, especially, are worried, Europe seems to be much more open to new strategic Chinese initiatives and institutions, such as the Asian Infrastructure Investment Bank (AIIB) or financial flows (Chinese cumulative investment in OBOR countries could reach up to \$4 trillion; several times more than the Marshall Plan for reconstruction after the Second World War).

Currently available data shows that this investment is coming to the big economies of Western Europe first of all, starting in France, Great Britain and Italy. But other countries on the continent

One belt one road: a big task for Europe

“Are we, here in Europe, the EU and the CEE countries, ready for the Belt and Road Chinese diplomacy? Up until now our response has been inconsistent.”

are also trying to follow in the same footsteps: the Volvo car company is a spectacular case, and the Chinese shipping giant Cosco has a 67 per cent stake in the port of Piraeus.

The countries of Central and Eastern Europe (CEE) are especially eager to see the new opportunities created by the Chinese. Here, China is an instigator and initiator of another strategic initiative (announced in Warsaw in 2012) of a 16 +1 umbrella of cooperation with all CEE countries, starting from the Baltic States and going up to Balkans and the Adriatic region.

The first pillar on the road to the CEE countries was established in Minsk, Belarus, in April 2015, when Xi Jinping himself went to confirm the new investments. He visited Prague and, later Belgrade and Warsaw, in early 2016 and confirmed the stability of the Chinese projects.

In the Chinese's minds, after the constriction of an industrial park in Minsk, the Polish town of Łódź, which is already connected by train with Chengdu in Sichuan province, should be a communication hub for Europe, which would be the best route if it connected with Piraeus (hence the idea of the Chinese bullet trains travelling from Belgrade to Budapest). After that we have many other pending projects on the agenda: chemical industry in Hungary, ports in Croatia, nuclear reactors in Romania and/or a shared stakes in Ljubljana airport.

Are we, here in Europe, the EU and the CEE countries, ready for the Belt and Road Chinese diplomacy? Up until now our response has been inconsistent. We lack a common approach and strategy towards China, which still appears in front of us, one time as a moving target, one time as a surprising smart power, instead of a real and equal partner.

What we need urgently is unity in our approach and efforts vis-à-vis the Chinese initiatives and the preparation of a negotiating mandate, which we currently don't have. Only a true strategic partnership with China can require and bring about an added value for the EU and its member states. Only a common approach on our side can be an effective countermeasure to the competition for benefits of increased Chinese investments already emerging on the agenda. Are we ready? ●

“EU member states should be looking at all these initiatives with a view to how Europe could profit from the developments without giving away its strategic assets, namely its key infrastructure and without having had in-depth consultations on how to benefit from increased the Chinese spending in global infrastructure projects.”

Numerous large investments are already underway along the so-called Silk Road that connects China with countries such as Kazakhstan, Pakistan, Iran, the former Soviet Republics and, last but not least, Europe.

When talk turns to Chinese investments in Europe, people tend to think about Chinese companies acting as foreign investors, buying European companies in order to gain market access. Many people listen to the news carefully when it is about Chinese companies buying (western) European firms in the high tech sector however, Chinese involvement in strategic infrastructural projects catches less attention amongst the western public.

This is another element of China's financial involvement which is beginning to be seen more and more clearly in the Central and Eastern European states, yet many of the agreements which have been made between China and the Central / Eastern European countries remain unknown known to the greater public.

Did you know, for instance, that back in 2010 Hungary signed a \$5 billion agreement to upgrade the Hungarian transport infrastructure, namely roads and railways, during the visit of the Chinese president? This happened notwithstanding the fact that the European Union was/is spending billions and billions in upgrading its European transportation networks (TEN-T) which also have a focus on the Central and (South) Eastern parts of the EU?

Take the example of Greece: it is unnecessary to summarise all the elements which have led to the current state

of affairs. However, a few developments might have caught the interest of supply chain professionals who are thinking about how to redesign the trade flows between China and Europe and vice-versa in order to maintain a competitive edge in the fight for consumers' money.

Hewlett Packard is one of the companies which started to implement fundamental changes in its supply chain organisation, roughly eight years ago, in particular by setting up a direct rail connection from their inland China-based production facilities towards Europe. Another big change within the organisation was the relocation of their supply chain headquarters from Rotterdam, in the Netherlands, to the Port of Piraeus, in Greece.

At the time many people did not understand what was going to happen. However, from an outside perspective looking into HP, the company had an ambitious plan: to anticipate, and eventually to be, a driving force in the changing trade patterns between Asia and Europe. It planned to do this by re-routing cargo flows between China and Western Europe through the Mediterranean basin, where the Chinese saw the Port of Piraeus was set to play a key role in their future strategy on how to develop and implement a key element of the One Belt One Road initiative.

Interestingly enough, even a few years ago these developments that happened within a member state of the European Union were simply by public opinion as well as in most of the European logistics world. The port of Piraeus and its infrastructure seemed too small and the Greek problems far too big, in total, to make the Chinese' project to become a strategic investor in the country worth noting in the press or in the board rooms of the big western European port-holding companies.

Things have changed in the meantime. The port of Piraeus has been bought by the Chinese shipping company Cosco who announced a merger, straight after that, with its Chinese counterpart, China Shipping, which made them an important player in the top league of shipping companies.

Interestingly enough the sale to Cosco was triggered by the fact that the International Monetary Fund, as well as EU institutions, were forcing the Greek government to sell off state-owned assets in the attempt to reduce country's overall

debt levels towards its creditors. The tender process took some time and other global port operators were also mentioned as being potentially interested in purchasing this asset.

At the end of the tender process, however, it became clear that none of the port-operating companies that bid for this asset could gather enough commitments from shipping lines (who were fighting their own fight for survival) to make this case a viable investment for the future years to come.

This situation must have looked different to the Chinese consortium, where volume streams would eventually considered more flexible to being re-routed, thus making Piraeus a key element in the Chinese One Belt One Road strategy, serving as a logistics hub within the Mediterranean region.

As a matter of fact, today, Piraeus has become one of the fastest growing ports in the world with a total planned capacity of more than five million TEU (twenty-foot equivalent unit), which is roughly half of the size of the port of Hamburg in terms of container volumes. It should be noted that the growth in volume does not come from growing global trade but rather from Chinese companies deciding to re-route their volumes via the new set-up at the port of Piraeus instead of running them through a range of Northern European ports.

In the end, the example of the port of Piraeus best illustrates what changes we can expect for Central and Eastern European infrastructure projects in the years to come. As I have already said, around a dozen larger infrastructure investment plans have been discussed and agreed upon between the Chinese government and the respective countries, in South East Europe alone. These loan and financing agreements are all more or less located on a line that runs up from Greece to Hungary, somehow illustrating how China sees its approach towards the European markets.

Whilst Hungary has pretty much been the starting point for Chinese money to flow into the Central European infrastructure, Serbia signed a \$1.5 billion agreement in June, this year, with the Chinese government to upgrade its road and rail network. Moving across the Central and Eastern European region it can be observed that countries around the Black Sea are rumoured to be in negotiations with Chinese authorities concerning get-



While the EU makes plans for CEE China makes investments



**FRANK
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ting infrastructure investments that will help them get connected to the One Belt One Road initiative.

Georgia, is a founding member of the Asian Infrastructure Investment Bank, and has already taken the decision to become connected to the Chinese initiative, by starting implementing plans for 700,000 TEU deep sea port at Anaklia, 25km south of Poti. The port is planned to be operational within the next four years.

Further north, in Eastern Europe, in Belarus, a project called 'Great Stone Industrial Park' kicked-off back in 2010, when today's president of China visited Belarus and initiated talks about

the development of a hub located close to Minsk airport and only two and a half hours' drive from the Belarus-Polish border (consequently the Eastern EU).

The project, which can best be described as a large free trade and investment zone, covers an area of over 90 sq. km and will eventually hold workplaces for roughly 100.000 people. The project is intended to attract local, as well as international, investors to use this location as a manufacturing, trading and distribution hub which is closely ties to the railway corridor that links Europe with China, via the Trans-Siberian route.

It could be said that the Chinese gov-

ernment's ambitions to revitalise the ancient trade routes between China, the Middle East and the Mediterranean, as well as Europe, have become more visible over the past years although we are still at the beginning of this decade long implementation plan. EU member states should be looking at all these initiatives with a view to how Europe could profit from the developments without giving away its strategic assets, namely its key infrastructure and without having had in-depth consultations on how to benefit from increased the Chinese spending in global infrastructure projects. What is Europe's response to that? ●

A strategic asset for regional growth and development in the EU



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Published on
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“Political and economic relations between the United States and Belarus are enjoying a resurgence. Ten years ago political relations between our two countries were strained and economic relations were not what they might have been.”

Despite the upcoming Brexit and other institutional problems in the Eurozone and the entire European Bloc, there is still a widespread understanding that the single European market remains the unique driving force for the EU economies, more than ever.

In order to enhance the opportunities that the single market provides, the European Commission is continuing its ambitious project that aims to connect and integrate the mobility networks of all of its member states into one ambitious supranational multimodal trans-European Network. The nine transnational multimodal corridors, whose total cost is projected to cost €24 billion, form the backbone for further regional development.

Now, the EU may encounter an even more ambitious intercontinental land bridge project; one that has already reached - in terms of logistic chains - the major logistic hubs of Western Europe. Although at first glance it costs substantially more to transport a TEU container by rail than by sea, companies have discovered that for high-valued consumer goods, the time gains and security, as well as the fact that the journey passes major cities, offer a number of advantages.

As early as 2011, BMW started running regular container trains from Leipzig to Shenyang in China. The trains transported more than 8,000 components to BMW's assembly plants there. In Leipzig a logistic centre of 63,000 sq. metres was built, as a logistic nexus to this new Silk Road and nearly 600 new jobs were created to support the German Silk Road project. Since 2014, the ports of Antwerp and Rotterdam have also received regular long-block trains that have taken the same land route, from central China via Russia or Kazakhstan. This is a journey of less than 14 days compared to the nearly 40 days it would take by ship.

HP uses cargo trains to ship products to and from China. Another global player, DHL, has weekly express service trains starting in Chengdu and passing via Kazakhstan to Poland. The short rail connections between Chongqing and Duisburg (10,800 km – ten days) have a bright future.





Consequently, it is high time that the EU Commission and the parliament develop an ambitious plan: a connecting facility between the TEN-T networks and the new Silk Road routes.

In 2013, the Chinese President Xi Jinping launched the One Belt One Road (OBOR) project, involving 60 countries in a transcontinental, \$1 trillion funded project. Today, the OBOR embraces 70 percent of the world population, 55 per cent of world's GDP and 75 per cent of the world's energy reserves. Jinping's aim is to launch maritime and land routes to connect the Asian continent with Europe. At an operational level, a financial vehicle, the Asian Infrastructure Investment Bank (AIIB) was launched. In order to facilitate its communication with the EU, China created its own political platform CEEC 16+1 comprising of 11 EU member states and five Balkan states. Now, this forum is a driving force in expanding and financing the Silk Road network into the EU.

Several cities in Europe, with good connections or connect-ability with the new Silk Roads, are asking themselves what added-value such an intercontinental platform could give them. The answer is many. First of all, goods are produced and distributed, more and more, in a value chain that comprises multiple locations. So regions and cities in Europe should prepare themselves to become regional development centres on the global trade routes to and from Asia. Regional development and global commerce go hand in hand.

It is predicted that by 2030 nearly 66 per cent of the world's middle class will live in China. That opens enormous prospects for the export of European goods to China, but there are also new markets in India, Pakistan, Iran and Kazakhstan, which are

all part of the Silk Road network.

It is vital that Europe understands that infrastructure corridors are the real boosters for regional development. To ensure its success a supranational management will be needed on the TEN-T network and also on the new Silk Roads.

The New Silk road Initiative has been launched in order to include private and public actors in Europe's Silk Road debate and to pressure and stimulate these ideas. It has been initiated by three partners. The first is the Kaunas Free Economic Zone in Lithuania, a 540-hectare free zone in north-eastern Europe at the crossroads of the Silk Road and the TEN-T corridor's Rail Baltica: The second partner is the Great Stone Park in Minsk, Belarus; Europe's nearest door to the Commonwealth of Independent States (CIS), and which is the largest overseas industrial park built by the Chinese Government with shareholders from the former China Ministry of Machinery Sinomach and China Merchants Group CMG. The third partner is one of the largest economic expansion areas of Shanghai located in Jinshan.

These new Silk Road Parks intend to create a platform and a network to enhance the Silk Road growth strategy at a regional level, thereby embracing innovative entrepreneurship, global e-commerce, citizens' cultural exchange and regional economic development on the Silk Road value chains. The network has attracted the largest chemical region of Germany, the Bayern Chemie Cluster and is now open to attracting new members in Western Europe as well as in Russia and China. ●

Written by

ANDREW WROBEL

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The Belarusian financial sector: an industry in the process of restructuring

“It is stable and it is a good place for a foreign investor to start from. Now, we need to make their presence more comfortable and profitable. It is here that both the National Bank and the Ministry of Finance believe that changes should be made, but it’s a question of the speed of these changes.”

The key objective of the National Bank of the Republic of Belarus, today, is maintaining financial stability under the current conditions of considerable external shocks and its main challenges are: high inflation rates, national currency devaluation and the underdeveloped financial sector, including the insurance and security markets.

Taras Nadolny, First Deputy Governor of the National Bank of the Republic of Belarus, spoke to Andrew Wrobel about these challenges and also about the six-month-long denomination process that the Bank launched on July 1 2016, where they cut four zeroes off the large banknotes that Belarusian have been using for two decades.

Foreigners coming to the country, myself included, have always struggled with the Belarusian million notes. Now, since the beginning of July and after the denomination, the notes have lost four zeroes. Such processes took place a couple of decades ago in the CEE region. Why has Belarus only done it now?

The scale of the units and the denomination process is also changing our perception, because here at the National Bank we used to operate in amounts of trillions of roubles. Now, after the change, we are slightly nervous and need to double check the figures.

But speaking seriously, the notes, that we have introduced now, were already printed in the UK, by the way, in 2008. The global financial crisis and the economic climate that followed, which was also felt here in Belarus, made us postpone the process of denomination. We decided to wait for more convenient conditions for our macroeconomic environment and to try to



overcome the crisis first.

The main reason behind the denomination was to improve the circulation of money, to streamline accounting and settlements, to maintain the optimal structure of money denominations and to reduce the public expenditure on servicing cash circulation. As you can see, the nature of this process is rather technical — we didn’t expect it to affect purchasing power, the exchange rate or inflation.

Talking about inflation, the main goal of the National Bank is keeping it at the right level. We are constantly looking to manage inflation better.

So what is your inflation target for 2016?

We estimate it will fall to 12 per cent at the end of this year. In my opinion, it is a fair estimate.

Do you think it will go down even further in the following years?

A few weeks ago, we adopted a five-year guideline, until 2020, and according to that document inflation should reach five per cent by the end of the decade. In 2017, it should be nine per cent. If we look at the new approach of our macroeconomic policy, we see a flexible exchange rate and monetary-based targeting. We believe that these two crucial tools will help us achieve our targets.

So we have talked about denomination. Let’s now have a look at the devaluation of the Belarusian currency which has been taking place for over a year now. Some foreign investors complain it’s detrimental to their business. What measures have

been taken to tackle that?

Well, the devaluation of the currency has had a number of negative aspects. We have used some key instruments, such as the flexible exchange rate, which helps us reduce the external shocks that the country was forced to face, because of the devaluation of the Russian rouble. Russia is Belarus' largest trade partner and, as far as I remember, in 2014, when the Russian currency was first devalued, the share of our trade with the country accounted for some 50 per cent. At the beginning of 2015, we changed our monetary policy in all macroeconomic spheres: we set up a continuous double auction, which helps us get a fair value for our currency level.

The other important step, which we took to decrease imbalances in the economy, was taking control of the supply of money. Before that it was one of the drivers of economic growth. We printed some extra money, which increased inflation and internal demand. All that led to a fixed currency devaluation from year to year.

Of course, on the one hand, the devaluation creates good conditions for our exporters because our local products are cheaper in external markets. However, on the other hand, in an environment of higher credit growth — and in our country more than 70 per cent of the credit portfolios in the real sector of economy are nominated in foreign currency — any devaluation of the national currency leads to an increased share of problem debt for those enterprises. This also results in an increased cost for servicing foreign and domestic government debt.

So it seems that both the public and the private sectors have been affected. What impact has this had on consumer demand?

The decline in the real income for households is another negative consequence of the devaluation and there has also been a continuing reduction in real income for individuals. In January-April 2016 the real household disposable income has decreased by 6.9 per cent compared to same period of the previous year. That means that, to some extent, the devaluation of the currency has reduced Belarusians' wealth. However, we estimate that by 2020 the real income will increase by up to 10 per cent compared to 2015.

Briefly coming back to the devaluation; we have an enormous amount of debt, from an earlier time, which we conglomerated at the time of devaluation and we are now refinancing that debt. We are constantly trying to reduce it. The debt repayments are very high but the flexible exchange rate is allowing us to stabilise the situation.

Belarus has an impeccable credit history. In the previous years the country has serviced and settled its debts in full, in a timely manner, even under the conditions of high deficit of the balance of payments' current account. In this regard, it is safe to say, that as far as the observed balance of payments equilibrium is growing, at present, there will be no problems with debt servicing and repayment either.

Now, I would like to briefly circle back to individuals and consumer loans and mortgages. How are debts handled for individuals?

In 2007 and 2008, we actually benefited from a non-developed financial market. Belarusians didn't use any financial services apart from simple deposits and loans. A special governmental programme, concerning the development of the financial market, was adopted a few years ago and that was meant to change that, but it hasn't

been implemented yet. Up until now Belarusian use, maybe two or three basic financial instruments.

Last year the National Bank wanted to take over the regulatory functions of the Ministry of Finance, which still has these powers, in order to make the process of developing and improving the financial services available specifically to consumers. The Bank regulates the banking sector, which includes about 95 per cent of all financial services in Belarus. Insurance companies and some small security companies represent less than five per cent of all financial services and are still regulated by the Ministry of Finance.

We weren't able to transfer the regulatory functions, last year, but we are still working on new arguments to convince the Head of State that shifting regulatory functions to the National Bank is necessary. We are also working on a draft of a new strategy for the development of a financial market in Belarus and we are hoping to adopt it soon.



So when you talk about the development of financial services, which areas do you mean in particular?

The World Bank has helped us to revise the financial market. Their experts said the banking sector was well developed and stable and that the level of banking assets to GDP was satisfactory, however they recommended improvements in two areas: the insurance market and the security market.

So let's look slightly deeper into the insurance market. How would you like to develop that?

Well, the main idea is to intensify private participation in the insurance market. There are 21 insurers in the country and there is a high concentration of state-owned insurance companies. As a matter of fact we are, to some extent, talking about a conflict of interest between the state, as the owner of these companies, and the regulator which is the Ministry of Finance.

The third area that needs addressing is the equal participation of private and state-owned companies in insurance services. Nowadays, for example, there are some types of obligatory insurance, which can only be delivered by state-owned companies, and we are insisting on equal participation in the market.

Finally, there is the process of automatization and digitalisation of the insurance market, as well as the communication processes between the company and clients, as this is currently at a very low level.

Do you think there is room for foreign investors in the insurance sector?

The entire financial market still offers good potential for growth. It is stable and it is a good place for a foreign investor to start from. Now, we need to make their presence more comfortable and profitable. It is here that both the National Bank and the Ministry of Finance believe that changes should be made, but it's a question of the speed of these changes. I believe the experts from the World Bank and the International Monetary Fund (IMF), who are working with us, will help change the attitude of our state officials and will persuade them to make these changes soon.

For the last few years the government has been trying to attract foreign investors to the country but, as far as I know, there is still not as much foreign investment in Belarus as they would want and that they need. Is this so?

Foreign direct investment (FDI) in our country is not as high, nor as significant, as we would like to see it. The latest figures show \$1.5 billion, in 2015, and the main share of that amount — \$1.1 billion — is reinvestment. Between January and April 2016, we saw an inflow of \$1.1 in FDI and up to \$1 billion out of the total amount was reinvested income.

Three-five years ago, we kept setting high FDI targets and not achieving them. Now we are not trying to focus on specific FDI figures but rather to create an environment that invites investors to come to Belarus.

The President recently said that it would take at least a \$1.5 worth of net foreign direct investment to stimulate economic growth in Belarus in 2016.

When we look at our balance of payment deficit, we require up to the equivalent of \$1.5 to cover the balance of payment and these figures correspond to one another. Another issue is the source of the funding. Are these debt-based sources or is it a non-debt source such as FDI. For us, certainly, in order to keep our fixed reserves the solution is naturally more FDI.

However, I believe that whether we attract FDI of \$1.5 billion or not is not the major point but rather it is the question of our business environment and how we are trying to improve it.

We were talking about the banking sector and there are quite a few foreign investors there. How do you think they have helped develop the sector?

To a rather significant degree, I think. It's not only the actual



investment, but also the new technologies, the new products, digitalisation and a new banking model. For instance, retail banks stimulated the development of retail banking and introduced a new approach of how to involve individuals and how to teach them to use banking services.

In Belarus there are 26 banks and 21 out of them have foreign capital; in 16 of them the share of foreign capital exceeds 50 per cent. In absolute figures, the share of foreign capital in the banking sector is still less than 20 per cent but even that creates a very positive impact on the development of the sector.

What about the equity or the stock market. It seems as if it doesn't exist in Belarus, does it?

The Belarusian equity market is constricted and not well-developed, however, we are also taking measures to breathe some fresh air into this sector. There are some financial instruments which allow entities to transfer money capital, from one organisation to another, in order to receive some extra equity capital. The main problem is the mentality of the managers who are waiting for some state support. They are not involved in the standard financial practices perhaps due to a lack of know-how and competence.

Unfortunately, the low interest rate for state financial support has made the managers of state-owned companies uninterested in other financing options. Instead they wait for cheap money from the state and thus extend this generalised attitude to other sources of funding.

The current economic situation in the country that resulted from external shocks and which has caused reductions in GDP, as well as the government's lending programmes which were a requirement of the IMF, are all finally making these managers start to change their thinking.

I think this situation will, in the medium-term, make the managers of state-owned companies look for alternative financial instruments.

We're talking about state-owned companies — I know the National Bank has been working with the so called Creditors' Club. How are the works progressing?

Yes, this club has 106 members — mostly state-owned companies that are facing liquidity problems and/or problems securing credit facilities from banks. The National Bank is now trying to help them refinance and restructure their debts and we have managed to restructure over \$1 billion of their credit portfolios. ●

The proof of a country's readiness to attract foreign investors lies in the development of the insurance market

“One of the best signs of Belarus' maturity to cooperate completely with prominent foreign investors and to attract FDI will be the liberalisation of the insurance market and the introduction of (some of the) internationally acceptable standards.”

When an emerging economy starts a conscious journey towards international financial markets, in order to attract foreign investments, there are several systemic and important points to consider, especially nowadays in the modern competitive and tumultuous world.

Obviously, one of the key elements will be the building up and maintenance of a proper image that will demonstrate that the government is prepared to provide the financial sector with an adequate infrastructure to be able to comply with the investors' expectations.

Where that is concerned it is impossible to over stress the importance of the insurance market as a cornerstone of the financial system, in any country — a point which is always reiterated and supported by international organisations such as the World Bank, the European Bank for Reconstruction and Development (EBRD) or even the World Trade Organisation (WTO). This is because before an emerging country can take any sort of set up and/or operational risk it requires a well-regulated and developed insurance landscape with internationally compliant principles that are the same as those of the investors as well as free access to international markets.

This approach permits a certain level of comfort when using the standard risk management processes which are extremely important when financing from Western banks is used. Moreover, an open cooperation with the international insurance community gives both enough know-how about transfer opportunities and access to rated capacity, which is important for complex, large or multinational deals and projects, where only “tried and true” risk distribution practices are expected.

Unfortunately, because of state domination, an unequal access to the market for local private insurers and a monopoly on reinsurance in Belarus, there is still a long way to go. For the last decade the entire insurance market has slowly moved in a backward direction, following an opposite path to global and regional trends. This is doubly unfortunate as in the 2000s, the country probably

had one of the most developed and liberal insurance environments amongst all the former Soviet Union countries.

The state's unnecessary interference and mediation in risk transfer coupled with a dramatic lack of acceptable capacity (even state and private insurers all together as well as the state-owned monopolist reinsurer's retention and treaty reinsurances) actually destroyed any burgeoning competition or development.

At the same time an approach, such as this, can often create unnecessary complications for using the investor's existing international programmes, arrangements or essential extensions within engineering, construction or indeed any other risks more complex than just fire insurance. That issue needs to be addressed.

Certainly, one of the best signs of Belarus' maturity to cooperate completely with prominent foreign investors and to attract FDI will be the liberalisation of the insurance market and the introduction of (some of the) internationally acceptable standards. This is the best technical help that international organisations can currently offer if they care about helping Belarus' endeavours to expand worldwide.

A good example for Belarus authorities to consider is Bermuda. With an on-going focus on proper regulation and framework, this country has emerged as an insurance powerhouse that rivals New York and London, in just 25 years. The facts prove the point: 16 out of the 40 largest global reinsurance groups, 25 per cent of Lloyd's of London's premiums and 70 per cent of global Insurance-linked securities' (ILS) transactions are located in Bermuda.

What should the insurance market liberalisation in Belarus look like? Well, for starters, equal access to the market for state and private companies (and therefore a natural decrease of the state's presence in the sector); free access to global reinsurance markets using common insurance industry standards; and, finally, a level of regulation which would follow the expectations of the potential investors'. ●



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The Belarusian banking sector moving towards modernisation despite some challenges

“The economy is beginning to recover from the crisis. The worst has passed and, considering the revival of the economy, we see a high potential for growth, if not in 2017, then certainly in 2018.”

There are 26 banks, including 21 with foreign capital, operating in Belarus and five foreign institutions have their representative offices in the country, according to the country's National Bank. In January 2016, the banks' aggregate registered authorised capital amounted to 4.5 billion (or €2.2 billion), having increased by 33.4 per cent, compared to 2015.

Igor Likhogrud, chairman of the board at the Moscow-Minsk Bank, spoke to Andrew Wrobel about the Belarusian banking sector, as well as his bank's current position and future plans including the search for a strategist investor.

I recently spoke to Mr Taras Nadolny, the first deputy chairman of the Belarusian National Bank, which is the largest shareholder of Moscow Minsk Bank and told me that the World Bank's experts had said the banking sector was well developed and stable and that the level of banking assets to GDP was satisfactory. However they recommended improvements in two areas: the insurance market and the security market. How do you see the development of the banking sector from a bank's perspective?

There are different segments in the market and, therefore, they are developed differently. Moreover, these segments have different regulators, today. Their consolidation under a single financial market regulation authority would help to manage this field more efficiently from the standpoint of regulation and would provide for quicker development.

What concerns the development of the banking sector? The economy is beginning to recover from the crisis. The worst has passed and, considering the revival of the economy, we see a high potential for growth, if not in 2017, then certainly in 2018. Once again the worst is already behind us and for those who could not recover – well, everything is visible now.

The International Monetary Fund recently said that the state-dominated financial sector is confronted by several critical challenges and that the transition to an independent and risk-based overview of the financial sector is urgently required. How do you see that?

This question is somewhat connected with the previous one.

It is, indeed.

The banking sector is regulated by the national bank and the bank recently also became the regulator for leasing companies and FX organisations. The National Bank strives to follow the best international practice in its ways of doing business and, in particular, it adheres to the Basel principles of banking supervision.

Respectively, as the regulation of the insurance market and the securities market today is under authority of the Government – the Ministry of Finance – in my opinion the next logical step would to consolidate the other segments of regulation under one body and eventually to allocate it independently. Consolidation under a so-called “mega-regulator” would provide better transparency and uniform rules for all players and would bring some sort of synergy to the sector.

Let's change the topic slightly now. It is clear that the private sector (SMEs) is not well-developed. Do SMEs have easy access to financing and what products are on offer in Belarus?

It is true that state enterprises dominate today. Nevertheless, the share of small and medium businesses is developing. As an example, our bank provides services for over 10,000 clients, 8,000 of which are small and medium enterprises. The main products when we finance small and medium businesses are credits and leasing.

It is true that access is limited because it is necessary to provide collateral, something new businesses do not always have. They need a credit history and financial flows. On one hand, it limits opportunities but on the



other hand, it creates potential, including the development of banks. One part of our strategy, and one of the parts of our joint cooperation with the European Bank for Reconstruction and Development (EBRD), is to create the necessary conditions to support small and medium businesses, taking into account the experience of international financial institutions on our market. We would also like provide an opportunity to create some standard products and to streamline processes with the possibility of provisioning the necessary financing to small businesses, on demand.

The Belarusian economy has been affected by the devaluation. What impact has this had on consumer demand?

Indeed, the national currency devalued in late 2014 and early 2015. Consumer demand fell somewhat and the demand for imports fell as well, as the turnovers in retail dropped. We see it in the turnovers of our clients, in crediting amounts and the population's salaries. However, we also see potential. We understand that growth will inevitably follow and banking services, in particular, will be demanded to keep up with these changes.

How aware are Belarusian individuals, today, about banking products: credit cards, consumer loans and mortgages and mobile banking? They are all offered by banks in Belarus. Do you see prospects for growth in retail banking?

All these products have a wide circulation in the market and practically all the banks compete in this field. Mobile banking is developing exponentially. For example, we changed our mobile banking service back in June and today, about 20 per cent of our cardholders are using it already. This was achieved without resorting to any significant measures and our estimate is that it will only grow.

We see potential and that is connected to the economy's recovery from the crisis and the increase in income, in general. At the same time we see prospects for cooperation with FinTech companies. That is those that create platforms and different IT solutions. There is a capability here — in this synergy between us the banks with the client bases and banking licenses — to perform particular operations. Those who provide the market with modern IT technologies and solutions are in demand more and more today.

A difficult economic situation can be perceived as an obstacle or as an opportunity. How do you see it?

Well, we definitely see opportunities here and they are encouraging us to keep trying to keep up with global banking trends, and to develop not only technological services, but also to implement unique wide financial and socially-oriented products and services. We are aiming to provide them at exactly the time and place where they are most needed.

In response to the decline in retail consumer demand from the bank's partners, we launched a unique hire-purchase card. When clients use the card to buy goods they do not pay any fees or commission. The purchase amount does not increase and is



automatically divided into several instalments. Our shopping-partners acquire revenue growth, customers get a reduced payment burden and the bank gets a commission from the retailers. This card can be used today to buy almost anything, from a kettle to dinner at the local cafe.

The so-called “financial bicycles” or “national discoveries” are invented under these types of conditions - periodic devaluations, denominations and other financial stresses - new products that combine simple lending and instalment loans, bonuses and savings programs. Such lending products have not only received high praise from our clients, but also proved their financial efficiency.

I already mentioned that the Moscow-Minsk Bank is mainly owned by the Belarusian National Bank. Where do you see prospects for growth for your bank?

There are actually certain limitations on us in terms of development, particularly because our shareholder is the national bank and, being the regulator, it operates under statutory restrictions, which limit its opportunities for our capitalisation and for the provisioning of resources.

As a central bank it has strict conditions on the provisioning of resources to banks. So, in order to resolve this conflict, between the owner and the regulators' being one person, the national bank has initiated preparatory measures for selling the bank.

I will come back to this in a moment but first I would like to ask you about the bank's current market share.

Our assets currently amount to about one per cent of the market share. However, at the same time, it is necessary to outline our various products. For example, our market share on foreign exchange transactions is roughly 14 per cent, owing to our streamlined processes, our well-adjusted procedures and the sharply-cut interaction between the different business lines within the bank. We work in all segments and have a solid team. Therefore we are the leaders on the FX market in Belarus.

What is your current strategy?

Our strategy is digitally and omni-channel oriented and is targeted at increasing cross-selling through all segments and products as well as developing mobile services for day-to-day banking. We are striving toward growth in the SME segment via specialised products and streamlined processes, as well as the development of transaction banking and FX operations.

So, are you looking for a foreign bank to acquire your shares? How do you think foreign ownership would help the bank to develop?

We rely on the fact that a strategic investor should acquire the bank. Preferably, that it would be a western bank with all its business lines and technologies, which would then be available to us, and therefore we would be able to develop even quicker, especially in such areas as the securities market, risk management and the IT arena. ●



**ALEXANDER
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“Belarus’ insurance sector lags, noticeably, behind its regional peers. In 2015, gross written premiums amounted to \$516 million, with a penetration rate of only one per cent as compared to three per cent in neighbouring Poland.”

The longevity of Belarus’ president, Alexander Lukashenko, owes as much to the structure of the country’s economy as it does to his sharp and often criticised leadership skills, which have resulted in a narrowing of the political space and the suppression of opposition.

Much of his legitimacy rests on an implicit social contract under which the government has traditionally provided security from the unemployment and inflation which ravaged other post-communist economies during the transition to free markets, in exchange for popular support. The government is able to provide such security largely through its maintenance of a Soviet-style system, where 75 per cent of the economy, and two thirds of the work force, remain state-controlled, together with large subsidies from Russia who is Belarus’ major trading partner.

However, the developments of the last decade, including a currency crisis, hyperinflation and a deep recession in the Russian market, have buffeted the economy and have threatened to derail growth. Recognising this reality, Mr Lukashenko announced, at the fifth Belarussian Congress in July 2016, that a major drive must be undertaken to attract

Winds of change for Belarus’ reinsurance industry?





foreign investment, to encourage privatisation and to restore economic dynamism. However, encouraging foreign capital to take advantage of any potential privatisation or to establish new operations in Belarus, will take more than just highlighting Belarus' low labour and production costs.

Risk taking in a country with such prominent political and economic uncertainties requires an insurance industry with a certain technical and financial depth.

Unfortunately, Belarus' insurance sector lags, noticeably, behind its regional peers. In 2015, gross written premiums amounted to \$516 million, with a penetration rate of only one per cent as compared to three per cent in neighbouring Poland. Although, when measured in roubles, growth was a respectable 13 per cent, the high rates of inflation meant that in real terms this was wiped out.

Moreover, the local industry is characterised by a clutch of small insurers, with low capacity levels, and one large state owned entity, which controls over 50 per cent of market premium, leaving few meaningful options available to cover complex risks.

Within a freer market insurers could turn to international reinsurance to deepen capacity, but Belarusian legislation means that the Belarusian National Reinsurance Organisation (Belarus Re) has a monopoly on the export of risk, and the compulsory cession of 100 per cent of premium surplus per risk, beyond 20 per cent of an insurer's equity.

While this has allowed Belarus Re to enjoy a respectable underwriting profit, in recent years, it means a continuing high exposure to credit and interest rate risk in the Belarusian industrial and financial sectors. Any major loss or systemic crisis could threaten Belarus Re's viability, and could force it to rely on capital injections from the central bank, which has experienced a shortage of foreign currency, in recent years.

There are growing indications that the government is prepared to consider insurance market reform as part of a larger discussion, with the World Bank, on economic liberalisation. In particular the establishment of the Antimonopoly Regulation and Trade Ministry, in June 2016, has raised hopes for changes in the reinsurance industry which could help spread risk through the global markets, and which could benefit the overall economy by expanding local market competition and capacity.

In Belarus, however, regime coherence and the maintenance of power often count for more than what orthodox consensus would say is sound economic policy. Mr Lukashenko will be aware that previous examples of liberalisation in the reinsurance market from the 1990s and the 2000s which resulted in the disappearance of national champions in other countries, such as the National Institute of Reinsurance in Argentina, and which could force a reliance on major foreign international reinsurers.

Given the suspected weakness of Belarus Re's finances, serious questions could be raised about its ability to compete in an international market. Its failure would most likely mean that key sectors of the state controlled economy would need to be reinsured abroad. The prospect of moving the financial security of such assets outside of government control will doubtless activate Mr Lukashenko's well developed political antennae; potentially leaving the proponents of reform frustrated. ●

Belarus and Singapore share the same factors for economic success



**OLEG
KHUSAENOV**

CEO
and the founding
partner of Zubr Capital

Published on
October 2, 2016

Singapore has become one of the most developed countries in the world, in just thirty years. Its history began when the country became an independent republic, following its ejection from Malaysia in August 1965. How did this phenomenon happen, within such a short period of time, while other countries that have regained their independence still remain comparatively poor, for example Jamaica who separated from the British Empire two years after Singapore regained independence?

I remember a meeting with Michael Milken, an American financier and philanthropist, where this topic was discussed, during a business conference in Moscow, in the summer of 2008. It seems that Singapore's success was determined by the following factors: an absence of religious conflicts, a lack of natural resources and the population's having an equal access to education and medical care. These factors, augmented by internal stability and a developed financial market, led the country to an overall state of well-being.

At that time I had been running Atlant-M Holding, a company that my friends and I created from scratch in 1991, for almost twenty years. In 2008, Atlant-M's annual revenue exceeded \$2.3 billion and in the following year I won the Ernst and Young 'Entrepreneur of the Year Award' in Russia.

After the meeting with Mr Milken, I started reflecting on which of three countries, where Atlant-M International Holding (my previous workplace) operated, would meet the requirements outlined by Mr Milken and I came to the paradoxical result that it was Belarus.

My plans for moving to Belarus and starting an investment in the financial sector were delayed by the economic crisis in Russia, in August 2008. However, after two years the main problems had been solved, which allowed me to delegate Atlant-M to my friend and colleague who replaced me as CEO. I then moved to Belarus and founded the first local company, Zubr Capital, managing direct investment funds. Many of my friends and colleagues were sceptical about the idea. They all saw many problems in Belarus: the suppressive government control over economics, the lack of natural resources and the high risk of devaluation etc.

Nevertheless, in 2010, we created the first direct investment fund consisting of five trendy portfolio companies: a bank, a leasing company, a telecom operator, plus IT

"Singapore's success was determined by the following factors: an absence of religious conflicts, a lack of natural resources and the population's having an equal access to education and medical care."



and pharmaceuticals industries. Two years later, we formed a new 100 million fund, Zubr Capital Fund I, and started the process of fundraising. In the summer of 2016, we announced the first fund closing at the level of \$50 million. So, how did we manage to do the apparently impossible? Primarily, we were able to identify the hidden possibilities of the country.

One of Milken's criteria was a lack of natural resources and Belarus has none. On the one hand, this fact has inhibited the country from rapid development; on the other hand, it has allowed Belarus to avoid becoming dependent on oil. As a result and in order to survive, the private sector has had to concentrate on rather more innovative types of business, such as the intellectual and service industries, instead of traditional heavy industry. Recent statistics confirm this: 46.4 per cent of the country's GDP, in 2014, was generated by the service industry.

The country's main resource is its people. Historically, Belarusian universities have had a high level of technical education. This virtue has not been lost as is clearly shown by its evident success in the IT area. Like in Singapore, all Belarusians have equal access to both education and medical care. As far as freedom of religion is concerned, the Belarusian Orthodox Church (BOC) holds a privileged status over other religions (approximately 80 per cent of Belarusians

belong to the BOC) but that does not entail religion-related conflicts.

Another aspect is that Belarus has never experienced the process of a large-scale privatisation. Most of the major factories that Belarus inherited from the Soviet Union are still public. Many experts consider this to be a major limiting factor that negatively influences the overall development of the country, however, the example of some of Belarus' neighbouring countries clearly demonstrates that privatisation is more likely to lead to corruption and oligarchy, than to freedom of enterprise. As a consequence, it can only endanger the development of the IT industry and modern technologies.

Reportedly, the absence of privatisation and relatively harsh business conditions does not encourage the growth of entrepreneurship in a country. However, and surprisingly, business did appear and grow in Belarus. At the moment, the private sector

constitutes more than 35 per cent of the Belarusian GDP.

Furthermore, unlike Russia and Ukraine, a businessman in Belarus is always a self-made man. Throughout the twenty-five years of the country's national independence, a promising pool of local businessmen has developed, who are usually strong, independent and innovation focused leaders; what is more, they are not interested in politics. Today, they are the major investors in the Zubr Capital Fund I.

The only missing element is a developed financial market. However, slowly but steadily this area of the country's economy is also improving. In the World Bank's Doing Business report the country has leapt from the 106th position, ten years ago, to 44th this year. It is still not Singapore, which ranks first, but all this makes me believe that Belarus has the potential to become a successful economy. ●



Belarus is making the first steps onto the international finance floor



KIRILL ILINSKI

Managing Partner,
Fusion Asset
Management

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“Access to the international capital market would give the whole economy sector a big push. Once this was achieved there would be a real possibility to receive external financing for strategic and infrastructural development, in any shape or form, whilst leaving control of the company in the hands of the current owner.”

The financial market in Belarus is not generally accepted as a lever for the economy, despite having an actively developing legislative framework and a well-established stock exchange structure. The main obstacle to attracting long-term foreign loans, in the current economic environment, is the lack of infrastructure solutions.

It is important to note that Belarusian banks use the Russian infrastructure to satisfy the interests of companies, as well as their personal interests, despite their having a complex system for providing financial services to private clients and being the only large-scale aggregators of capital flows. The Belarusian banks that receive cheaper funding from abroad than from the domestic market, are mainly engaged in capital issues and cash and settlement services.

Thus, a highly relevant task for the moment is to build an independent market mechanism, which would interact with the closest economic partners and allow integration into the global financial system. At the same time, it has to be independent and self-sustaining. This will not only lead to greater economic effectiveness but will also give additional protection from global financial shocks.

Since market instruments on the Belarusian market are somewhat ineffective and not always available to the general population, the majority of issued securities and financial derivatives remain OTC (over-the-counter). This enhances the currency risk and, more generally, increases the systematic risk for the Belarusian economy.

One cannot say that the above problems remain ignored or unaddressed by the local regulator. In fact, the National Bank of the Republic of Belarus (NBRB) has adopted a proactive approach in developing and promoting active risk management and, in particular, FX risk management. Since 1 August there has been a section dedicated to this on the NBRB website.



Speaking specifically about FX markets, it is necessary to mention the decree of the President of the Republic of Belarus (No.231 of the 4th of June 2015), relating to the over-the-counter (OTC) FOREX market” and to any related acts.

At the same time, it should be noted that financial and, more generally, economic risk management has its own specifics for open and small, export-orientated countries. Therefore, despite having cultural affinities with Russia, any direct adoption of the Russian experience and risk management practices, in our opinion, does not appear entirely plausible.

A more creative approach to the problem is needed. To do this one would require partners who are acquainted with the country specifics, with international practices and who have an understanding of the culture. Fortunately, such partners exist and are ready to help foreign investors and corporations to operate effectively in this exceptionally promising country.

At present, the most liquid and developed market in the Republic of Belarus is the government bonds’ market. The corporate bonds, which are offered, are mostly bank bonds, as well as a small variety of industrial bonds.

Access to the international capital market would give the whole economy sector a big push. Once this was achieved there would be a real possibility to receive external financing for strategic and infrastructural development, in any shape or form, whilst leaving control of the company in the hands of the current owner.

Notwithstanding this, it would be perfectly fair to say that it is not sanctions alone that restrict Belarusian companies’ access to the international market. A particular problem of many Belarusian enterprises is a lack of transparency as well as modest international experience. Only a limited number of domestic companies comply with the International Financial Reporting Standards (IFRS), which is generally accepted in the business world. The absence of ties to depositaries in other countries, as well as some legislative and political restrictions, also affects the country performance.

Despite all these difficulties, the largest state-owned banks are ready to use our existing experience and infrastructure, in order to access external financial markets. For the Republic of Belarus, the creation of an effective mechanism for attracting foreign investment offers a great opportunity to improve the economic situation in the entire economy sector and the country as a whole. ●

In February, six software development companies, with development offices in Belarus (Ciklum, EPAM, IBA Group, Intetics, Itransition, and Bell Integrator), are included in the International Association of Outsourcing Professionals' Global Outsourcing 100 listing.

Also in February; the Bloomberg Billionaires' Index values the business of Wargaming, one of the industry's most successful creators of free-to-play online games, at \$1.5 billion. The company, which also developed the highly successful 'World of Tanks' multiplayer game, was created in Belarus, where Wargaming has its largest office, in Minsk, and employs over 2,000 people.

In March, Facebook announced the acquisition of the Belarus-based start-up Masquerade. The company developed a world-class imaging technology for video as well as the world-famous mobile app MSQRD. MSQRD had two investors, Yuri Gurski and Gagarin Capital and its popularity has been steadily rising since its launch, in 2015.

In April, Reuters ran a video report asking whether Belarus is "the new Silicon Valley." It featured the 'World of Tanks', which is Europe's (and the US's) fifth most popular computer game. It was created in Belarus by the company, War Gaming, which still has a development centre in the country.

In June, Belarus' High-Tech Park, which brings together 164 local tech companies and 25,000 tech professionals, marked its tenth anniversary. Established back in 2005, the park safeguards its residents with a special preferential tax regime that significantly lowers operational expenditures. In 2016, the revenues of the Park's resident companies are expected to exceed \$1 billion.

Also, in June, dev.by completed its research on employment in the Belarusian ICT sector. There are 48 companies, each employing over 100 IT specialists. The country's largest tech employers are: EPAM (7,000 employees), IBA Group (2,200), Wargaming (2,000) and Itransition (1,400).

In August, Juno, the new ride-sharing start-up that rivals Uber, was launched in New York. The entire development team of over 80 people is based in Minsk. Before creating Juno, Talmon Marco and Igor Magazinik, had created Viber, the messaging app that has nearly 800 million users and which was acquired by the Japanese internet giant, Rakuten, for \$900 million. Viber's development offices are also located in Minsk and employ more than 100 staff.

Also in August, the Belarusian team won four medals at the 28th International Olympiad in Informatics (IOI) for school students in Kazan (Russia). In the all-time IOI medal table, Belarus occupied the 13th place.

August 2016 seems lucky for Belarus: The Global Sourcing Association shortlisted Belarus as a top outsourcing destination for 2016. "Considerable investment appears to have gone into the advancement of the country's information and communications technology (ICT) capability; a task identified as a priority by the government who are determined to achieve international recognition for Belarus as a regional leader in ICT," said Kerry Hallard, President of the Global Sourcing Association tells *Emerging Europe*.

In October, seven software development companies, with their main dev-offices located in Belarus (Coherent Solutions, Oxagile, Effectivesoft, HiQo Solutions, AIQA, Itransition, InData Labs), were listed among "Most Promising Solution Providers 2016" in five categories by CIOReview magazine.

FEBRUARY

MARCH

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JUNE

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OCTOBER

Written by

**KANSTANTIN
LASHKEVICH**

In collaboration with



About **900** million people in 193 countries are using mobile apps developed by HTP residents.

Five out of **10** world's largest companies (according to Forbes) are among HTP customers.

HTP hosts **#1** software services and solutions provider from Central and Eastern Europe.

HTP: Belarus' engineers are leading a cool revolution

Written by

**ANDREW
WROBEL**

Published on
October 11, 2016



Hi-Tech Park (HTP) Belarus was set up a decade ago and today, it is home to 164 IT companies whose total revenues are approaching \$1 billion. Apps developed by HTP residents are used by almost 1 billion people in 193 countries across the globe.

Dr Valery Tsepka, director of HTP, spoke to Andrew Wrobel about the park's growth within the first decade, as well as its residents and the fast-developing Belarusian IT sector.

HTP Belarus started operation in 2006, which means the organisation has just celebrated its tenth anniversary. How do you view its development over the years?

Ten years ago we were a social start-up initiative and now we are a large cluster with 164 companies and 25,000 software engineers. So, as far as our development is concerned, I would put the focus on people not on the number of companies; we have had an increase in the number of engineers of 3,000 per annum. That's a trend that has continued for some four years now.

Two years ago, when we first met, I remember you talked about the \$1 billion threshold that you wanted to achieve. Have the park's residents achieved those revenues yet?

I don't know if we will cross that threshold this year, but we will be very close, I am certain. It is important to say that we are very dependent on currency fluctuations because our operations are calculated in US dollars — not only did the Belarusian rouble's rate change but also that of the Euro and the Pound Sterling, and those areas are our biggest markets.

Currently, the European Union accounts for almost 50 per cent of the park's sales. The drop of these two currencies compared to the dollar meant a slight slowdown, otherwise I am sure we would have crossed the \$1 billion threshold by now.

I believe the US is also a large market for Belarusian IT companies, isn't it?

It is. The US market absorbs about 45 per cent of our companies' services.

How about the Russian market? It seems quite crucial for Belarus, doesn't it?

Well, it used to be an important market for Belarusian IT companies an accounted for about 10 per cent of the sales. This was together with other Commonwealth of Independent States (CIS), where we exported about 14 per cent of our services. This year I think it will be around three-five per cent.

Coming back to Western Europe and the US. How did Belarusian companies begin selling there?

Well, normally companies build their reputations gradually. If you have 1,000 software engineers working for a local market it doesn't mean that you can go to a Western European client or an American one and say "we have so many engineers we can do the job." If the first project is a job for just 20 it is already great. If that one is done very well, the next project can potentially involve some 50 engineers. This is our companies' experience.

So, there are over 160 companies in the Park. Four HTP residents were included in the 2016 Global Outsourcing 100 list, which is managed by the International Association of Outsourcing Professionals (IAOP): EPAM Systems, IBA Group, Intetics and Itransition. What is their share of the total revenues of HTP's residents?

I would say that five or six of the largest companies are responsible for half of all revenues. So we have those key players and smaller ones, which are still looking for their markets, or even start-ups.

We talked about the 25,000 engineers that work in the park now. How do you see that pool of talent growing in the next years? Will there be another 3,000 people next year?

Yes, each year the reputation of IT education improves and

Five HTP resident-companies appeared on the list of 100 best global outsourcing companies – The Global Outsourcing 100®.

More than **50%** of the Park's employees are young people under 28 years old.

Every year a new success story happens in HTP: World of Tanks, Viber, Apalon, MSQRD.

More than **30%** of the Park's employees are women.

The **Hi-Tech Park** was set up by the Law adopted on September 22, 2005. The first 4 resident-companies were registered on June 6, 2006: EPAM Systems, Sakrament IT, System Technologies, ScienceSoft.

“Ten years ago we were a social start-up initiative and now we are a large cluster with 164 companies and 25,000 software engineers. We have had an increase in the number of engineers of 3,000 per annum. That’s a trend that has continued for some four years now.”

becomes more popular. This year the competition for IT-related courses at universities was the highest and only people with the highest grades were admitted. That means we get the best students in the country and it also means there is enormous potential for the industry.

Most countries around the world face the problem of having too few young people who want to become engineers. For example, the US produces more MBA graduates than engineers. Only recently the Obama administration has launched three initiatives to support technical education.

Everyone knows that people with a technical education are the future of a country. In Belarus, after the collapse of the Soviet Union the prestige of technical education fell just like everywhere in the world. By creating the Hi-Tech Park we have managed to change perceptions about engineers. It really became cool to be a software engineer, in Belarus.

So HTP contributes to that change?

Yes, we organise plenty of meetings with students and their parents to show them the benefits of a technical education, and to talk about salaries and work conditions, etc. We run open days for them at the Park so they could see what it is like to work here.

Salaries are an important element here. How have they grown over the last few years?

I would say that the average net salary within the Park has grown from \$1,000 five years ago to some \$2,000 now. It is worth noting that this is a salary after income and social taxes have been paid. Also, it is important to say that the industry is young which means that 70 per cent of all our employees are younger than 27 years old.

I should also mention that product companies, especially the successful ones, can definitely pay more. They focus on quality, not quantity. This puts pressure on the whole market and also forces outsourcing companies to pay more and to constantly be involved in training people.

If we look at all of Central and Eastern Europe, the price of services is no longer the deciding element for buyers. What are the advantages of the Belarusian IT sector over the other countries in emerging Europe?

I wouldn't say that Belarusian engineers are better than Polish, Bulgarian or Ukrainian engineers. The difference lies in the number of products in the B2C sector where we have become a

global player.

Five years ago, Wargaming was a start-up and now it is one of the three largest game producers in the world. Viber and Apalon have also been very successful. MSQRD, which helps people to put faces such as Leonardo DiCaprio and other celebrities onto their own, was acquired by Facebook.

But that wasn't the first, so called, exit, was it?

The first one was four years ago and we have practically one successful exit per year, in the B2C segment, which is the prestigious one. Now there are also a few companies with great products, which I believe will soon be being talked about globally. These help improve the country's reputation.

Would you say that Belarusian IT companies are more product or service / outsourcing oriented?

Well, most are service companies, or outsourcing, if you will. It is easier to run a company like that, even from the business model perspective. The risk is lower but so is the margin. In a B2C product company it's different — the risk is higher, as only one in ten companies succeed, but the margins are also higher.

What I also think is important about the industry in Belarus is that our companies have started helping to create start-ups. EPAM runs the 'Start-up in a garage' initiative, Wargaming has created studios in order to develop new games. So when we look at our neighbouring countries, we see that there aren't that many companies that have grown globally and can share their experience with smaller local firms as they do here in Belarus.

So, as we're talking about the country, it is crucial to mention the fact that this year Belarus was shortlisted as a top outsourcing destination of 2016 by the European Outsourcing Association (which has now been rebranded to the Global Sourcing Association). Belarus has also been included in the Top 30 Locations for Offshore Services by Gartner. How is that helping the Belarusian IT sector to develop?

I believe this was a tribute to our fast growth and the experience we have achieved within the ten years of our development.

Last year HTP's growth was 30 per cent while the global IT market shrunk after having grown by only some three per cent in 2014. This year we are also expecting growth that is significantly higher than the global figure. ●

Belarusian tech companies are leading a global technological advance in outsourcing and product development

Written by
EVA KELLER

Published on
October 11, 2016

This year, Belarus was shortlisted as a top outsourcing destination of 2016, by the UK-based Global Sourcing Association (GSA). The country was also included in the Top 30 Locations for Offshore Services by Gartner. These two successes prove that Belarus has a great potential to becoming a leading IT outsourcing destination — according to Uniter's IT Industry in Belarus 2016 report, more than 90 per cent of Belarusian companies out of almost existing 1,000 firms, developed customised software, in 2015.

A top outsourcing destination

“From an outsourcing perspective, Belarus' primary service proposition is in internet technology outsourcing (ITO), with computer and IT services being the

third largest sector in the country. Considerable investment appears to have gone into the advancement of the country's information and communications technology (ICT) capability, a task identified as a priority by the government who are determined to achieve international recognition for Belarus as a regional leader in ICT,” says Kerry Hallard, CEO of the Global Sourcing Association, in an editorial for *Emerging Europe*.

According to Uniter, the most common outsourcing solutions are application programmes, with 88.7 per cent of companies engaged in their development. This is followed by application development and deployment software (47.2 per cent) and system software (23.6 per cent). More than a half of the companies

engaged in own software development offer application software. About one quarter of the total number of companies offer system software products.

“Historically, Belarusian companies have specialised in outsourcing and it is only now they are transforming into product (B2C) companies. These companies need much more time, resources and, of course, expertise. These product IT-companies were the result of the gains in knowledge and skills, that they developed from the outsourcing business model, which IT-specialists used in the development of their own product companies,” says Evgeny Radionik, head of External Affairs at Uniter and the author of the IT Industry in Belarus 2016 report.

Dmitry Khanevich, CEO at Omertex,



“The software development industry in Belarus will continue its current trend of developing proprietary products and selling them independently globally. More companies are expected to go public and to announce the launch of an IPO on international stock exchanges.”

believes that the outsourcing market will grow, but also that historical tendencies still play an important role in the country.

“When Belarus was still part of the USSR, it was a production centre with a large number of factories and facilities, so the process of change takes time. In a country where the public sector economy is more than 70 per cent any changes may take years. Many companies, which have never worked with vendors before keep their staff in-house. This model is still very strong, but the outsourcing market is growing and can offer more services and more qualified specialists now. Young companies are using it more and more,” adds Mr Khanevich.

Dr Valery Tsepka, Director of High Tech Park, agrees that most firms are

service or outsourcing companies. “It is easier to run a company like that even from the business model perspective. The risk is lower but so is the margin. In a B2C product company it’s different — the risk is higher as one in ten companies succeed, but the margins are also higher,” he adds in an interview for *Emerging Europe*.

Combining own products and services

Research proves that more than 60 per cent of Belarusian IT firms combine service- and product-oriented business models. In practice, even the largest leading companies use more than 50 per cent of custom software development. Some eight per cent of companies are

exclusively engaged in the development of their own software.

Ruslan Makarski, CFO at Aristek Systems, says that the goal of any company is to make a profit. “That is why companies are looking for any opportunity to increase their profit. The local labour market means one can find professionals who can work in the service’s market and also in the product’s market,” he adds.

“Most IT companies in Belarus started with services, as this business model is less risky and involves lower setup costs. Eventually, after accumulating experience and becoming more mature, many of them, including IBA Group have developed a hybrid business model, which combines services, solutions and products in their portfolios,” says Sergei

Levteev, CEO at IBA Group.

Oksana Mogulenko, CEO at Solbeg-Soft, says that the mixed model provides companies with greater financial sustainability through diversified sources of income and greater flexibility of talent management. There are several factors to consider: “The first factor is that the own product generates recurring income for the company. It also brings proprietary rights which may become a product themselves, and the product brands create extra value for the business owners. Other business opportunities may show up for the product owners,” Ms Mogulenko adds.

Dmitry Karpovich, CEO at Oxagile, says his firm is an outsourcing service company but he can easily understand why Belarus, with its human capital asset, offers so many product companies. “In companies with their own intellectual products and know-how, it’s much easier for an employee to become important, even irreplaceable. It’s simpler to make yourself heard when you produce something unique. Besides, there’s rarely a ‘rate cap’ on some specific products, unlike with services where you

have to adjust yourself to the market situation,” Mr Karpovich adds.

Uniter’s Mr Radionik believes that outsourcing provides companies with a regular cash flow while their IT-products are the company’s investment in the future. “Companies deliberately take this risk in order to gain future super-profits, from the product companies,” he adds.

Aiming at product development

Nickolay Tsarik, CEO of Jazz Pixels, is certain that even the most effective and powerful service company can be blown apart by the operating gaps that are a common phenomena in this kind of business. “That is why the service model is often supplemented by product development, in order to use the latter profit to cover these operating gaps. Moreover this type of mixed model lets companies continue to try new technologies, approaches and working methods,” he adds.

“Today many Belarusian-made products hold leading positions in the market. Let’s just think of the popular game, World of Tanks, or the messaging service Viber.

That’s why many companies strive to create something special and unique and they do succeed quite often, because local IT industry representatives, today, have the impressive experience and competency necessary to create high-quality solutions,” says Iya Nekrasova, CEO at InToSoft.

“Having your own product development can also be a good marketing tool, if the products is a success and becomes popular all over the world. It’s a good way to balance the staff load. Those, who are free from a client’s project, can work on the company’s product,” says Omertex’s Mr Khanevich.

“Recently, venture funds have been actively developing in the country; business angels see the potential of local IT companies and they are ready to offer their resources and expert commentary to help Belarusian Start Ups grow and to reach global tech markets. Moreover, many companies are ready to invest in their own products because it’s a very sustainable model with a future perspective,” says InToSoft’s Ms Nekresova.

Local IT firms have proved they are



able to develop their own products that can conquer the world.

“Belarusian start-up MSQRD was bought by Facebook. Japanese company, Rakuten, acquired Viber along with its development office in Minsk, for \$1 billion. Maps.me — the best cartographical service was bought by Mail.ru group. The Belarusian game development company, Wargaming, is one of the leaders in the industry in Eastern Europe. I would expect new companies in the transportation sector, health care software and FinTech to become popular across the globe. Within the next five-ten years there will be Belarusian Start-Ups in these fields which will draw the attention of the Fortune 500,” says Uniter’s Mr Radionik.

“The software development industry in Belarus will continue its current trend of developing proprietary products and selling them independently globally. More companies are expected to go public and to announce the launch of an IPO on international stock exchanges. Another important expected move is that the companies’ HRs will actively involve talent from other

countries, where the costs services remain lower than in Belarus,” says SolbegoSoft’s Ms. Mogulenko.

Following global trends

Jazz Pixels’ Tsarik says that the final goal of IT is automatisation in order to cut costs and to advance the production processes, switching from expensive manual labour to cheap robotised labour.

“Growth will be focused on human-free manufacturing, e-services, document management and payments development, as well as the robotisation of dangerous and high-risk production processes and the advance of artificial intelligence. As long as there are companies and productions with costs that can be automatised, the IT sector has a good chance to deliver its solutions. In terms of a global market, the IT sector has enough capacity to grow for the next 30 years even if no super technology is invented that will allow the construction of goods free of human production,” Mr Tsarik adds.

“We foresee further development in CAMSS (Cloud, Analytics, Mobile, Social,

and Security), cognitive computing, the Internet of Things (IoT), and Big Data technologies. The Digital Age will change the way organisations operate as well as how customers consume. Robotics and FinTech will contribute to further digitalisation,” says Sergei Levteev, CEO at IBA Group.

“Today global technological breakthroughs are emerging not once in ten years, but once or twice every two years! It’s practically impossible to predict which novelties will appear in the next decade. However, today we see challenging beginnings in the sphere of Internet of Things and we suppose that they will result in a true breakthrough. By the way, InToSoft and its Dutch partners are currently working on creation of LoRa networks,” says InToSoft’s Ms Nekresova.

How will the Belarusian sector grow in such circumstances? Igor Bessarab, CEO at R-Style Lab, has a concrete answer: “The industry will continue its growth, topping \$2 billion in revenues within two years.” ●

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Written by

**JERRY
CAMERON**

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October 10, 2016

“As more US and EU companies realise the benefits of outsourcing their software development to Eastern Europe, competition will become even higher and salaries will grow further.”

Increasingly, more young Belarusians are choosing a career in the IT sector. In 2010, some 20,000 people had a job in the industry and that number grew to 36,000 in 2015, according to the Belarusian National Statistical Committee. Out of those, 25,000 software engineers work in companies that are residents of High Tech Park Belarus (HTP).

Young well-paid IT specialists are making Belarus known internationally

A WORLD OF CELEBRITIES

“Five years ago an IT specialist seemed like an average employee, but today the image has changed almost beyond recognition. They are now seen as ‘rock stars’ who determine the future of an industry which is expanding very rapidly. The first successfully arranged deal between Facebook and a Belarusian start-up, MSQRD, is a striking example of such a transformation,” says Evgeny Radionik, Head of External Affairs at Uniter and the author of the IT Industry in Belarus 2016 report.

“Almost every week a new and successful start-up hits the headlines, describing how it has improved the lives of millions of people and brought significant profit to its members. Any high school graduate, who is about to choose their future profession, realises that they can apply their skills and become a part that transformation. This gives this profession a sense of significance that is almost magical. It’s the key to a world of opportunities and self-fulfilment. It’s almost like in a Hollywood movie: fancy offices, flexible working hours, flat hierarchy, smart people and democratic atmosphere,” says Nickolay Tsarik, CEO of Jazz Pixels.

In such circumstances, new companies are springing up like mushrooms. According to dev.by, there are over 970 IT firms in Belarus (including 167 in HTP) and only 24 of them are state-owned (less than 2.5 per cent). In 2015, annual revenues in the sector exceeded \$1.1 billion and were 14 per cent higher than in 2014.

“Over the recent years the government has created a complex infrastructure which is welcoming to the steady development of IT industry. These days it is the most rapidly flourishing sector in the country’s economy and that can only attract more and more people who want to build a successful career in IT,” says Iya Nekrasova, CEO at InToSoft.

IT IS IN FASHION

According to the recruitment portal HeadHunter and the news site Tut.by, Belarus’ demand for IT specialists is growing by 25-30 per cent annually.

“Universities are continually reviewing their curricula to meet the evolving needs of IT companies and businesses, at large. IT literacy has become a part of the programme of studies in schools,” says Sergei Levteev, Chairman at IBA Group.

“This year the competition for IT-related courses at universities was the highest and only the people with the highest grades were admitted. That means we get the best students in the country and that also means there is enormous potential for the industry,” says Dr Valery Tsepalo, the director of Hi Tech Park (HTP), said in an interview with *Emerging Europe*.

InToSoft’s Ms Nekresova says that world-known Belarusian tech giants such as EPAM and Wargaming have also made their contribution to the enhancement of education. “Nowadays, we have accumulated the best world-quality experience, here in Belarus, and our specialists



have the possibility to absorb them and to go further,” she adds.

Dmitry Khanevich, CEO at Omertex, says that IT is a prospective, modern and dynamic sphere where young and talented people create amazing projects and products, which can be used by the whole world. It helps to discover their potential and to realise their ambitions. “The atmosphere is friendly and creative and if a young person is diligent and smart enough, they will gain good benefits, a career and success. The number of IT courses and academies is also rising,” he says.

“A job in the IT industry is the most prestigious, attractive and fulfilling in Belarus. Even people who have never worked in the IT industry, are starting to seek an IT education and are beginning to work in the domain of IT,” says Ruslan Makarski, CFO at Aristek Systems, Ltd.

“The market offers lots of jobs that provide a relatively easy entry point to the IT industry, i.e. in software testing,” says Svetlana Pravdina, CEO at AIQA.

IT PAYS OFF

“There is no doubt that for a young person the main criterion which influences their occupational choice is the high income of IT specialists. Currently, the median salary in the IT sector reached \$1,350 in 2016, according to dev.by, while the country’s average general salary level only reached \$375, according to the National Statistics Committee,” says Uniter’s Mr Radionik.

“Over the last ten years, the average developer’s monthly salary has grown by over 300 per cent (from \$500 to \$1700). As from 2016, IT is the highest-paying industry in the country,” says Igor Bessarab, CEO at R-Style Lab.

IBA Group’s Mr Levteev says it is difficult to predict how salaries are going to change. “Several factors are having an impact on the industry, such as government policies, the economic situation and international rules that regulate workforce influx and outflow. IT salaries in Belarus have already been mentioned in international salary ratings,” he adds.

Uniter’s Mr Radionik expects the salary increases in the IT-sector will slow down somewhat in the coming years as a direct result of regression in the field of IT-outsourcing.

“Statistics show that for the past two years, the largest companies which deliver outsource services, have been slowing down the pace of development. This is the outcome of global trends as well as the fact that we are hitting the ceiling on the Belarusian labour market. Nevertheless, we still expect differentiation of the sectors and growth in the salaries of the most highly-qualified specialists, who will be working for product companies,” Mr Radionik adds.

“We expect that salaries will grow rapidly in the technologies where there is disproportionality between the demand for specialists and the labour market supply. Salaries will grow insignificantly in those technologies where there is parity between demand and supply. The wage increase will always be limited by the man-hour cost to the client. Notably, the latter can’t be higher than the cost of



keeping a similar specialist, on staff and taking into account all the expenses of taxes, head hunting and the social safety net,” says Jazz Pixels’ Mr Tsarik.

ENGINEERS EXPECT MORE NOW

R-Style Lab’s Mr Bessarab adds it is more than just financial goals that is driving young people’s interest in getting a degree in computer science in Belarus.

“IT employees enjoy multiple benefits that include: health insurance, flexible working hours, gym memberships, free English classes, free professional courses and lectures and corporate parties. 70 per cent of Belarusian IT specialists are aged 28 or under; they are ambitious, forward-thinking, creative and stereotype-free young people who love their country and who want to change it for the better. IT companies offer a perfect environment for ‘millennials’ so it’s no wonder the Belarusian IT workforce has been growing by 35 per cent, per year, since 2006,” adds Mr Bessarab.

“Travel opportunities, enabling them to exchange experience and best practices with foreign colleagues, are also very attractive for young people,” says Oksana Mogulenko, CEO, SolbegSoft.

“IT companies offer a modern environment and infrastructure and enable a person to develop and grow professionally. The great advantages are a possibility to gain experience of working in or with international teams and to obtain international certificates, recognition of professional achievements and an extended benefit package,” says IBA Group’s Mr Levteev.

“One of the most important reasons for choosing an IT career is the stability of the labour market – there is no high risk of unemployment, after graduation, as employers often fight over talented candidates, not vice versa,” says Dmitry Karpovich, CEO at Oxagile.

“Young IT companies set high benchmarks for salaries and work conditions. As a result, employee retention has become a challenge for mature companies. Employee turnover in most medium-sized companies is between 10 to 16 per cent. Companies support employees through educational and social programmes, as well as involvement in innovation and career development initiatives,” says IBA Group’s Mr Levteev.

COMPETITION IS GROWING

“It has become even more competitive, but it’s a competition for the employer, not for the employee: companies are struggling to hire enough talent when there is clearly a shortage of people on the market,” says Mitya Smusin, CEO at Yellow.id.

“The Belarusian State University of Informatics and Radio electronics (BSUIR) and the Belarusian State University (BSU), the country’s leading higher educational establishments in the IT sphere, have been facing a constant inflow of gifted youth. They also have strong links with the biggest companies in the industry, resulting in almost certain job placement straight from university,” says Oxagile’s Mr Karpovich.

“Unfortunately, Belarusian universities are not able to prepare skilled personnel in the right quantities for industrial demand. For this reason, various extension and retraining courses are now beginning to make an appearance, even in IT companies. It should be noted, that Belarus has a really good background in engineering education, which favours the creation of qualified specialists in related professions and who could also be very rapidly retrained into IT-specialists,” says Uniter’s Mr Radionik.

Companies are already trying different solutions to make sure they have enough talent. AIQA’s Ms Pravdina says her company is used to hiring young people with no relevant experience in software testing. “We teach them in our proprietary educational centre, QA Academy, and offer employment to the best of them,” Ms Pravdina adds.

Various institutions across the country are also making sure the demand for IT jobs will remain stable. Hi Tech Park organises meetings with students and their parents to show them the benefits of technical education, and to talk about salaries and working conditions, etc.

BRIGHT FUTURE AHEAD

“Although 70 per cent of Belarusian companies show little to no profit, the IT industry drives the country’s export growth and shows no signs of decline,” says R-Style Lab’s Mr Bessarab.

As more US and EU companies realise the benefits of outsourcing their software development to Eastern Europe, competition will become even higher and salaries will grow further. Will that growth remain sustainable in the years to come? HTP’s director sounds very confident: “Yes, each year the reputation of IT education improves and becomes more popular,” Dr Tsepka concludes. ●



Belarus is one of the top outsourcing destinations of 2016

“Access to the international capital market would give the whole economy sector a big push. Once this was achieved there would be a real possibility to receive external financing for strategic and infrastructural development, in any shape or form, whilst leaving control of the company in the hands of the current owner.”

The European Outsourcing Association has just announced its shortlist for the Outsourcing Destination of the Year 2016 and one of the countries on the shortlist is Belarus.

This might well come as a surprise to many (the country doesn't appear anywhere on AT Kearney's 2016 Global Services Location Index, whilst fellow Europeans Poland, Romania, Bulgaria and Latvia all figure on the list), but take a closer look and it will become apparent why Belarus' position on the shortlist is justified.

Firstly, AT Kearney may have ignored Belarus; however, the World Bank placed them 37th out of 189 economies in their 2017 Doing Business Report (whereas in 2011 it was placed at 91). This in itself is a measure of how far the country has come as an emerging business destination that benefits from a supportive government of reformers who are actively creating favourable legislation to attract foreign investment (for example you can now set up a business in Belarus in just three days, whereas in 2015 it would have taken three times longer).

Belarus is also in the sweet-spot for travel; it can be reached by many of its European neighbours in anything between one-three hours (three hours from London). It certainly has a lot going for it with an infrastructure that is continually improving (fibre-optic broadband is available in most parts of the country and definitely available in its technology parks); an impressive education standard (400,000 students in higher education against a population of just 9.5 million) and an average salary comparable with that of Bulgaria and Romania.

From an outsourcing perspective, Belarus' primary service proposition is in internet technology outsourcing (ITO), with computer and IT services being the third largest sector in the country. Considerable investment appears to have gone into the advancement of the country's information and communications technology (ICT) capability, a task identified as a priority by the



KERRY HALLARD

President, Global Sourcing Association

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government who are determined to achieve international recognition for Belarus as a regional leader in ICT.

55 higher educational institutions operate in Belarus producing 16,000 ICT graduates annually. This represents a potential solution for the potential skills shortage in the UK, as identified by the National Outsourcing Association in its recent research. If you still need any more convincing, some high profile enterprises that are already outsourcing to Belarus include Adidas, PayPal, SAP, Microsoft, BT, the London Stock Exchange and Coca Cola.

Although the outcome of the EOA Destination of the Year is not yet known, Belarus' progression in the new outsourcing ecosystem to date is commendable. Final judging, by leading outsourcing professionals across Europe, will commence shortly with the winner being announced on the 6th of October at the awards ceremony event in Sofia, Bulgaria. ●

Business mentors helping to solve business development problems first

Written by

ANDREW WROBEL

Published on

November 6, 2016

The Belarusian start-up scene is only being created, now with experts estimating that there are about 100 new start-ups created in Belarus each year. Accelerators, incubators, business clubs, start-up hubs; all have started to appear in the last few years and there are already about two dozen hackathons taking place in the country per year.

Yuri Gurski is a Belarusian entrepreneur, business angel, strategist and adviser. He is also the founder and owner of Ideanomix and Ideanomix Digital, as well as a best-selling author of over 30 books and, currently, he is vice-president of New Product Development at Mail.ru Group. He spoke to Andrew Wrobel about how he sees the prospects for the Belarusian IT sector and the start-up scene.

You have been in the business for a while now, what do you see as the strengths of Eastern European IT specialists?

So far the main competitive advantage of IT specialists from our region is their relatively low cost given their high qualifications. This quality/price combination makes the region very attractive for the development of outsourcing in the middle to upper price range as well as for the setting-up of development centres for large and small companies.

Another important factor is the country's relative proximity to many major business hubs, for example, London. Having said that, there are not many companies that have a global impact originating from this region, which is a generalised characteristic for Europe which lags, noticeably, behind the US and Israel in terms of start-ups.

There is a set of identifiable reasons for this: the lack of people with experience in creating their own products who are able to run their own companies; the convenience of running a simple and predictable outsourcing business; the very high level of wages for IT-specialists in comparison to other industries (this creates a comfort zone, which you do not want to leave); the generalised mind-set of low risk and appetite for entrepreneurship, as compared to the United States and Israel; difficult access to venture capital, etc.

Where do you see Belarus in the picture?

Well, when we create projects, we use the high human capacity of our country. Thanks to the powerful outsourcing sector, we do have, a lot of technical IT professionals: about 50,000 actually, with most of them located in Minsk.

This means that it is quite possible to form a development team, in any location, for a reasonable price and terms. However, we

are experiencing a considerable deficit in business development, strategy, product vision and marketing specialists. We often have to do the work in this field ourselves because it takes such a long time to find an expert. Added to this great efforts are being spent on training brand new employees up to fill positions in these areas.

The domestic market in Belarus is so small that it practically has no influence on the development of the IT industry. We have a number of companies that are creating software for local banks and state organisations, but they are not many. Historically, the IT industry in Belarus is oriented towards the West, making it the most stable part of the Belarusian economy, however, when the financial crisis started in Russia started this caused a domino effect in Belarus.

In Belarus, there is a moderate number of companies and outsourcing and development centres dominate. However, as wages rise and the outsourcing margin falls — at the moment it does not exceed 20-30 per cent compared with hundreds of per cent 10-15 years ago - the idea of having your own product becomes more popular. Successful exits of Belarusian start-ups, such as MSQRD sale to Facebook in particular, have also strongly influenced these ideas.

You are a start-up mentor and supporter. How do you see the start-up scene in the country?

When we talk about start-ups in Belarus, it pays to note that there are not that many of them so far. Within our fund, "Haxus", we can see almost all of the recent projects. Basically, there are very few of them that have produced a workable product, at all, certainly not more than a few dozen a year. For this reason, there are also few investments or exit cases per year. Although there are about 50,000 IT-specialists in Belarus, the idea of creating their own company is not so popular with them, which is why new companies appear far less than one would expect from such a large number of people in the industry.

What sort of help is needed by young entrepreneurs?

The main problem for Belarusian start-ups is the extremely low level of training available, across the spectrum of business issues. They almost never analyse the market appropriately; they do not build a reasonable strategy for the development and promotion of a product. Intellectual property is almost never documented, and so on and so forth.

In fact, only one task is well-executed — the direct creation of the product. It is hard to blame start-ups alone for this problem. We only have a few companies and we simply have no opportunity

to learn. The start-up infrastructure is actually only embodied in two or three centres. As a consequence, the main task of a mentor, investor or business angel is to help to solve the problems with business development.

Belarus has recently been named a top outsourcing destination of 2016 by the Global Sourcing Association. It was also included in the Top 30 Locations for Offshore Services by Gartner. How does that help in the global recognition of the sector?

Belarus' recognition abroad is still moderate, although it is growing. Our country is often identified with Russia, but the IT

sectors of the two countries are very dissimilar.

How do you see the growth of the sector in the next decade?

Let me first consider at the last ten years. The IT sector in Belarus has grown significantly during last decade, reaching about two and a half per cent of the GDP, in 2016, and the growth will continue, will probably be smoother.

Even now there is a clear trend of companies boost, and many outsourcing companies are trying to become suppliers of more complex and complete solutions as the level of salaries of IT specialists no longer pays off just by cheap orders. ●

(courtesy of Yun Gurski)



Belarus is ready to begin with venture capital investments



**ALEXANDER
CHEKAN**

CEO, TUT.by

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“Naturally foreign VCs and strategic investors are already hunting for start-ups from Belarus. The first visits began more than five years ago and now a new investment manager lands in Minsk every week, to explore the market.”

Although there is a lot of tech talent in Belarus and the start-up ecosystem is blossoming, when it comes to venture firms and angels' groups there is a huge gap between talents and available funds.

There are some good reasons for this. There are 1,000 IT companies in Belarus but only some 10-15 per cent of them are successful with their own products. Mostly they are service businesses. This model seems to be safer and more sustainable but it has limited growth potential. Service businesses such as EPAM usually have their salesforce and marketing teams where the customer is — that is, in the US, Europe or Asia. As a result, there are not enough skilled business professionals here in marketing, sales and business development domains who can develop own products.

So there it is a vicious circle: there are few business people, which is why there few product companies and there are few product companies that can produce business alumni.

However, we can actually see an evolutionary spiral and every year more and more developers are creating their own start-ups and learning how to build businesses. There are people from World of Tanks creating data tools, guys from Viber working on social ecommerce projects, EPAM alumni developing the next Jira killer and so on.

Now we see hackathons every week and investors are coming to Belarus in quest of the new MSQRD. But still there is no venture fund in Belarus because Venture Capital (VC) needs a pipeline of investment-ready projects to choose from. If a VC does even two deals a year, it means they will be looking through hundreds of projects with good potential and many of them are already funded by angels.

Angel investments in IT must be made with smart money. Where does smart IT money come from? Naturally there are two sources: the savings of the top managers of IT companies and the exits of IT entrepreneurs. Moreover, angels usually invest in risky ventures at around 10 per cent of their net worth or annual income, so we can divide the potential capital ten-fold. Even the extremely successful IT entrepreneurs in Belarus are young enough to concentrate

on their own “next big thing”; they're just not allowing themselves to pay attention to anything else.

These circumstances lead to a handful of active angels who are mostly working, hands-on, on their portfolio projects.

If we compare Belarus with neighbouring countries such as Lithuania, Poland and Russia, we can see a huge infusion of governmental / EU free money in VCs. It looks like the time 50 years ago when governments were giving away money for health-care to keep people alive. Thirty years ago they cared a lot about education, wanting people to find jobs for themselves and nowadays they are supporting entrepreneurship in order to encourage people to create those jobs. However, in Belarus the government still supports the state-owned heavy machinery plants, despite the fact that the IT industry requires much lower investments in infrastructure. The good news is the Hi Tech Park launched business incubator — free office and co-working space for start-ups — but it is still not enough.

The community of angel investors is growing, both quantitatively and qualitatively. There are some informal meetings and Facebook groups, as well as mentor sessions at the Hi-Tech Park incubator and other co-working spaces. This June, a group of investors from Belarus went to the US to learn from the American colleagues. The three-week programme was devoted to all aspects of the venture ecosystem.

Naturally foreign VCs and strategic investors are already hunting for start-ups from Belarus. The first visits began more than five years ago and now a new investment manager lands in Minsk every week, to explore the market. Just a few funds are risky enough to jump into a seed-stage start-up from abroad, but when it is big enough to raise millions, it can raise them from all over the world, and usually the company is already incorporated in the US, the UK or Cyprus at that moment.

As for the local VC/AI community, it is evolving and although there are no formal structures yet, online groups and private meetups exist. At the moment the best way for a foreign VC is to cooperate with local community leaders and/or co-invest with them is to have hands-on control. ●



Falling student numbers and declining R&D result from lack of funds

“The Belarusian economic model offers quite a low differentiation in wages. Specialists in different professions, with greater work experience and higher qualifications do not receive much more than their counterparts who have more modest achievements. Inevitably, this pushes the leading specialists to emigrate in search of a better life.”

The National Statistical Committee’s recent data on science and innovation in Belarus is rather disappointing. The number of applications for patents fell from 1,933 in 2010 to a mere 691 in 2015.

Additionally, in recent years the share of high-tech and knowledge-intensive industries in the country’s GDP has remained unchanged: 35.3 per cent in 2010 and 35 per cent in 2014. The knowledge-based GDP even dropped, from 0.69 per cent in 2010 to 0.52 per cent in 2015. In the total volume of goods, the share of exports of high-level medium technology goods fell by more than 2.5 percentage points.

When they are asked what hinders innovation, Belarusian companies say that it is because of production factors such as a lack of skilled personnel or a lack of information about new technologies. The main, and decisive, factor is that industrial organisations are evaluated as anti-innovation — through their own lack of their funds. As expected, the economy is not in a very good state and the fact that credit is inaccessible inevitably hampers the development of innovation.

The Minsk and Vitebsk regions have the highest shares of innovative companies, 34 per cent and 28.1 per cent respectively, and are way ahead of the other regions. As a comparison, in the Brest region there are 15.7 per cent innovative companies, 16.6 per cent in Mogilev and 12.7 per cent in Gomel. However, interestingly, there are some shining spots on the country’s map: In Verkhnedvinsk (Vitebsk region), Krupki (Minsk region) and Krichev (Mogilev region), the share of innovative products and services exceeds 50 per cent.

Another disturbing trend is the dramatically falling number of students enrolled in universities. In 2010, there were over 100,500 students, but in 2015, the number dropped to 3,100. It is worth mentioning that more foreign students are now studying in Belarus; mainly from other post-Soviet republics. In 2010, there were 9,357 foreigners studying in the country. In 2015, the number grew to 14,594.

In general, and due to the demographic situation, the number of students has now dropped for the seventh year in a row and this trend is expected to continue for roughly another seven years if we take into account the number of people aged between 10 and 19.



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Research and development (R&D) is also facing challenges. In total, some 26,000 scientists are engaged in R&D activities — 5,500 fewer than in 2010. One of the reasons for that might be the relatively low wages. In 2015, the average salary was BYN 885, just slightly higher than the country’s average.

Another important factor is that the Belarusian economic model offers quite a low differentiation in wages. Specialists in different professions, with greater work experience and higher qualifications do not receive much more than their counterparts who have more modest achievements. Inevitably, this pushes the leading specialists to emigrate in search of a better life.

But a lower number of students and, as a result, graduates as well as growing emigration means fewer people are engaged in R&D activities, in developing patents and in increasing the level of the country’s innovativeness. ●



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Innovation brings great opportunities to the Belarusian economy

“Belarus is one of the few post-communist countries that have managed to preserve the more valuable remnants of the human and physical capital that they have inherited from the past. It is still one of the most industrialised economies in the region just as was in Soviet times.”

The Belarusian economy has still to be discovered by many potential investors, but it is worth the effort. For one reason or another, the prevailing public perception, in the West, is somewhat prejudiced towards what is happening in Belarus. However, those business people and investors, who are ready to overcome prejudices and an unjustified bad image, may be truly rewarded for their efforts.

Thanks to its prudent policy of gradual transition, Belarus is one of the few post-communist countries that have managed to preserve the more valuable remnants of the human and physical capital that they have inherited from the past. It is still one of the most industrialised economies in the region just as was in Soviet times; however Belarus also has made some noteworthy achievements in innovative segments of its economy. Most importantly, you will find both innovative firms with their roots in the past and new technology firms born out of the innovative drive of talented young entrepreneurs.

The IT sector is a case in point. It draws on the historic tradition from the times when Belarus was among the birthplaces of the Soviet computer industry. In the last couple of decades, the IT sector has shown remarkable growth, and this well beyond the country's frontiers. Within the IT sector, Belarus's High Technologies Park (HTP) is an establishment that epitomises the country's achievements and success in this area.

BHTP is a remarkable example of a well-designed and skilfully implemented policy intervention. It was established in 2005, by a presidential decree, with the aim of boosting the competitive power of Belarusian (and Belarus-based) IT businesses and of supporting the expansion of IT exports.

The Park enjoys a special preferential tax regime that is offered to its residents and a range of additional privileges and benefits which make it a very attractive location for setting up an IT business, both for local and foreign firms. Importantly, the framework conditions that the government offers to HTP have not changed at all, during its more than 10 years of existence, which serves as a guarantee for a predictable future for its residents.

Once you enter the Park's premises, you will notice, immediately, that you are in a place where people mean business, they

know what they want and they know how to achieve it. HTP's appealing facilities are comparable to any that you would see in the most advanced technology parks in the world.

Not surprisingly, the Park has been a great success. In its ten years of existence it has grown from virtually no residents to 152 in 2016 (both Belarusian and foreign companies), to \$800 million in sales in 2015 (of which \$700 million was exports) and with more than 24 thousand employees in the resident companies. Among HTP's best known success stories are Viber (which started as a company there) and EPAM (also partially created in the Park). There is also a range of high growth companies currently residing in the Park who may be the champions of the future.

The success of this venture has encouraged the government to try to replicate its success in other innovative sectors as well. At present, two other technology parks are being established which are to follow a similar operational model. The Great Stone Industrial Park is a joint venture with China, which will be offering land plots and the infrastructure to establish high-tech manufacturing businesses with a preferential tax regime, as well as a range of other business privileges.

BelBioGrad is the latest national project to establish a Techno-park for innovative businesses in pharmaceuticals and nano- and bio-technology, under the auspices of the National Academy of Sciences which draws on its human capital. While BelBioGrad is still in a conceptual phase, the idea is to follow the model of HTP as closely as possible.

Of course, the innovative segment is not representative of the whole of the Belarusian economy, which is generally very heterogeneous and has segments that are far from the technological frontiers. It is more the case that the technology parks, described above, are like enclaves, in that they benefit from special privileges that are not offered to all businesses.

Drawing from the remarkable success of HTP, the Belarusian government could give a great boost to the economy as a whole if it were to extend similar benefits and privileges to all sectors and businesses. However, in the meantime, forward-looking innovative businesses and investors from abroad may find great opportunities in the high-tech enclaves of the Belarusian economy. ●

Why is Belarus tech booming?

“Software development is booming in Belarus, which means the world will certainly hear about new names in Belarusian coding talents.”

At the beginning of July, the Russian media reported on the success of two Belarusian programmers. Gennady Korotkevich and Adam Bardashevich, both students at the St Petersburg ITMO University, teamed up to win \$16,000 in the finals of the VK Cup 2016. This event is widely regarded as the biggest competitive programming competition in the Russian-speaking world.

Korotkevich is originally from Gomel, in south-eastern Belarus, and it is here that he fell in love with coding; gaining a basic computer science background. He has already been called “a legend” by western media and he is still only 21 years old. “The only person making a living at sports programming”, he has won all the sport programming titles you could imagine, including: the Facebook Hacker Cup, the Google Code Jam, the World programming championships ACM ICPC and six consecutive gold medals in the International Olympiad in Informatics (IOI).

It is not, however, Korotkevich only.

If you have a look at the all-time medal ranking of the International Olympiad in Informatics, an annual competitive programming competition for high school students since 1989, you will find Belarus in the top 15 of the world’s strongest nations (and it is ranked 6th in Europe).

Belarus’s strong tradition of science and technology education originates from the Soviet era. While social sciences were and still are restrained by a lack of democratic freedoms and traditions, technical education is free from any ideological barriers blossoms in Belarus. The Eastern European country has a population of 9.5 million people and has managed to preserve the best of the heritage of its Soviet education. As a result, more than 3,500 young Belarusians graduate every year, from 14 state universities, with majors in Computer Science and other IT-related disciplines.

The local tech talent pool, together with the state policy of supporting software companies, were the two main reasons that Belarus has become one of the major IT outsourcing destinations in Eastern Europe. “Belarus — the new Silicon Valley?” Reuters asks.

It all started with EPAM Systems, a software engineering services’ company which was founded, both in Belarus and the US, by two former Minsk classmates. Today it’s a global software engineering giant with a capitalisation of over 3 billion dollars, offices in 23 countries and a staff of 18,000. The company’s major R&D office still operates in Belarus, employing over 7,000 people, in all the regional centres.

All in all, around 1,000 tech companies are at work in Belarus, of which the top 50 employ between 100 to 7,000 employees each, as the latest dev.by monitoring showed. Today, 159 local tech companies work, as residents of the Belarus’s High Tech Park, bringing together 25,000 tech professionals. The Tech Park was established back in 2005 by a decree from the Belarusian president and it safeguards its residents with a special preferential tax regime that significantly lowers operational expenditures.

The governmental strategic policy, which is aimed at boosting IT exports, has brought global technological brands to Belarus. After ten years of operation in Belarus’s High Tech Park, a range



**KANSTANTSIN
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Editor-in-chief, dev.by

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of tech world trendsetters: Viber, Fitbit, Playtika, IHS, Yandex, WorkFusion and Juno, to name but a few, have opened their R&D centres in this country.

“We find top-class developers here — both professionally and personally,” Talmon Marco, Viber’s co-founder and CEO, explaining the decision to build a developmental team, for his ambitious new car sharing service Juno, in Minsk.

In order to fulfil their needs for up-to-date and skilled university graduates, a growing number of tech companies started investing in the Belarusian education system. Because of this there are 65 R&D laboratories operating in universities across the country, under the supervision of the Hi-Tech Park’s residents.

Against the backdrop of a deepening crisis in the traditional sectors of the Belarusian economy, the technological industry is growing rapidly in this country. Considering the fact that the average monthly salary in the Belarusian tech sphere (\$1,600) exceeded that of all other industries (\$420) fourfold in 2015, the IT job market saw a record number of applications from people, from all walks of life. The amount of offers for various non-academic coding trainings, courses and boot camps for both adults and kids has also reached the highest level in recent years.

The increasing expanding IT job market, with its high demand for top-class programmers, has changed the personal attitudes of a whole generation of Belarusians considerably. Ten years ago, many talented tech graduates and professionals were leaving the country in search of a better life and greater opportunities. Today more and more of them prefer to stay home, attracted by global employers’ local branches and salaries attached to hard currencies as well as a cheaper cost of living compared to the EU and the US.

Success stories about Belarusian product companies (War-gaming, Apalon, Masquerade), together with the tech world trendsetters’ entrance into the market, have stimulated the local start-up ecosystem’s development. There were over 70 meet-ups, conferences, talks and discussion events for software engineers, managers and tech entrepreneurs organised in Minsk in May-June 2016 alone. The major problem here is a complete lack of local venture capitalist and angel investor community.

Software development is booming in Belarus, which means the world will certainly hear about new names in Belarusian coding talents such as Gennadiy Korotkevich. The world will become familiar with new made-in-Belarus products such as World of Tanks and MSQRD. Minsk will definitely see more R&D centres, from well-known tech companies, coming in the near future. Unless, of course, the Belarusian government changes the rules of the game for the IT sector, as has repeatedly happened before with other industries. ●

Written by

**JUSTYNA
WRÓBEL**

Published on

November 10, 2016

“Belarus has a bright future. We have bright, talented, hardworking people and the world needs to know more about us. More opportunity will come with increased awareness.”

PandaDoc empowers businesses and individuals to lead paperless and productive work lives by building effective and designed documents. They claim that thanks to their product the average contract value goes up by 15 per cent, each employee saves one hour of their time and the close rate grows by 10 per cent.

Mikita Mikado, CEO at PandaDoc, spoke to Justyna Wróbel about the company’s 5000 customers, the recently introduced Add-on Store and the origins of the company as well as its plans for development.

The last few months have been busy for you, haven’t they?

Yes, we have had a very busy quarter and there are no signs of things slowing down.

We are currently getting ready to open an office in Belarus; we have outgrown our San Francisco offices, where we are looking for a bigger space. We have recently signed our 5,000th customer, and we just launched the PandaDoc Add-on Store, which gives customers the power to pick and choose the apps that they want to use, enabling them to customise PandaDoc at the workspace level.

PandaDoc’s suite of applications can now be optimised, based on the specific needs of every department or project. Third-party applications will be available soon, via the Add-on Store, in addition to PandaDoc’s market leading tools. The introduction of the Add-on Store means we are making a strategic move towards becoming a devel-

Rolling sales procedures together so everyone succeeds

oper ecosystem for the sales acceleration technology market.

Why did you decide to set up in San Francisco?

Well, San Francisco sits at the heart of the world’s tech economy. There are no other places like San Francisco and the Silicon Valley for access to great talent, capital, partnerships and countless prospective clients. For founders like me, moving to the area was the only option to succeed.

So what are your plans for development/growth right now?

We are working on expanding our product offerings, including third party applications. We are constantly evaluating integration partnerships, so PandaDoc can be found in more places. We anticipate that we will reach the 10,000 customer mark soon.

How does Panda help companies? What is its success based on?

PandaDoc is an all-in-one document automation platform that integrates with Google Apps and Docs, Salesforce, Microsoft Dynamics CRM, Base CRM, Sugar CRM, Insightly, HubSpot and others. It increases the effectiveness of sales professionals by allowing them to connect with customers at the last stage of the buying cycle. The Panda-

Doc solution brings all the sales functions together in one seamless offering, including document creation, CRM merging, analytics, price quote (CPQ) configuration and eSignatures.

Our success is based on the fact that there is a real need for our product in the marketplace. In addition, our product is reliable, secure, easy to use (user experience is a major point of pride for us) and is compatible with most of the platforms that businesses use today.

Which countries is the platform most popular in?

PandaDoc has clients from all over the world. The European and US markets are our biggest markets right now.

Which markets are you going to focus on from now on?

We are working to penetrate the vertical markets such as human resources, legal, banking and financial services, government, education and healthcare.

You had an investor, how has that helped develop the company?

In July of 2015, we secured a \$5 million investment which was led by Altos Ventures with additional participation from TMT Investments and some others. This funding helped us to not only expand our product offerings, but also to build our sales, marketing and customer

service infrastructure. The funding has definitely helped us grow at a much faster rate and on a much larger scale.

Let's go back to the very beginning. How did you come up with the idea?

In 2007, Serge Barysiuk and I launched Coding Staff, a software development company that created add-ons for web content management systems such as SharePoint and DotNetNuke, as well as functional and easy-to-use web solutions. We ran Coding Staff for four years, making the company profitable, before selling it in 2011. It was then that we began to truly parlay our interest in engineering and impactful sales strategies.

Our work in the software development field had naturally led us to discover inefficiencies and frustrations when it came to the sale of products. Managing an array of different pieces of software — word processors, spreadsheets, email — is a clunky and time-consuming process. It's nearly impossible to keep up with the multiple forms of documentation to keep each and every sale logged.

We saw a solution. In July 2013, we began building Quote Roller, software that provided basic proposal and contract management with robust eSigning capabilities built right into it, because what's could be more annoying than printing, signing, scanning and re-sending each and every contract?

Within five months, Quote Roller had gained its first 1,000 clients and had changed its name to PandaDoc. Our clear success caught the eye of venture capitalists and this is how the investment came about.

In a nutshell: in the beginning, we wanted to create a tool that helped businesses such as ours to save time and money when it came to proposals and price quotes. We were frustrated and we knew others were too. We saw that as our customer needs evolved, so did our product. The future is still wide open in that regard and our offerings will evolve as our customer's needs continue to evolve.

What is your competition and how are you trying to defeat them?

We have competitors at different levels. DocuSign and Apttus are two major competitors. Our strategy to win more customers is simple: develop better products, provide better service and do



both at a reasonable price.

How many employees did you have at the beginning and how many are there now?

We had 15 people when we launched PandaDoc; we are now at 70.

What advice would you give to companies from the region who would like to expand to other markets?

Network, network, network... Don't be afraid to go out and talk to as many people/businesses as possible. The door will never open if you don't knock.

How do you see the company developing over the next few years and where will the company be in ten years' time?

I foresee continued growth. At this point, the future is wide open. However, I don't want to get too far ahead of myself, because we have a job to do now: that is to provide the best product and service on the market. If we continue to do that well, everything else will take care of itself.

How do you see the Belarusian IT sector and what are its strengths?

Belarus has a great tech community, one that wants to see its members succeed. Without Belarus, PandaDoc would not be where it is today!

What are the prospects for Belarus?

Belarus has a bright future. We have bright, talented, hardworking people and the world needs to know more about us. More opportunity will come with increased awareness. ●

Outsourcing in Germany: stop talking at and start talking to



TILL HAHNDORF

Managing Director
BW Business Bridge
Director, Sourceconomy

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“It’s hard to identify the right vendor in the market, particularly when everybody seems to be out to win clients in Germany. Even if a company somehow manages to get in a shortlist of potential vendors, no one can make sense of the references and the stories these vendors tell. They all sound the same!”

It is common knowledge that the German market for IT services is suffering from a severe shortage of IT skills. While the economy is thriving and order books are full across the production and service sectors, there’s a cap on growth in the IT industry – there are simply not enough people to fulfil all the orders. Since the IT industry is characterised by a high intensity of labour, the lack of developers, project managers, quality assurance professionals and consultants is having a severe impact.

This demand for IT talent creates a huge opportunity for any provider of outsourcing services. The cost of labour is traditionally high in Germany and the combination of the lack of talent and high prices should make Germany the most attractive destination. However, Germany is notoriously hard to penetrate. For outside companies, it’s an arduous exercise to find the right people to talk to, to be invited to meetings and/or to enter into meaningful conversations. It is true, also, that German companies do stand in their own way when it comes to contracting non-German vendors.

While most companies tried out “offshore” world some 10 to 15 years ago, many returned from the adventure with suboptimal experiences and very little desire to try it again. However, the only way out of the supply bottleneck, currently seems to be contracting services from abroad. Since it is universally acknowledged that the German labour market is suffering from a structural flaw, rather than an economy effect, getting outside companies to work on German projects is the only way out – if only the German companies would understand that, too!

What a noisy market it has become; the global supply of outsourced services is putting tremendous sales’ pressure on German companies. When the southwest-German industry association Baden-Württemberg: Connected (BWCON) surveyed their 600 members what the actual problem with contracting foreign vendors

was, the answer was clear: “It’s hard to identify the right vendor in the market, particularly when everybody seems to be out to win clients in Germany. Even if a company somehow manages to get in a shortlist of potential vendors, no one can make sense of the references and the stories these vendors tell. They all sound the same!”

“It’s always the same story about the best people, the innovative spirit, how clients matter and how one absolutely must get in touch. This generates a kind of stupor — and decision fright sets in with the German companies. When there are no real differentiators, how can anybody make a decision?”

For the vendor side, this means one can only set oneself apart from the competition by speaking competently about the potential client and their challenges and needs (instead of bragging about one’s own company). This will likely strike a nerve and get the clients’ attention. Everybody loves discussing their own business and their road ahead – and we all fear “the sales pitches”.

This approach is based on understanding the market and understanding the target segment: its players, the challenges and shortcomings as well as the developmental paths of industries and individual companies. It requires market insight and a real understanding of the conditions under which business is done in Germany.

As a result of the survey, the BWCON industry association has kicked off an initiative called BW Business Bridge, to help foreign companies, especially from outside the European Union, understand the German market for IT services and products. It also supports their efforts to be attractive and relevant conversation partners for their German potential clients. In other words: To become signals, in a world of noise. ●

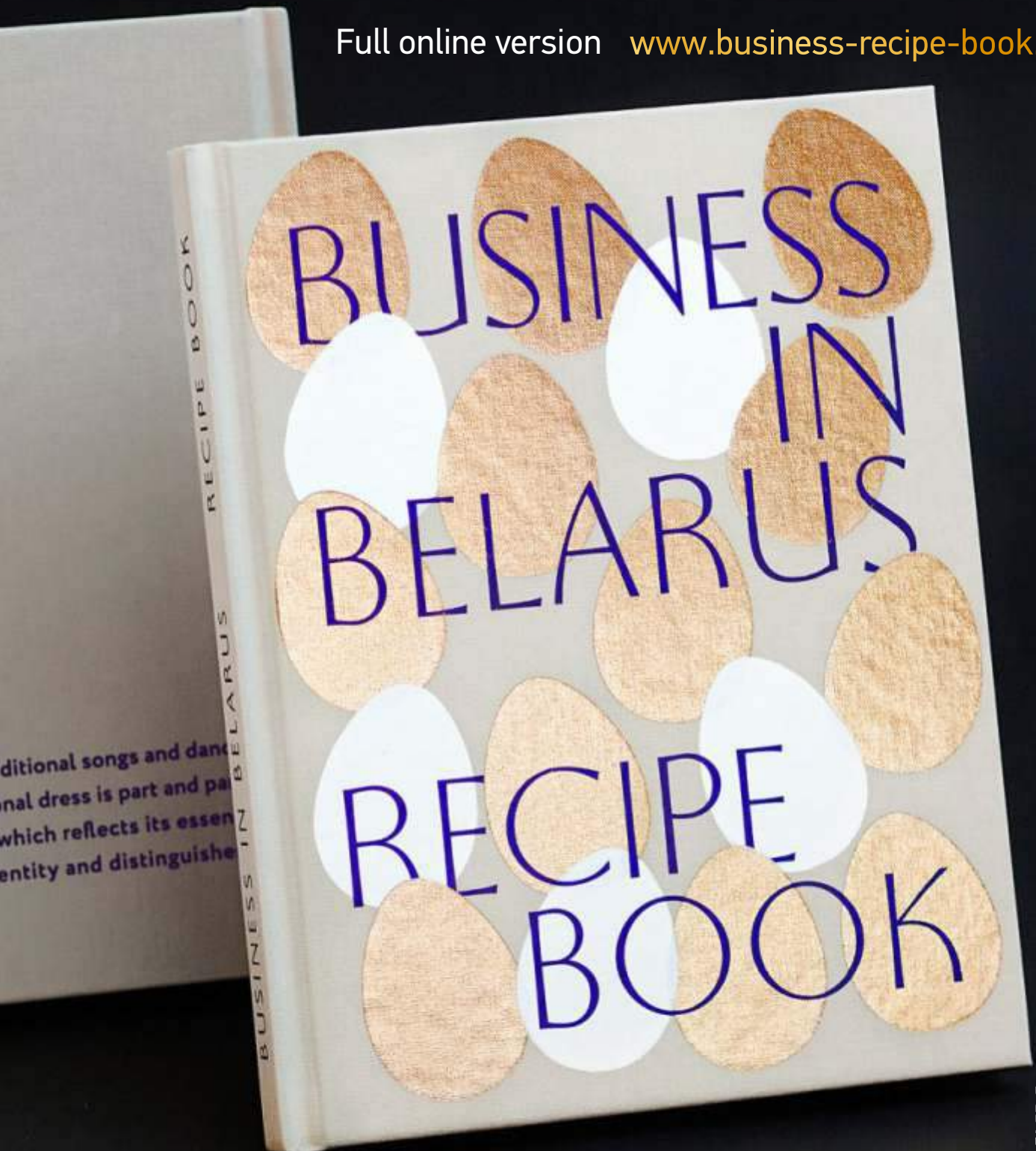
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NATIONAL AGENCY
OF INVESTMENT
AND PRIVATIZATION
REPUBLIC OF BELARUS

Written by
**JERRY
 CAMERON**

Published on
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A new modern mall hopes to draw Belarusians back to the home market

In saturated markets, the retail stock per capita is equal to 600 sq. metres per 1,000 persons. Minsk presents good opportunities for retailers with its 370 sq. metres per 1,000 persons and with just a few foreign brands currently available.

Mazen Hamwiah, Project Manager at RRY Capital, which is currently developing the Palazzo Shopping Mall in Minsk, spoke to Jerry Cameron about the new mall, as well as prospects for the retail market in Belarus' capital city.

Palazzo Mall is scheduled to open its doors to customers in April 2018. As one of the largest ongoing retail developments in Palazzo, the project is anticipated to revive the look and feel of the city from its current outdated model to a more vibrant modern-chic retail environment. What will be on offer for the residents of Minsk?

Well, I would say Palazzo Mall will offer one of the best mixes of retail and entertainment in the city. In addition it will provide an upscale, chic and easily navigable retail venue where all the shops are in a prime location built on a race track format. On its entertainment floor, the mall will have a large-sized modern food court with many different cuisines, eight movies theatres and a wide array of different entertainment activities.

That sounds like a large endeavour. How does the mall differ from the existing facilities?

Minsk lacks retail spaces that meet the international standards that global retailers require, seek and are accustomed to. The current retail spaces are either too small, offer too poor a mix of entertainment to retail space or are designed for life in the past, without life or colour. We intend to make it a destination; a place where you would want to spend the whole day.

“The economy is poised for growth and is recovering. Hopefully in a year and half, when our mall is ready, the economy will be back in full swing”





If we look at the retail landscape in Minsk, some existing malls look quite empty. Not all the leasable space has been rented out. Do you think that this is a good moment to be opening a new shopping centre in the city, bearing in mind the economic situation?

As I said, the existing retail landscape doesn't have much to offer except venues designed in the past. These are no longer appealing to either retailers or customers. Moreover, the economy is not doing particularly well, which undermines the purchasing power of individuals. Many economic indices have hit their nadir, whether it's in Belarus or in the region. However the economy is poised for growth and is recovering. Hopefully in a year and half, when our mall is ready, the economy will be back in full swing.

Next year, the economy is expected to finally grow after two years of recession. According to JLL, the commercial real estate market is considered to be saturated with retail stock per capita equal to 600 sq. metres per 1,000 persons. Compared to other Eastern European and CIS capital cities, Minsk's retail saturation ratio ranks is actually quite low with 370 sq. metres

per 1,000 persons. Do you believe that equals opportunities for the Palazzo Shopping Mall?

Well, there are two factors to take into account, here. Firstly, there is the lower saturation ratio per capita of retail space and secondly, there is the lack of modern retail space. Coupled together, they make the prospect of opening a modern shopping centre is encouraging.

It is widely acknowledged that Belarusians shop in Lithuania and Poland. This retail tourism alone contributes to a leakage of approximately €1 billion annually in total retail sales from the Belarusian economy. What else is needed to encourage Belarusians to shop in their own country?

Retail variety in Belarus is scarce and hard to come by. That is what mainly drives individuals to shop outside Belarus. Moreover, retailers require modern venues for their stores and they are also lacking at the moment. As more modern venues become available, international brands will start coming to the market and so more and more Belarusians will be tempted to shop within their own country. ●





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Office space vacancy is currently low but building standards cause concern

“The low quality of office buildings remains the main problem in the Minsk office market, let alone regional cities. Unfortunately, the growth of supply didn’t lead to a growth of quality.”

Both 2015 and 2016 have reported an increase in the supply of new office space. However, the record of 2014, when 217,000 sq. metres of gross leasable area (GLA) were commissioned, hasn’t been broken. A significant amount of space has entered the market, however: 97.5 thousand sq. metres in 2015 and almost 84 thousand sq. metres in the ten months of 2016. The figures are solid, bearing in mind the fact that the Belarusian economy has been going through a recession in the last two years.

Currently, the stock of available office space stands at 941,000 sq. metres of GLA, which is a significant number, even after the adjustment, because we have relocated several obsolete properties from competitive stock. Several office buildings with total a GLA of 250,000 sq. metres have reached the final stage of construction; they can possibly be commissioned in late 2016 or 2017. These projects are unlikely to escape problems, though. Several projects froze at 85-90 per cent of construction readiness, as the developers lacked the resources to complete them.

However the low quality of office buildings remains the main problem in the Minsk office market, let alone regional cities. Unfortunately, the growth of supply didn’t lead to a growth of quality. If we apply just one of office building classifications used by our offices in Europe, only one business centre in Minsk would be classified as A, though even that would something of an overstatement. The B2 (B-) class offices with 66 per cent (of total GLA) market share prevail on the speculative market.

None of the projects that have been announced will improve the present situation; they all have low quality ratings: B1 (B+) at best, and they are too few. We hope that in the mid-term (2018-2019) we will raise the ante with our two big projects, the Gazprom Centre and Shanter Hill. However, these projects are at risk of simplification and a worsening quality in comparison to the announced characteristics, despite being realised by professional sustainable developers.

In 2015, demand wasn’t active even though the rent rates dropped by half, but in 2016 stabilised rent rates led to demand recovery. Moreover, two office buildings were fully occupied by one tenant in 2016 (both properties were new constructions commissioned in

2015 and 2016). This is all the more noteworthy, as in the history of modern commercial real estate in Belarus there was only ever one case, when one company fully occupied a large business centre.

Who are the consumers? Well, for the ones familiar with Belarusian economy drivers, it would not be surprising that the main consumers of real estate are IT companies. In the 2014 review, published on *Emerging Europe*, we mentioned the IT sector as an extremely successful business segment in Belarus. IT companies are the largest group of tenants for speculative office markets, and in the last two years they have even strengthened their position.

Belarus outperformed the traditional leaders of IT industry, the USA and India, in terms of export of digital services per capita. A new term, “IT-cult”, has emerged in Belarus. For this reason, it is not surprising that its large representatives rented floors and whole business centres or developed their own office projects.

In the first half of 2016, demand on the market stabilised. Currently, it is difficult to meet a company’s demand for a suitable new office with an area of above 1,000 sq. metres. In 2015, there might have been four or five options to choose for such a request, but now there are only one or two. Vacancy has decreased significantly. Many properties, which had a 30 per cent, or higher, vacancy rate a year ago, have now reached full occupancy. If the office real estate market was characterised as a landlord market at the beginning of 2016, it is now a rather neutral market.

We don’t want to overestimate the market conditions because several office buildings expect tenant turnover; some large companies are planning to vacate their spaces by the end of 2016. So it is possible that several developers will experience a 20-30 per cent vacancy rate again.

It is to be hoped that our competitors, who have frozen construction in its final stages, will not resume the process, and that developers will reduce the vacancy. Otherwise, if 50,000-70,000 sq. metres enters the market within a short time, the vacancy in the market will grow again and developers may start compromising on the rent again. ●



**MAZEN
HAMWIEH**

Project Director
RRY Capital

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The shopping experience is set to go global in Belarus from 2017 onwards

“This low saturation level of modern retail space, and lack of quality shopping centres, contributes to the under-penetration of fashionable clothing brands in Belarus and forces most consumers, within the Minsk market, to travel to neighbouring countries such as Poland and Lithuania in order to make their retail purchases.”

As an expat who has lived in Belarus, for three years now, I can say that it is not easy to shop for clothes here. There aren't many recognisable international brands in the market and the ones that are here have only one shop in Minsk and lack in both quantity and variety, so finding your style or the right size is definitely a challenge.

So far, the international brands have been reluctant to enter Minsk because of the lack of a modern, vibrant retail space. It is clear that such brands do not open just a single shop, when expanding to a new market. Instead, they open a few and such an endeavour is not really an option in today's retail market, in Belarus.

Currently, Minsk ranks lowly in Europe with regard to modern retail stock per capita. According to Colliers, the total stock of retail space within Minsk is 1,400,000 sq. metres of gross leasable area (GLA). Of this there are currently five large modern malls (total GLA 131,000 sq. metres), none of which is considered to be in compliance with international standards. Within the next two years, an additional 692,000 sq. metres of GLA for retail stock is expected to be constructed in the city. Of this, there will be four large modern malls (GLA total of 174,000 sq. metres) which will be considered to meet international standards.

This low saturation level of modern retail space, and lack of quality shopping centres, contributes to the under-penetration



of fashionable clothing brands in Belarus and forces most consumers, within the Minsk market, to travel to neighbouring countries such as Poland and Lithuania in order to make their retail purchases. This retail tourism alone contributes to an annual leakage of approximately €1 billion in total retail sales from the Belarusian economy.

However, international brands will have an array of modern malls to choose from soon, with a few modern shopping centres scheduled to open between early 2017 and early 2018. Minsk is poised to absorb this new stock of retail development, thereby encouraging a variety of international brands to begin operations in the country. Belarus and the Belarusians will definitely benefit from a better access to stock and more choice.

There are new economic indicators that show that the economic situation will improve — GDP is set to grow in 2017 and so should Belarusians' disposable incomes. The country is recovering from a perfect storm: the collapse of oil prices has crippled the economy of Russia — Belarus' major trading partner, the Russian rouble has devalued by 60 per cent and the Russian economy has suffered a deep and protracted recession. In addition the current conflict between Russia and Ukraine has caused additional damage to the Russian economy.

All of these events has led to a 50 per cent devaluation in the Belarusian currency, with almost no increase in nominal wages that might partially offset their loss in purchasing power. Although, wages have historically tended to compensate for devaluation with a time lag, this time the lag has been much more pronounced. The prolonged loss of purchasing power has led to a dramatic decline in sales; commercial tenants and businesses couldn't afford to pay their rents which were primarily denominated in Euro. As a result, rent rates were re-negotiated to about 40-60 per cent below pre-crisis levels.

However, apart from economic conditions improving, oil prices have also almost doubled from their nadir, EU sanctions have been lifted and local wages are starting to rise which is offsetting some of the loss of purchasing power. Additionally, China is set to invest \$16 billion in various projects over the coming years.

These positive macroeconomic impacts, along with foreign investment, will create a positive impact on the economy as a whole and will lift consumer confidence and encourage retail demand. ●

Minsk International Airport widens its international reach

Written by

**JERRY
CAMERON**

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In 2017, Minsk International Airport will offer new direct connections to European and Asian destinations. One of them is Brussels and the route will be operated by the Belarusian national carrier, Belavia.

“We are currently negotiating the matter. It is very likely that we will launch regular flights to Brussels starting from the summer of 2017,” Anatoly Gusarov, the carrier’s director general told *Emerging Europe*. “We would like the new flights to expand current routes and to provide both transportation and transit opportunities. I believe it will be commercially viable,” he added.

Some of the other destinations launched by Belavia, in 2016, were Palanga, Lviv and Moscow Zhukovskiy. The airline also operates flights to western Europe, including: London Gatwick, Paris Charles de Gaulle, Nice, Rome Fiumicino, Milan Malpensa, Berlin Schönefeld, Frankfurt, Hanover, Amsterdam, Geneva, Helsinki, Stockholm Arlanda, Barcelona, Warsaw, Prague, Budapest and Riga.

Other European carriers also offer direct connections to the Belarusian capital: Austrian Airlines (Vienna), Lufthansa (Frankfurt), LOT Polish Airlines (Warsaw Chopin), AirBaltic (Riga), Turkish Airlines (Istanbul Atatürk).

Despite the new plans, it is still a challenge to fly to London direct. Belavia offers only three direct flights a week. British Airways only flies Ukrainian Kyiv, which is over 500 km away

from the Belarusian capital. Currently, those who need a daily flight have to choose Lufthansa, Austrian Airlines, LOT Polish Airlines, Ukrainian International Airlines and Turkish Airlines with a layover in Frankfurt, Vienna, Warsaw, Kyiv and Istanbul respectively.

But there are more direct distant flights on offer. In May 2015, Air China’s first direct flight from Beijing to Minsk was launched. Earlier, in August 2008, Etihad added Minsk to its then map of nine European destinations, following its much earlier addition of Warsaw.

In September 2016, Pakistan’s Minister of Commerce Khurram Dastgir Khan, announced the Pakistani and Belarusian governments were working together to launch direct passenger and cargo flights between Minsk and Islamabad. “Despite the fact that we are located far away from each other, if we implement our ideas concerning the organisation of the transport corridor and launch direct regular flights and container shipments, the transportation price will be affordable,” Belarus’ industry minister, Vitaly Vovk, said in September.

In 2015, Minsk Airport handled almost 2.8 million passengers; 7.3 per cent more than in 2014. The average growth between 2012 and 2014 exceeded 20 per cent. In 2015, the airport also handled over 20,000 aircraft operations. ●

The Great Stone industrial park - making doing business easy in Minsk

“The company’s registration process is carried out within one day and includes documents from the company register, the tax office, the social insurance authority and a bank account.”

Written by

**EVA
KELLER**

Published on
September 12, 2016

In Minsk, construction on the new Great Stone Industrial Park, which will eventually exceed ninety one square kilometres, is well underway. The Park already has 13 km of internal streets, electricity, water supply, sewerage and gas and telecommunication services.

On completion at the beginning of 2017, 20,000 square metres of industrial and commercial space will be available for rent. Another 50,000 square metres of warehouse and 25,000 square metres of commercial and real estate exhibition property will be commissioned for construction in the second half of 2016.

The Industrial Park’s residents will have all the necessary services and residents will be able to start their activities and any necessary construction work, in the second half of 2016.

The Park’s current residents have planned investment projects in telecommunications, railway vehicle production, biotechnology, mechanical engineering, R&D and logistics, with the latter being the driving force behind the Park. Other sectors favoured by the Park are: electronics, pharmaceuticals, fine chemicals, machinery and new materials.

Any company planning to enter the park must declare an investment of at least five million dollars or no less than one million dollars being put aside for research and development but they will get a lot in return. The company’s registration process is carried out within one day and includes documents from the company register, the tax office, the social insurance authority and

a bank account.

Investors can count on numerous incentives, for example, while the rate of corporate income tax across Belarus amounts to 18 per cent, residents of the Great Stone Park pay no income tax in the first ten years of their operations and thereafter only nine per cent in the following ten years. The VAT rate is 20 per cent and 0 within the Eurasian Economic Union. Also, when residents import goods, there is no VAT payment.

There are also favourable conditions for the foreign labour force and for individuals employed by a company that is a resident of Great Stone. They pay a personal income tax of nine per cent as opposed to thirteen per cent elsewhere in the country. They also enjoy benefits in relation to their payments to the social security fund. In addition, the Park allows payments for construction works to be made in foreign currency, which is prohibited elsewhere in Belarus. Certifications of goods and materials for construction are unrestrained and the taxes on dividend, real estate and land are significantly lower.

Currently, residents of Great Stone receive plots of land of about 130 hectares in total. Investors can rent a plot of land for up to 99 years or take it into private ownership.

The original idea of creating a joint Chinese-Belarusian industrial park, which is a central point on the route between the European Union, the Eurasian Economic Union and China, was born in 2010. ●



Scan the QR code to watch the video report



Written by

EVA KELLER

Published on

September 2, 2016

Belarus has set an example for others to follow

There are about 4,300 free economic zones across the world and more are constantly being added. Belarus, with its population of close to ten million and area of slightly over 200,000, sq. km, has six regional zones. It also has the Great Stone Industrial Park which is located near the country's capital, and which is meant to take full advantage of the One Belt One Road initiative.

Dr Mohammed Alzarooni, Chairman of the World Free Zones Organisation, based in Dubai, spoke to Eva Keller about the advantages of free zones over possible costs and about the strategic position Belarus holds in the One Belt One Road scheme.

Free zones have been instrumental in developing the economies of many countries around the world. Many countries in Central and Eastern Europe use the concept as part of their development. What is the role of free zones in emerging markets?

It is indeed well recognised that free zones have been instrumental in developing many countries' economies. While free zones and their activities have expanded rapidly in developed economies for a variety of reasons, we at World FZO firmly believe that the concept of free zone is much more applicable to emerging markets. By their very nature, emerging markets are, well, . . . emerging.

Free zones offer a way to accelerate the development of these markets and their ability to move towards their destination, which often is a developed market status. Free zones help foster economic activity, improve competitiveness, encourage trans-border trade, contribute to globalisation and support progress in human development indicators. For these reasons, I would say emerging markets must embrace the idea of free zones quickly and must reap the attendant benefits.

Creating free economic zones is not without cost and, sometimes, if governments grant incentives or create better conditions in those special economic zones they don't bother to improve the business environment in other parts of the country. How do we avoid that?

Well, it is certainly not the norm, but it could be an exceptional case that a government supports special economic zones while



(courtesy of WFZO)

paying less attention to the domestic tariff area. Progressive governments and policymakers do not usually discriminate; but surely, if the priority for the country is accelerated economic growth, higher investment, more job creation and expanding foreign trade, the idea of special economic zones automatically wins.

In the end, all round economic growth is what will deliver prosperity to the entire country and that is the most desirable outcome. Yet, the role of free zones as islands of excellence will surely serve to exert a 'demonstration effect' on policymakers and other businesses.

Belarus introduced six free economic zones between 1996 and 2002 and is a part of the One Belt One Road initiative. What is the role of free economic zones in this project?

China's ambitious One Belt One Road (OBOR) idea seeks to connect several Asian economies almost seamlessly and is trying to bring about a major transformation in the region, in terms of connectivity, infrastructure development, investment and trade. The spin-off benefits are likely to be tremendous in terms of job creation, income generation, trade flows, and investment flows and so on.

As enclaves of excellence, free zones are in a unique position to contribute to the OBOR initiative in terms of production and supply of goods and services, as well as providing technology inputs. As part of the global value chain, free zones have ready access to the OBOR materials, technology and finished goods that the massive OBOR project would need. At the World FZO, we see it as a 'win-win' opportunity for all.



The Great Stone Industrial Park is the newest free zone in Belarus and has recently become a member of the World Free Economic Zones Organisation. It's a large endeavour that brings companies from China and the European Union closer together. As Ansgar Rudolph from InSite Bavaria told *Emerging Europe*, Great Stone is a new trans-national model of a free economic zone, which provides a common ground for international companies. What is your opinion of the Great Stone model?

Indeed, Great Stone is a voting member in our organisation. We believe the Park is a great initiative that brings two large players in the world arena together, namely China and the EU. Both have their strengths as well as their market needs.

Belarus is strategically located to cater to their mutual needs. By facilitating the two giant economic entities' coming together via the Great Stone Industrial Park route, Belarus has set an example for others to follow. ●

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UK shores the new frontier, a view on a series of fortunate events



OLEXANDR KYRYCHENKO

Head Russian Department
IMD Solicitors LLP

Published on
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“The recent drop in the pound offers another unique opportunity for market entry for those who have been considering it for some time and who have waited as their nest egg for the potential expansion has grown exponentially.”

The current uncertainty which was caused by an increasingly right wing rhetoric from the UK government, has done little to quell the UK's fears of finding ourselves out in the cold, on the world market stage, after Article 50 is finally triggered and the two-year negotiation period expires. However, we would be remiss not to appreciate the opportunities that the current situation offers.

The time to take the plunge is upon us and there is simply no better moment to seek entry into the UK market. Whilst there are inevitable and justifiable fears circling around the idea of expansion into the UK, particularly those occasioned by the continuing uncertainty about what red tape that the future may bring, as well as the temporary dip in the pound sterling, this moment offers unique opportunities which should be seized straight away in order to reap the benefits in the not too distant future.

Earlier companies may have found it difficult to penetrate the UK market because of the effort required did not seem to justify the expense. The pound was very strong against other world currencies, which meant that, with the exception of a few big players, most found it difficult to breach the market. That is not without having made a substantial investment which, in many instances, could be matched by those already established in the marketplace; the exception being when there was a gap in the market which was either not seen or was underappreciated by others.

However, the recent drop in the pound offers another unique opportunity for market entry for those who have been considering it for some time and who have waited as their nest egg for the potential expansion has grown exponentially – they now find themselves with far greater resources to invest.

We could be forgiven for using the US dollar as a benchmark as it is the most widely used, particularly with investors and international traders from Belarus and the surrounding nations.

With the British pound now at 1.23 to the US dollar, those currently looking to expand into the UK market from abroad have found themselves with some 24 per cent more capital in terms of sterling as compared to 12 months ago, to the day.

The additional marketing budget that such a healthy boost brings with it is not the only unique chance. The opportunity runs deeper and is there for the more ambitious and the more foresighted. Why enter a marketplace, and invest endless amounts in marketing, only to find yourself competing with those who are already on the home turf? Whilst you may sway the loyalty of their established customer bases, this is by no means certain.

What if one were to simply eliminate the competitor from the equation with the loyal customer base being none the wiser? The 24 per cent net gain of the pound to the US dollar (if one held one's reserves in dollars) could very well be necessary difference in financial muscle that was needed to exert sufficient as to simply assimilate the local competitors.

Not only would this circumvent the red tape and result in a subsidiary that is already up and running to the standards of both UK and EU laws, but one would acquire the goodwill, reputation and most importantly the customer base, whilst expanding into a new market. The expansion need not stop there however; the singularity of the current environment allows for an almost perfect storm for new beginnings.

Indeed, with the right acquisition strategy and a fast paced but thorough approach, substantial gains could be made in the UK market. Of course sound legal analysis of any potential deal together with a legal analysis of the anti-trust legislation are paramount, the latter being particularly relevant to any niche market; one must not underappreciate how crucial these are to success.

However, assuming we do not get carried away and that we approach all the aspects systematically, now is the time of opportunity; now is the time to sow and shape the future. ●

Brexit makes waves across the European Union and beyond

“We intend to galvanise business organisations in the UK and Europe to work together in order to ensure continued trade. This will offer the economic stability to move forward and to support the wide-ranging SME sector base, in partnership with the larger corporate member base.”



**ANNE-MARIE
MARTIN**

Chief Executive
Council of British
Chambers of Commerce
in Europe (COBCOE)

Published on
September 1, 2016



When the UK's population voted on whether to remain within the European Union in June 2016, the result was neither expected nor welcomed by chambers of commerce and business associations that are members of the Council of British Chambers of Commerce in Europe (COBCOE). In fact, just a few months earlier we polled them on whether they believed it to be in the UK's best interests to leave the EU and 89 per cent were in favour of 'remain'.

Now that Britain has to negotiate a Brexit deal, COBCOE has embarked on a strategy to bring businesses across Europe together, to develop a common voice in defining the market model we need. The UK Government will need all the support available to formulate its Brexit strategy and has called upon business associations in the UK to assist. However, we believe that negotiations must include a European dimension.

We have been building relationships since 1973, when COBCOE was founded, and we have to continue doing that, not only within the European Union but also further afield as we have members from countries such as Belarus, Ukraine, Macedonia and even Azerbaijan. Our presence in the UK, and across Europe, means that we can help shape future trade deals that will benefit not only UK business, but also Europe-wide business, helping ensure a stable economic outcome for the global economy.

Business across the continent is closely interconnected by global and regional supply chains. These multi-lateral webs, moving goods and services are natural allies in shaping post-Brexit market access and have significant sway with their home governments to counter any politically dogmatic positions in Brussels.

The aim is to implement a pragmatic business approach that is driven by British chambers of commerce and the business

community. Governments across Europe have already been in contact with our members to discuss Brexit.

This will enable us to establish and define the crucial needs of sectors and national economies, and then to compare them, on a European scale in order to highlight any areas of commonality and conflict. This will be important in strategic areas of the UK economy where commonalities exist with other economies in the EU, and where discrimination against the UK post-Brexit could impact the economies of other economies negatively.

To give an example; industries across the EU (especially outside the Eurozone) may suffer significant damage if they cannot access the London capital markets because of the scale of the residual European markets in France and Germany.

We intend to galvanise business organisations in the UK and Europe to work together in order to ensure continued trade. This will offer the economic stability to move forward and to support the wide-ranging SME sector base, in partnership with the larger corporate member base. We also aim to draw up a template market model, within a wider European network and inside the EU that can form the basis of Brexit negotiations and that can ensure a continued influence in the much needed EU reform agenda as well as creating a framework for reform.

It is important to continue to build on the essential work of the Evolving Europe project in researching and developing a business-driven strategy for reform, as well as maintaining a position of influence that ensures EU competitiveness and a continued ease of doing business. This is for the good of the wider business community, not just within the European Union but also beyond, for example, in Ukraine, Macedonia, Azerbaijan and Belarus. ●

Belarus-US business relations thrive as conditions improve



DAVID BARON

Chairman, US-Belarus
Business Council
and a shareholder in the
International Law Firm
of Greenberg Traurig

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“Political and economic relations between the United States and Belarus are enjoying a resurgence. Ten years ago political relations between our two countries were strained and economic relations were not what they might have been.”

Political and economic relations between the United States and Belarus are enjoying a resurgence. Ten years ago political relations between our two countries were strained and economic relations were not what they might have been. Ten years on, American companies are now doing business in and with Belarus, at record levels and, hopefully, this is just the beginning.

Ten years ago, Belarus decided to invest in its people. With its lack of many natural resources, Belarus turned instead its greatest asset. It turns out that if you give a smart and motivated student in Belarus a computer and a chair, you can create a world-class computer programmer.

Today, the more than 40,000 software developers in Belarus have helped Belarus to export more than \$815 million in IT services, an increase of 18.5 per cent from the year before. Nearly half of those services were provided at the request, and for the benefit, of US companies. This is pretty impressive for a country of only 9.5 million people.

Belarusians also love American brands. If you were to visit Belarus today, you could have breakfast at McDonalds, lunch at Burger King and dinner at TGI Fridays. You could visit a plant where Chevrolet Tahoes and Cadillac Escalades are assembled. You can wash it all down with a Coke and smile – it’s bottled locally, right there in Belarus. The Marriott now has two branded hotels in Minsk and soon the Hilton chain will have two as well.

So far, most of the above-mentioned American brands were introduced to Belarus by third country investors who licensed those brands for use in Belarus, but that is changing. Today, American investors are increasingly making direct investments in Belarus; everything from research and development centres to manufacturing facilities to the construction of shopping malls.

Belarus is located in the heart of Europe between Russia and the European Union and is a member of the newly created Eurasian Economic Union (EEU) together with Russia, Kazakhstan, Kyrgyzstan and Armenia. This means that because it is built in Belarus, it can be sold duty-free within the EEU. If you want to put Belarus’ place in the EEU in context it is helpful to make an analogy to the North American Free Trade Agreement (NAFTA). Making an investment in Belarus today with its easy proximity to the European Union is the same as making an investment in Canada during the early days of NAFTA, but with the Mexican labour costs.

As American interest and investment in Belarus grows, the Belarus US Business Council is working with the Belarusian government to increase and improve the conditions for foreign investment. In 2014, we celebrated the first ever Belarus Investment Forum in the commercial capital of the United States, New York City, and that is only the beginning.

American companies and investors are increasingly looking towards Belarus for its talented people and its geographical opportunities. The investment incentives that are provided by the Government are also helping to stimulate and increase these types of new and continued investment which is also creating opportunities for newly created industries and projects to grow and thrive.

Increased opportunities to obtain international financing and capital from international financial institutions will also have a multiplying effect on new and existing investment projects in Belarus. We have made a good beginning and we have built a good foundation for new investment opportunities, such as these. American, and other, investors should seek to be part of this new resurgence, in US-Belarus economic relations. ●

- selection of investment projects
- arrangement of meetings
- market research
- site selection
- solution providing
- lobbying



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**SERGEI
ALEINIK**

*Belarusian Ambassador
to the United Kingdom*

*Published on
October 9, 2016*

“Can you imagine that every tenth wheeled tractor produced in the world today is labelled “Belarus”, and a third of the world market of mining dump trucks is held by Belarusian company BelAZ?”

Being eager to know more about Belarus, one might face a situation where certain biased clichés are what is coming first. But it pays to search further so that the real picture of what Belarus is shows up! Not only turning out to be a beautiful and hospitable country with its own history (in fact, proving to be an integral part of the overall history of Europe), but striving to earn its place in the modern highly competitive world. And that competition is a never-ending story!

It is no secret that Belarus has made it big in industrial development. Having multiplied its Soviet legacy, our country has become one of the world's biggest suppliers of many types of machinery. Can you imagine that every tenth wheeled tractor produced in the world today is labelled “Belarus”, and a third of the world market of mining dump trucks is held by Belarusian company “BelAZ”? And besides, one should remember that Belarus is nowhere near as large and rich in resources as some of its rivals!

The UK and Belarus a partnership to introduce the real Belarus to Europe



We produce a wide range of chemical products, construction materials, furniture etc. World-famous fashion retailers buy in our textiles to get their customers the highest quality garments. For example, you can likely find women's clothes labelled "Made in Belarus" in your nearest Marks&Spencer. By the way, did you know that Michael Marks, the founder who gave his name to the company, was born in the Belarusian town of Slonim?

Today, Belarus is a synonym to the highest standards and innovative IT development. Hundreds of millions of people use software that has been created in Minsk, where Belarus Hi Tech Park hosts more than 160 companies. World of Tanks, Viber, MSQRD... These names speak for themselves, don't they?

And these are just a few examples of what we can do. Now the question is what's to be done next? How can we strengthen Belarus' involvement in the global economy?

There could be many answers, one better than another. But, at the end of the day, it is all about widening people-to-people and business-to-business contacts. And we are here to build bridges!

It is not by coincidence that this *Emerging Europe* Outlook on Belarus special report, which is solely dedicated to Belarus, is published and first presented in London. Belarus-UK economic cooperation has

been developing gradually for years. In 2015, the United Kingdom became third largest trading partner to our country, having been ranked second among the top investors in Belarus at the same time. It is in the City of London where Belarus Government officials meet with bankers and investors to maintain the dialog. And it is the UK's capital that hosts numerous fairs and exhibitions, in which Belarusian manufacturers take part aiming at new contracts and opportunities to cooperate.

And, again, it is right here where the European Bank for Reconstruction and Development opens its doors providing us with the unique opportunities to access advanced expertise and bring new investors to Belarus. Prominent companies, such as Kronospan and Stadler, have already written their success stories with the assistance of the Government of Belarus and the EBRD. And the opportunities are still there!

In September 2016, the EBRD adopted the new country Strategy for Belarus 2016 – 2019, which is designed to broaden the horizons of the bank's operations in our country. From now on, investments can be made in public infrastructure in the municipal, transport, power and energy sectors in Belarus with the support of the EBRD. Privatisation of large state owned enterprises is on the table, too.

Therefore, there is one last question left. Why wait? ●



Italy and Belarus: a relationship based on complementarities and history



ANGELO ILARDI

*President Italy-Belarus
Chamber of Commerce*

*Published on
October 26, 2016*

Italy “is the homeland of the soul” — that is what Nikolai Gogol, a well-known Russian writer, said during his journey to Rome. The historical relationships between Italy and Russia, and later the USSR, are rooted the ability of Italian companies to excite the consumer and their preference for a friendly and human connection with local partners.

Today, Belarusian economic dynamics are not so different in that respect, however the quantity of the economic exchange is 15 times lower than in the Russian Federation in terms of export. Actually, Italy exports almost 0.16 per cent of its total worldwide volume to Belarus and imports more or less 0.07 per cent of its total quantity of imports from Belarus. 2015 statistics showed that Italy exported goods for around €800 million and imported €250 million, while 2014 showed more encouraging performances with €1 billion out and €400 million in.

Of course, the contraction of Russian economy produced a negative effects in Belarus. The total Italian trade exchange to Belarus is two times less that of Germany, but in terms of percentages for global exchange all of the Italian export to Belarus



are higher than Germany, which is closer geographically. It means that Italian goods are inherently more preferred by Belarusian consumers, and this in turn means that the Italian economic system has more potential to succeed in this country. In any case these are small numbers but are predicted to grow in the near future. But, how?

This will be due, first of all, to the complementarity between the Italian and Belarusian economies. The Italian economic system is based on micro-, small and medium enterprises, which are generally run by the owner/stakeholder and, in general, this stakeholder is a family. These enterprises are characterised by a high level of “know-how” especially in the mechanical, textile and food processing spheres. This “know-how” is their wealth but unfortunately the local and European market is being suffocated by a high level of competition, a lack of liquidity and a reduction in consumption, especially in real estate and manufacturing fields.

On the contrary, Belarus is an economy with a huge lack of technology and an absence of “know how”, but thanks to the foundation of the Eurasian Union it has a large market that can count more than 200 million potential consumers. This seems like a good opportunity for Italian companies and Belarusians to share their “know how” on one side and their markets on the other. Additionally it is also particularly motivating, because of the fiscal advantages that the Belarusian Government has established, for foreign investors or for mixed joint ventures. Belarus is only three hours away from Italy by air; it has great social stability, indubitable safety and, most of all, a good level of education where the majority of the younger generations are graduates who are multi-language speakers.

Last but not least, since 1986, Italian families have helped over 400,000 children who suffered from the consequences of the Chernobyl disaster, so we must not forget the high percentage of the population who speak Italian.

The Italy-Belarus Chamber of Commerce is focused on enlarging commercial and industrial relations between Italy and Belarus. We have recently opened the first incubator for Italian enterprises in Minsk. This new structure helps Italian companies, who are in the start-up phase, into the Belarusian market. We believe that this formula will be successful and very useful for Italian and European exporters so that they can quickly become good investors in Belarus.

What we need now, is to continue our work and to be more effective in acquiring financial support from the European Union. We are sure that the Bloc, at this particular moment, will not ignore all of the achievements of European business organisation in Belarus and will look at the country, not only with a soul but also with a heart. ●

“Belarus is one of the few post-communist countries that have managed to preserve the more valuable remnants of the human and physical capital that they have inherited from the past. It is still one of the most industrialised economies in the region just as was in Soviet times.”



Written by

**ANDREW
WROBEL**

Published on

October 21, 2016



(courtesy of German Embassy to Minsk)

Germany is not letting Belarus' small downturns put it off looking for investment opportunities

"In comparison to my previous stay here I also notice more openness to discussing difficult subject matters such as the promotion of human rights, the rule of law and democratisation. This dialogue, and the exchange between the two sides, needs time and we still have a way ahead of us in order to gain a common understanding."

German companies are becoming increasingly more interested in seeking business opportunities in Belarus. Multiple conferences, bilateral meetings and trade missions organised in both countries are proving that point.

Peter Dettmar, German Ambassador to Belarus, spoke to Andrew Wrobel about the prospects for economic, societal, scientific and environmental collaboration between Europe's largest economy and Belarus.

The European Union is resuming the dialogue on trade affairs with Belarus. How do you see the trading potential between Belarus and the EU, and Germany, as the largest economy in the club?

The potential for trade between Belarus and Germany is high and far from being exhausted. At the last meeting of our bilateral, high level working group on trade and investment, which took place on the 13 October in Minsk, both sides underlined their mutual interest in boosting trade relations. A couple of days before that, we held a "Day of the Belarusian Economy" working group in Hamburg; it was an event that significantly contributed to

raising interest in business and trade with Belarus and also in promoting contact between German and Belarusian stakeholders.

Unfortunately, the trade volume between our two countries has decreased considerably over the last 18 months. This is due, to a large extent, to the fact that the Belarusian economy has slowed down as a result of low prices of oil, oil products and potash fertilisers. In addition, imports from Germany have decreased as a consequence of the devaluation of the Belarusian rouble and a reduction in capital investment and consumer demand. In addition, a number of regulations concerning access to the Belarusian market are not favourable for German exporters.

Regardless of this, two more business delegations from Germany will come to Belarus before the end of the year. I hope that all the delegates will have fruitful discussions with their Belarusian counterparts on how to promote trade and investment. Furthermore I believe that Belarus can do more to promote its economy and the competitiveness of its products in Germany.

In February 2016, the EU lifted most of the sanctions against Belarus. You said that soon after that Belarus and Germany

reached a new stage in their bilateral relations. How should that new stage be translated into practice and which areas offer opportunities, apart from trade?

I think that a lot has been achieved already. Just to give you some examples: a delegation from the German Bundestag visited Minsk in early October; the political foundations, Konrad-Adenauer-Stiftung and Friedrich-Ebert-Stiftung have carried out several projects in Belarus; a delegation of the youth organisation of the German Christian Democratic Party (the CDU) visited Minsk; the German Foundation on International Legal Cooperation has started seminars on a legal and judicial reform; we held the “5th Belarusian-German Energy Forum” on renewable energy and energy efficiency; and finally, we conducted talks about intensifying German language training at Belarusian schools.

Apart from trade, investment and the promotion of small and medium-sized enterprises, I hope that we can also extend our bilateral cooperation into the areas of science and technology, the environment and climate protection. I am convinced that we have successfully started intensifying our cooperation within a wide range of fields and I am convinced that we will continue to do so.

You have been working in Belarus for quite a while. How

do you see the country developing, as well as opening up to Western Europe?

After two years of absence from Belarus I returned to Minsk in September, last year. I definitely perceive more openness, today, from political interlocutors towards the West in general and the EU in particular.

During the past months numerous meetings on a huge variety of topics have taken place, at different levels, between Belarus and the EU and Belarus and Germany. In comparison to my previous stay here I also notice more openness to discussing difficult subject matters such as the promotion of human rights, the rule of law and democratisation. This dialogue, and the exchange between the two sides, needs time and we still have a way ahead of us in order to gain a common understanding. However, we should and must continue this dialogue.

Each country has its own history, culture, traditions and experiences — what do you think Germany could teach Belarus and what could Belarus teach Germany?

We should not try to lecture each other. Perhaps we should listen to each other more carefully in order to develop a better mutual understanding. ●



Germany and Belarus thinking globally acting locally



**VLADIMIR
AUGUSTINSKI**

Head of the
Representative Office
of German Economy in
Belarus

Published on
October 23, 2016

“Against the background of the crisis in neighbouring Ukraine and the remarkable cooling in relations between Russia, the USA and the EU which could last for an indefinite time period, Belarus’s stability appears to be a significant advantage, while the positive experience of the easing of tensions in the region has allowed it to improve its relations with Germany and other EU countries.”

Despite the slowed growth of the world economy, Brexit and the other challenges of the European Union including a migration crisis and the instability of economic development in the Eurozone, associated with an increase of global risks, Germany is still the main engine of the integration process inside the EU. Germany is also one of the world’s leading FDI recipients and, according to the E&Y European Attractiveness Survey 2016 which was published in June 2016; it is the most attractive European country for investment.

The secret of the successful maintenance of such a high position even within the crisis period is a focus on innovations, strong scientific and research development, industrial policy adjustment, implementation of an energy transition strategy and support for SMEs and their export potential.

German potential and needs

The country boasts even more advantages, such as an economic and political stability making it the strongest European economy as well as its being technology intensive, well-diversified and constantly growing. Another advantage is its entrepreneurship: the German economy is “forged” by 3.7 million companies, with 99.6 per cent being small and medium enterprises (SMEs) that, among other things, implement the country’s innovative potential. It is SMEs that make Germany the top exporter of technological products.

Germany is located in the centre of the Old Continent and this central position helps it open its market to foreign companies. The country also has the ideal conditions for servicing other European countries — first of all the 28 EU members (so far). In 2016, Germany will have been a world leader for three consecutive years in a row, according to Logistics Performance Index ranking announced by the World Bank thanks to its exclusive infrastructure and the quality of its roads, airports and railway systems. Last but not least, Germany’s manpower is well educated, thanks to, particularly, the dual educational system. More than 80 per cent of the working population has vocational training or a higher education.

At the same time, high costs for power supply, relatively high labour expenditures with an increasing shortage of labour and increased competition in niche sectors are typical for Germany,

as well as for other countries with a similar — non-resource based — economy structure.

Now, Germany and Belarus have had close economic and investment relations for decades. Germany is among the top five trading partners of Belarus and is one of its main trading partners from the western countries, for years. On top of this, it remains a leading supplier of production goods, innovation and high-technology products and is one of the most important partners in the sphere of investments and lending.

There is remarkable potential for the further development of German-Belarusian cooperation in many areas. Its realisation now depends on Belarus’ development as an appealing trade partner and an attractive place for investments. Within this context, Germany’s undisputed high level of experience and international competitive strength as a business location could be of interest.

Belarusian strengths

Where does Belarus stand in this context? Well, undoubtedly, an analogy with Germany can be drawn here. First of all, its advantageous geographical and geopolitical location, as an economic connection and a bridge between the European Union and the Eurasian Economic Union (EEU), offers high transit potential.

Favourable conditions for economic and investment activities have been established there and, as a matter of fact, today almost all of the country is an investment site offering preferential conditions (small towns and rural areas, the Hi-Tech park, free economic zones and the Great Stone industrial park).

Against the background of the crisis in neighbouring Ukraine and the remarkable cooling in relations between Russia, the USA and the EU which could last for an indefinite time period, Belarus’s stability appears to be a significant advantage, while the positive experience of the easing of tensions in the region has allowed it to improve its relations with Germany and other EU countries. It would be reasonable to apply this experience in the geo-economic field.

Finally, a wide range of successful examples of the activities of foreign companies, including the German ones, in the Belarusian market, still propose interesting niches. It is still necessary to upscale this experience and to extend the total range of opportunities in

order to attract FDI, in the sphere of implementation of both the green- and brownfield projects in very different economic sectors, including the context of the Eurasian Economic Union (EAEU).

The results of the survey on the state of the business climate in

Belarus (which has been conducted annually by the Representative Office of German Economy amongst the German companies since 2012) also prove this. Developed infrastructure, stability, manpower potential, associated with high evaluation of education level, production capacity and personnel motivation are traditionally at the forefront of the ranking of the business location factors.

Joint opportunities

This comparison shows that Germany and Belarus are similar. For this reason Germany's experience in increasing a country's investment attractiveness should be thoroughly examined and used by Belarus in order to implement its investment policy and to find new economic drivers within the framework of measures.

Historically, Belarus has long been a location for the application of large-scale investment and for a long time it was the assembly workshop for the entire USSR. At that time there was a wide range of competitive manufacturing plants on the Republic of Belarus' territory.

That economic model existed up until the collapse of the USSR and, in fact, has been maintained in the independent Belarus.

In spite of large-scale modernisation, this model did not allow the activation of market development mechanisms, based on competition or the use of continuous technological process advantages, to their full potential. "Pre-emptive modernisation" was also not a success; there were merely attempts, sometimes successful, to catch up with the advanced countries and to face new global challenges — such as the total digitalisation of all spheres of economic development and the new industrial revolution — Industry 4.0, the smart economy and the search for new opportunities for the establishment of cost-efficient climatic and environmental protection.

Today, it is these challenges that are building the basis for the setting up and implementation of the main paths of the economy and its constituent parts — the industrial and investment policy of Germany that is staking its chances on the creation of a regulatory base for digitalisation and total digitalisation by 2017. The country is also working towards the enlargement of state investments and the stimulation of private investments — primarily, the internal — with the aim of further developing the infrastructure (they are already a world leader in this sphere!).

It is important to boost education and innovation through startups, and the attraction of venture capital as well as meeting the economic needs of manpower, through a more active involvement of different social groups in the work process. This includes people of retirement age, migrants, young parents and foreign specialists.

It is also crucial to maintain an economically efficient energy supply, a climate and environment of protection within the framework of "Energy Transition" strategy and, finally, to explore new markets outside Europe and to extend the export opportunities for enterprises.

These areas of focus are positive evidence of how the improvement of a country's basic advantages is carried out, first of all, as drivers of economic growth and an enlargement of the country's welfare as well as, in this context, as factors that will contribute to investment attractiveness.

Think global act local

Belarus also has huge potential, as its traditions and production culture have led it to become a part of the chain, for added value creation, within the global and regional differentiation of labour. It is important to clearly determine the growth points which, together with historical and geographical advantages, could enable the required breakthrough.

On one hand, Belarus can offer its potential in the transport and logistics sector and could be an attractive transit country for trans-shipment. On the other hand, it could prove itself an interesting location for the production and provision of services (including the ICT sector).

Under the condition of free access to EEU partner countries, and with an account of special characteristics of the industrial assembly regime and requirements for manufacture localisation (e.g. automotive in Russia), Belarus could offer the export-oriented producers, of components and spare parts for machine and automobile manufacturing from Germany and other countries, an opportunity to supply accessories for the world-famous concerns, operating on its own territory.

Belarus could offer its potential as a partner in the sphere of industrial cooperation, as an "enlarged conveyor-belt", including a continuing supply of goods to the markets of Germany, the EU and other countries.

Belarus has a lot to offer. So, what hinders the realisation of this potential? Factors that remain vital for the country are: the rigorous implementation of structural and accompanying institutional reforms, the creation of favourable frame conditions within the framework of legal stability, an uncompromising law enforcement practice and investment protection guarantee and a higher stability of economic policy (here we can again appeal to the results of the above-mentioned survey).

In addition, the redistribution of human resources and capital resources in favour of high-productivity segments, the restructuring of the sector of state enterprises and increase of the role of the private sector and the service sector in the economy are urgent priorities for the further development of the Belarusian economy.

Taking into account the above-mentioned, studying the experience of other countries, and associating it with the demands and opportunities for implementation in Belarus, is one of the main tasks of the institutions that are responsible for investment policy and the stimulation of international economic activities. The motto of the worldwide network of the German Foreign Chambers of Commerce, coordinated by the Association of German Chambers of Industry and Commerce is — "Think global, act local" and it is very apt in this context.

In early 2016, the EU lifted sanctions against the Republic of Belarus which, undoubtedly, was a telling moment for the country. The activation of official contacts, on different levels, with Belarus from the EU and Germany is a new reality. We hope that it will give a new, positive and constructive push for bilateral economic cooperation between Germany and Belarus.

The Representative Office of German Economy which in 2016 celebrates its 15th anniversary as an official instrument of the German foreign economic policy, and it is ready to continue its mission. It is ready for more active participation in the process of intensification of the bilateral German-Belarusian business cooperation. ●

Belarus MOST builds a bridge to the future



**ANDREA
WIKTORIN**

Head of the Delegation
of the European Union
to Belarus

Published on
June 7, 2016



(courtesy of EU Delegation)

“I am fortunate enough to have worked with Belarus on several occasions. On each occasion I have always witnessed a genuine eagerness to learn among Belarusian professionals and to share their activities and experiences.”

In February 2016, the Council of the European Union decided not to extend most of the restrictive measures in regard to Belarus, as they recognised that there was an opportunity for EU-Belarus relations to develop on a more positive agenda and that progress in a variety of fields could be achieved through enhanced channels of communication. The Council also reiterated its firm commitment to strengthening the EU’s engagement with the Belarusian people and civil society and it emphasised that it attaches great importance to enhanced person-to-person contact with Belarus.

For centuries Europe has been rich in exchange and travel. Already as long ago as the Middle Ages, students travelled from one to the other university across the continent, cathedral builders and apprentices also worked on various sites and disseminated their knowledge and shared experiences.

Exchanging ideas, understanding neighbours and gathering and disseminating knowledge and know-how is also a reality in today’s Europe. In 2014, the EU student mobility programme, Erasmus+, enabled around 500,000 young people to study, train and volunteer or participate in youth-exchanges abroad. It also gave the same opportunity to around 150,000 staff members from educational institutions and youth organisations, in order to assist them to improve their competencies by teaching and training in another country than their own.

I am fortunate enough to have worked with Belarus on several occasions. On each occasion I have always witnessed a genuine eagerness to learn among Belarusian professionals and to share their activities and experiences.

Therefore I was pleased to launch, what I consider to be, a unique mobility programme called MOST. It is unprecedented for Belarus and the Eastern Partnership countries in terms of budget, €5 million, but above all it is its objectives that are remarkable:

MOST will enable 1,500 Belarusian professionals to travel to the EU and to mix with their EU counterparts to improve their professional skills jointly.

Since January 2016, when the programme effectively started to work, almost 250 people were sent to 16 EU member states to study and work. Science and technology are major sectors, but culture, youth and education as well as health are also covered.

The interesting part of the programme, in my view, is that it gives a good idea of the sectors where the need for exchange and the prospects for cooperation are highest. I often mention MOST’s first mobility action, especially when recounting my point of view: Four Belarusian internet technologies’ experts took part in a major European conference in Lisbon on the issue of the harmonisation of digital markets. The participants managed to establish contacts with more than 40 individuals and organisations from EU countries and agreed on a couple of common research and development projects.

The time of cathedral building is behind us, but the first results of MOST seem to demonstrate that it will bring concrete benefits to Belarus, for instance in research and business partnerships or in the creativity sector. In health, education or social issues it will also be an opportunity for Belarusian professionals to discuss with their colleagues in the EU and, if suitable, adopt new work practices.

MOST has the full support of the Belarusian authorities, which I see as one more sign of the readiness of the country to increase its ties with the EU.

MOST is one additional bridge, even modest, to link the EU and Belarus and it is my wish for the future that Belarusian professionals will keep crossing that bridge to share know-how and experience and bring the best the EU can offer back with them. ●

Long-time neighbours need to share awareness, plus trade and investment.

“Today’s Belarus very much resembles most of the CEE countries in the mid-90s when there were still plenty of large state-owned companies with huge potential that were looking to be restructured and modernised.”



**ALEXANDER
AVERYANOV**

Belarusian Ambassador
to Poland

Published on
November 2, 2016

Belarus and Poland share a long common history, perhaps not as much over the six decades since the Second World War or the Great Patriotic War, but definitely throughout the centuries before that, when Belarus was part of the Grand Duchy of Lithuania which formed a union with the Kingdom of Poland. Today, although the two countries share a border of over 400-kilometres long, as well as the Belovezhskaya Pushcha, there is still a lot of room left for raising awareness and knowledge about one another. Belarusians travel to Poland often and I believe Belarus could be an interesting destination for Poles as well.

However, today, I would like to focus on the economic aspects of the Belarusian-Polish relationship, which our country would like to enlarge. The 20th Belarusian-Polish Economic Forum Good Neighbourhood 2016, took place on 24-25 of October in Minsk, and was an excellent platform for mutual engagement to grow significantly.

The Belarusian Head of State, Alexander Lukashenko and the Head of the Government, Andrei Kobiakov, together with the Deputy Prime Minister and the Minister of Development and Finance of Poland, Mateusz Morawiecki discussed their joint interests and the need to increase the collaboration. This was concurred with by the numerous businesses from both countries, including over 150 entrepreneurs from Poland.

It is important to emphasise that Belarus has recently been sending very clear positive signals to European business. Our country was hit by the recession that was caused by the economic crisis in Russia, but now it is opening up for foreign investors; offering the best very investment opportunities, in free economic areas or in small settlements and towns. It is also now permitting an increase in the participation of private capital in the economy. In addition, since July 2016, investment projects can be conducted within the framework of public-private partnerships, which considerably enhances the possibilities.

In the coming couple of years almost 60 state-owned enterprises are to be privatised. During his visit to Minsk, Poland’s Deputy Prime Minister discussed how Polish companies could participate in the privatisation process and in which companies Polish firms could potentially invest. Mr Morawiecki believes

Belarus could also benefit from Polish know-how in the insurance and banking sectors. During the Forum, the Warsaw Stock Exchange signed a memorandum of understanding, the goal of which will be to encourage Belarusian firms to look for financing at the stock exchange, through initial public offerings (IPOs).

Today’s Belarus very much resembles most of the CEE countries in the mid-90s when there were still plenty of large state-owned companies with huge potential that were looking to be restructured and modernised. There is good access to a well-qualified labour force; there are lots of developmental perspectives and a huge demand for new technologies, innovations and foreign investments.

Poland’s transformation to a market economy has been very successful and a large number of Polish companies already compete on the global market. The Polish capital market has grown to be one of the biggest in the region. In a similar way to several other countries in Central and Eastern Europe, Poland has been a member of the European Union for over a decade now. Taking all that into account, Belarus’ cooperation with the countries of the region could be mutually profitable.

We are very happy that there are already plenty of Polish firms operating in Belarus. At the end of 2015, there were over 350 firms with Polish capital in Belarus, which meant that Poland ranked seventh among the largest investors in the country. At that time, Polish companies had invested \$195 million.

During the Forum, the Belarusian Deputy Prime Minister confirmed that during the first seven months of 2016, Belarus’ imports amounted to \$790 million (four and half per cent higher than in the same period in 2015), and exports — \$490 million (seven per cent more than in the first seven months of 2016). He believes that growth can be sustained in the coming years and that the value of bilateral trade should exceed \$4 billion, in 2018.

The Forum was focussed on new openings in Belarus for Polish companies and it would be a great privilege for me to welcome more Polish investors in Belarus. In the end, the two countries have been very close to one another for centuries. It is high time to bring them even closer, both by raising awareness about one another as well as through trade and investment. ●

From Denmark to Belarus — a personal experience of business

“The Economist Intelligence Unit (EIU) expects the Belarus economy to recover, only weakly in 2017-18, by just above 1 per cent, on average, from the protracted recession of 2015-16 which was Belarus’s first in 20 years.”



**MORTEN
MUNK**

*Honorary Consul of
Ukraine to Denmark
and CEO of Mafcon*

*Published on
August 31, 2016*

My very first encounter with any of the post-Soviet countries took place in the late 1970s, or in the middle of the Cold War, if you will. Back then I worked for a multinational company driving their business in the Soviet Union. I had no idea my Eastern European experience will be so useful in my future career. In 1989, I got my first assignment to relocate a manufacturing unit to Central and Eastern Europe, namely from Denmark to Poland. This project was followed by others. Out of over 100 projects, about 70 are in Ukraine but I also have a wide experience in Belarus.

I can say that all post-Soviet countries (apart from three Baltic States) are deeply rooted in their Soviet heritage. The administrative structures inherited from those times are still in place today: massive paperwork and complex sets of rules.

Investors will encounter the same challenges throughout the region, but having learned your lessons in Russia or Ukraine, Belarus seems surprisingly easier, less complex, less adversarial and a little more predictable than the two other countries. However, bureaucracy is not the same as corruption and here’s where Belarus looks better than the other two countries. It is not an issue when it comes to administration.

At first glance, it is a neat, orderly place with street lights on, shops that are full of goods, excellent cafes and restaurants, nice hotels, etc.; which is something not everyone imagines Belarus to be. In addition, the Belarusians’ social conventions are rather similar to the Nordic countries.

When doing business here, we always got in contact with what would prove to be, during the project period, a very competent, knowledgeable and capable administration. Here we found the right facilities where conditions were favourable when you look at political stability and geographic location. Having said that, I believe the impact of political factors needs to be kept in mind.

What is my largest project in Belarus? Well, in 2013, the management of Danish Salling Plast went to for Belarus to find a suitable location for a factory that could supply high-end technology using the much lower labour costs to be found in the CIS region inside the Eurasian Customs Union and a common set of norms and standards. They were interested in the once laudable district heating system, which was now facing an investment backlog of more than \$50 billion. We always knew that if we

were to succeed in the region, we had to get established in a Russian-speaking country.

This was Belarus. Here we found the right facilities, where conditions were favourable from the viewpoint of political stability and geographic location. In October 2015, we completed a 7,000 sqm production and 45,000 sqm storage facility in Orsha; an investment of €3 million, including all the paper work.

I strongly advise you to come to Belarus and see the country with your own eyes. As much as arriving in Belarus may come as a surprise for those who have never done business in the country before, one should not be mistaken. The country still requires restructuring, a lot of knowledge and hard work in order to succeed but it does offer opportunities. ●



(courtesy of Salling Plast)

Veni, vidi, vici, or my personal experience of doing business in Belarus

“After 22 years’ experience in doing business in Belarus, Russia and the neighbouring countries, I don’t understand why so few foreign investors, who are interested in the region, operate from Belarus because it is far easier to do so from Belarus.”



FILIP A.G. VANDENBROELE

Honorary Consul
of Belgium to Belarus

Published on
June 5, 2016



Back in the year 2000, I had literally just finished a project in the HoReCa sector (the food and beverages service) in Ukraine. Twenty minutes after landing at Brussels airport, I received a call from a Belgian company. They asked if I was interested in restructuring a wood processing company in Russia.

As a specialist in the FMCG (fast moving consumer goods) sector, I was not particularly keen to try something so extremely new. Then I reminded myself that the basic rules behind how start-ups and business projects operate, in general are quite similar, so the sector doesn't really matter that much. I also thought it would be nice to go back to Russia, where I had already worked, for six years, on an interesting retail and wholesale project. The thing is I didn't end up going to Russia — after signing the contract I was told the plant that needed restructuring was in Minsk, Belarus.

To be perfectly honest with you, the name of the country meant nothing to me. It was a black hole. This will be a challenge, I thought. It was a challenge I faced — I restructured the business and made the company into a highly profitable one and, most importantly, I still live here! It was not an easy job and I had many difficult moments, as well as lonely periods, but I started to love the country and Belarusians.

The Belarusians are more European than Russian, in their mentality. Of course, there is a big difference between the urban and the rural populations, but overall, you find highly-skilled, exceptionally talented and motivated people but at the same time as impossible workers and bureaucrats, who prefer to follow the old Soviet style of living (including the cheap vodka). Fortunately, this latter group is dying out and most of the time they can also be avoided.

In general, I would say, stability and order are the key words to describe Belarus. My guests have always been impressed by how clean and orderly Minsk is. Some friends even called Belarus the Switzerland of the CIS countries (Commonwealth of Independent States). Compared to other countries in the region, Belarus has a very low level of corruption and crime.

In the 2000s Belarus was still very isolated — a business network similar, to those in Moscow and Kyiv, was non-existent.

Fortunately these days, the foreign business community is much more active and many new business networking events are taking place in Minsk.

After 22 years' experience in doing business in Belarus, Russia and the neighbouring countries, I don't understand why so few foreign investors, who are interested in the region, operate from Belarus because it is far easier to do so from Belarus. Isolation and the country's negative image have played their role in this. Today, after the very successful hockey championship; the economic situation, which resulted from the recession in Russia and the European Union's sanctions having been mostly lifted, I would expect more changes to take place. This underdevelopment could not have lasted for ever. There are many great opportunities here and even more development, which you can see with your own eyes and even be a part of. It's the last country in Europe where one can still do that.

There are already a few foreign investments but the situation is still extremely modest. Why? Well, you can achieve a great return on your investment but you have to keep a low profile. Sometimes, access to material (wood, milk, waste, etc.) is also not easy. It is often monopolised by the state. Start-ups and operational issues are less problematic, as there is far more useful business information and outsourcing opportunities for the business. It is possible to start a business, even tomorrow, using outsourcing solutions and step-by-step you can start operating independently. The business climate has improved tremendously over that last few years and the authorities are showing a positive attitude towards business.

Belarusian companies are interested in western technology. The biggest problem is export financing and insurance. The currency controls oblige prepayment, which can only be avoided by blocking the same amount in currency (at high interests). In spite of the sanctions' lifting, EU officials haven't realised many concrete actions and each country has its own policy.

Overall, my advice to foreign companies is just to come and see. Visas, the language and culture should not be barriers and are easy to overcome. I can quote Julius Caesar 'veni, vidi, vici.' You will too, just come! ●

Written by

**ANDREW
WROBEL**

Published on

November 10, 2016

Life in Belarus as seen by foreigners



Scan the QR code
to watch the entire
episode online

Belarus is a country that the average Western European knows nothing, or very little, about. Businesses such as Viber, World of Tanks and Masquerade are only a few examples of how creative the Belarusians are. Natural treasures such as Belovezhskaya Pushcha, the beautiful Braslaw lakes and finally, its great historical sights all prove that the country is definitely worth visiting.

Andrew Wrobel spoke to three foreigners to find out what foreigners who live and work in Belarus say about the country: Ian Fox, Deputy Head of Mission, at the British Embassy, Minsk; Philipp Brunner, CEO of Stadler Belarus; Dr Klaus Baier, Team Leader, EU Most Programme, Goethe Institut and former Chairman of the German-Belarusian Economic Club.

Mr Fox, who has been working in Belarus since August 2016, applied for the position as the deputy head of mission at the British Embassy in Minsk, deliberately. Mr Brunner had previously worked in India and Algeria before being offered a new position within Stadler either in Belarus or the United States. He chose Belarus because he knew little about the country and thought he would learn more by coming to Minsk. Dr Baier came to Minsk to run the International Education and Meeting Centre, which was built over 20 years ago and he stayed on. What is quite difficult for him to understand is that very often people are afraid of travelling to Belarus and no one can explain why.

Mr Brunner says that after the Stadler factory was built in 2013, the Belarusian subsidiary needed support from other Stadler offices, in order to begin production in Belarus. “We are talking about around 50 foreigners flying to Belarus and working here together with about 350 Belarusians. It was very difficult to find people. I made a presentation in Switzerland in front of those potentially interested workers and they asked me questions about the most random things such as how they were going to be protected,” says Mr Brunner.

“This word fear is an interesting one because for me there is a lack of understanding and a lack of knowledge about Belarus in the UK,” says Mr Fox. “There is also a little bit of association with Russia because of its history and its past. But the understanding and knowledge need to be looked into in some detail; some people in the UK don’t understand that Belarus is an independent country. Then going beyond that, there is that lack of knowledge and awareness also because Belarus hasn’t been able to find a way to promote itself abroad,” he adds.

Proper coverage of Belarus could help increase awareness of the country but foreign journalists hardly ever visit Belarus. Most of them are based either in Moscow, Warsaw or Vilnius and they occasionally pop into the country to cover a single story.

“Sometimes the journalists who come to Minsk and interview us are a little disappointed when they hear how well we are organised in Belarus. I see this disappointment [on their side] when there are no issues against the country,” says Mr Brunner.

Dr Baier points out that the audience in foreign countries has to want to learn more about Belarus.

“German journalists are very well informed about Belarus, having extremely good background, and they are ready to produce content showing real life in the country, not just touching the critical points only. The problem that they mention openly is that our editors back home are not ready to publish such articles,” he adds.

Watch the entire Emerging Europe Live episode online to hear more about foreigners’ experiences in Belarus. ●



**NATALLIA
NIKANDRA**

Director
National Agency
of Investment and
Privatisation

Published on
November 10, 2016



Belarus serves up some recipes for success

“Foreign companies do not just run their businesses in Belarus, or in any other country for that matter; they also try to understand how people live in the country, and what they want and dream about, in order to offer them something new and special.”

Starting a business in a new country is much more complicated than just whipping up a quick omelette. It can be compared with making a soufflé – unpredictable, exhilarating and with fantastic rewards if you cook it right. However, how can you avoid getting your fingers burnt when starting new a business?

The things that matter are the ingredients: the economic situation, political stability, the labour force, the location, resources and incentives. Most important is what you actually have: you. What is equally crucial is a perfect recipe; a recipe that someone, who is willing to share their tricks about how to make a perfect dish, has already tried out and proven that the recipe actually works.

Foreign companies do not just run their businesses in Belarus, or in any other country for that matter; they also try to understand how people live in the country, and what they want and dream about, in order to offer them something new and special. Belarus has its own unique history, culture and, of course, cuisine which we are trying to preserve and develop.

Investment promotion agencies all over the world are very busy providing complete information about the conditions for doing business in any country and the relevant investment projects and this information is essential for investors. At the same time, there are strategic investors who spend a lot time at their investment sites, to ensure the proper implementation of technologies, know-how, practices, marketing strategies and the establishment of good sound working relationships with their partners. Clearly, these investors pay as much attention to the living conditions in the country as they do the cultural aspects.

We, at the National Agency for Investment and Privatisation, together with some existing foreign investors, have launched a special project “*Business in Belarus Recipe Book*”. We have done this

to help investors adapt to the life and culture of Belarus, which to some extent remains unknown to the international business community but which truly deserves their time and attention.

The book tells the stories of twelve foreign entrepreneurs, who have been doing business in Belarus for some time and who are willing to share their recipes for success, in Belarus, with potential future investors. They all represent different sectors and types of activity, ranging from traditional food and wood processing industries and to the IT sector.

Since it is about both business and culture, and since we’ve promised to help with integration into the lives of the Belarusian people, a big part of the book is devoted to Belarusian cuisine and its history. With this in mind, every entrepreneur also shared the recipe of his/her favourite Belarusian dish, along with their success story, thus contributing to a mixed recipe book.

Some of the recipes are quite famous and popular among tourists, like kliocki and beetroot soup; some of them are very rare. The project was very interesting for us too, as we learnt a lot of new information ourselves. Every recipe has undoubtedly been tested by the long history of our country, which the book also describes.

Belarusian cuisine has absorbed the tastes of our ancestors and breadth of the great soul of the Belarusian people. It reached its true zenith during the days of the Great Duchy of Lithuania (13th-15th). The Grand Duchy played a major role in European politics, and was a powerful state which included the lands of modern Belarus, Lithuania and the Kyiv, Chernigov and Volyn regions of Ukraine, together with western Russia from the Baltic to the Black Sea. The Belarusian territory was the territorial core, and foundation, of the country’s power and the Old Belarusian language was the official language and means of communication between its people from the various nationalities.

In Belarus, there were kings and dukes and great magnates such as Radziwill and Sapieha, who could easily afford royal food. These famously powerful clans owned real estate in many countries and travelled a lot; they always brought something new from their journeys, including culinary novelties. Some historians believe that all the advanced ideas appeared in Belarus first and then reached the neighbouring lands later. Few people know that for a while the best European chefs worked for the Radziwill family.

It is not surprising that the French and Italians “borrowed” some recipes for delicious dishes from the Belarusians. Now you have a chance to try them. Bon appetit! ●

Bringing Belarus' cultural past to life for Belarusians and the world

Written by

**ANDREW
WROBEL**

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"We have suffered a historical trauma to our ethnic and cultural identity because we have huge Russia as a dominating neighbour, but our Belarusian traditional culture is really great and supportive."

Shuma makes a delicate mixture of high-quality electronic music and pagan songs and performs them in a modern and smooth manner. There are hints of cinematic Trentemøller, smooth FKA Twigs, pagan Björk and clubby Moderate in their sound. Their album "Zhnivo" was chosen as the best album of 2015, in Belarus.

Maryna Shukiurava, AKA Rusia, Shuma's founder, leader and vocalist, spoke to Andrew Wrobel, about how she was inspired by Belarusian culture as well as electronic music from the UK: she also talked about the historical trauma the Belarusian ethnic and cultural identity is experiencing from having huge Russia as a dominating neighbour.

Tell me first how Shuma came to be. Did you have a specific concept of what the band would look and sound like or did it happen more organically?

Well, I was wondering about how to bring the beauty and the depth of the archaic Belarusian culture to

young people in Belarus who are distanced from their roots. I was searching for a concept; researching the origins of our culture and I took these archaic songs. I wanted to understand much more than just the popular culture and what people can see in museums and I started to become deeply involved in the topic. My friend, Nadzeya Chuhunova, and I spent weeks taking part in ethnography expeditions; trying to save what remained of this singing culture which was, and is still is, disappearing very quickly.

I have always been fascinated by electronic music, especially the UK sound and scene. I decided to speak to young clubbers in Belarus about the music they liked and eventually, I created Shuma, which performs digital archaica or, in other words, archaic songs presented in digital arrangements. This idea is working and today there are many more people who are interested in our traditional culture than three years ago.

We do a *capella* performances for people all over the world but it is true that young people prefer clubbing. Many young people are discovering

this culture with respect and interest and I am proud to say that Shuma is a sort of bridge between the past and today.

So how do you make the new arrangements?

We don't change the melodies much and we leave the old dialects, so listeners automatically become traditional songs -bearers just by singing together with us. We also decided not to use the authentic vocal manner, called "wild open voices", so as not to shock people. Sometimes, however, we sing the a capella songs in an authentic manner at concerts in order to present this culture in a gentle manner. In Shuma, we use sub-tone and soft voice techniques.

There are a few of you in Shuma: you and Nadzeya sing and Alexei Budzko does the live programming. Alexei Korobeynik is the composer and makes the arrangements and sound design

and Nick Cherny is also a composer. What is your background and how do you make music together?

We choose the songs and then bring them to Alexei Korobeynik, AKA Alexis Scorpio, and then we try to find the right arrangement together. Nick Cherny joined us for the first album but in most situations we work with Scorpio.

I am not musically educated but I have music in my head and Scorpio is my hands, if I can put it that way. He is a brilliant composer and musician. He seldom leaves the studio and actually prefers staying there to performing on stage. So Alexei Budzko, AKA Shumaboy, performs Scorpio's music live with Ableton on keyboards and stuff. He is a classical double bass player who works with orchestras worldwide.

My aim is to find the right song; to hear how it may sound and to inspire Scorpio or Cherny to take it out of my head. As you see, I don't produce music myself and I need assistants. It also has great advantages, I can also pick their brains. The entire team is involved in traditional culture and they very much enjoy working in this field. We also work with BOpromo agency, which helps us with the visual conception of our gigs.

So, my part is to find things and to inspire people to bring it to life. We work like a family. I am also responsible for the vocal arrangements and how for Shuma's future development.

Your experimental musical style, visuals and strong focus on aesthetics is something people would probably see coming from, say, Scandinavia. Are people surprised that you come from Belarus?

Not really. Actually, in general, traditional cultures have much in common so it is very easy to mix them up. People are not experts in varieties of Scandinavian or Asian cultures; don't you agree? Let's be realistic — many people have no idea about Belarus at all. But European and American audiences are surprised to discover that Eastern European music can sound so good. That is true.

How do you imagine your audience?

Well, we know them: they are open minded, audio-sensitive, forward thinking, loving, smart, self-developing personalities of any age and profession. At our concerts we meet people whose ages span from ten to ninety.

It's great that you can actually reach people of literally all ages. What is your message to the audience? What do you want to convey through the music?

Our message is studying your root culture helps you to understand all humanity. By this I mean that your cultural context gives you the key to understanding all the cultures of the world. They have much in common if you only examine the roots.

What are the Belarusian roots?

We have suffered a historical trauma to our ethnic and cultural identity because we have huge Russia as a dominating neighbour, but our Belarusian traditional culture is really great and supportive. It is important to feel yourself as a part of a certain ethnical group; to know yourself better; to understand your background better and to see your life path more clearly. I am jealous of people who have this connection to their culture and traditions. I think we Belarusians are confused in this sense.

Moreover, we all want to be a part of multicultural world and we should keep in mind that a multicultural society is made of many tiny parts and that we, Belarusians, are representatives of a certain ethnos; we are one of these tiny parts. When we come to join a multicultural society we should bring a certain cultural baggage with us. We mustn't come empty-handed.

Shuma are one of the most sophisticated acts in the Belarusian music scene and, as I mentioned before, one that could come from elsewhere in Europe. Today, culture, including music, is essential in building a nation's image and helping shape perceptions. Shuma does it very positively for Belarus. Why do you think there are so few acts from Belarus whose work translates internationally?

I think this is because of cultural and economic reasons. Our big neighbour is feeding us with its context and it is impossible to resist because of the size of the country.

Our economy is very weak. People here are working hard just to feed themselves and they have no possibility or power to think about their cultural needs. When you are hungry there is no space for culture, unfortunately. Cultural managers, here, are sacrificing their family lives to develop culture. This is normal in undeveloped countries such as Belarus.

I respect this choice because I am on this side as well. I do not live a happy life in the common sense of looking at the situation but when I see the result of our cultural efforts I feel happy and in my place. I am glad to be here. ●

Written by

**EVA
KELLER**

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Using words to paint a picture – Belarus’ Nobel Prize winning novelist

“Reality has always attracted me like a magnet, it has tortured and hypnotised me and I wanted to capture it on paper. So, I immediately appropriated this genre of actual human voices and confessions, witness evidence and documents. This is how I hear and see the world — as a chorus of individual voices and a collage of everyday details.”

“Today, since man and the world have become so multifaceted and diversified, the document as art is becoming increasingly attractive while art itself often feels impotent,” **Svetlana Alexievich, the 2015 Nobel Prize winner in Literature** “for her polyphonic writings, a monument to suffering and courage in our time,” says in her brief manifesto, *In Lieu of Biography*, on her website.

She explains that she had been searching for a genre that would be most appropriate to her vision of the world on order to convey how her ears hear, and her eyes see, life.

“I’ve tried this and that and finally I chose a genre where human voices speak for themselves. Real people speak in my books about the main events of the age such as the war, the Chernobyl disaster and the downfall of a great empire. But I don’t just record a dry history of events and facts; I’m writing a history of human feelings. It’s about what people thought, understood and remembered during the event. What they believed in or mistrusted, what illusions, hopes and fears they experienced,” she continues.

“Reality has always attracted me like a magnet, it has tortured and hypnotised me and I wanted to capture it on paper. So, I immediately appropriated this genre of actual human voices and confessions, witness evidence and documents. This is how I hear and see the world — as a chorus of individual voices and a collage of everyday details. This is how my eyes and ears function. In this way all my mental and emotional potential is realised to the full and I can be a writer, reporter, sociologist, psychologist and preacher simultaneously,” Ms Alexievich said in an interview.

Second-hand Time: The Last of the Soviets, is her latest book. It was translated into English in 2016, three years after writing and it is an excellent example of Ms Alexievich’s craft. She spent three decades writing down the stories of ordinary people in her native Belarus and beyond. Her book is a unique chronicle of that time and place, but with themes of hope and loss that are universal. Love, death and everyday concerns, but also memories of oppression, terror, famine and massacres fill over 700 pages of

the book. There is also pride in her country, hope for the future, and a belief that everyone was working and fighting together to bring about a utopia.

Ms Alexievich's previous books are not different in style and approach. Her first novel, *War's Unwomanly Face*, was published in 1985, and is based on previously untold stories of the women who fought against Nazi Germany in World War II. The book is a confession, a document and a record of people's memory. The author interviewed more than 200 women for it, describing how young girls, who dreamed of becoming brides, became soldiers in 1941.

The Soviet press called the book "a vivid reporting of events long past, which affected the destiny of the nation as a whole." The most important thing about the book is not so much the frontline episodes as the women's heart-rending experiences in the war.

Ms Alexievich said that, if she had lived in the 19th century, she would surely have been a novelist, but that in our time she felt that fiction was inadequate.

"I'd like to remember the great Chekhov, and his play 'The Three Sisters.' The main character in that play says over and over, 'Now life is terrible, we live in squalor, but in a hundred years, a hundred years, how beautiful, how fine everything will be.' What has actually happened a hundred years later? We have Chernobyl; we have the World Trade Towers collapsing. It's a new age in history. What we have experienced today, not only goes beyond our knowledge but also exceeds our ability to imagine," she said when taking part in a panel discussion at the PEN World Voices Festival in New York, a decade ago.

Voices from Chernobyl, was published in 1998, and it details the psychological and physical ordeal of the people who took part in the clean-up of the 1986 nuclear disaster. It is the first book to present personal accounts of the tragedy. Ms Alexievich interviewed hundreds of people who were affected by the meltdown - from innocent citizens to firefighters to those called in to clean up the disaster - and their stories reveal the fear, anger and uncertainty with which they still live.

"It's not an award for me alone, but for our culture and our small country, which has been caught in the grinder throughout history," Alexievich said during a press conference in Minsk, after Professor Sara Danius, Permanent Secretary of the Swedish Academy, had announced the Award on October 8 2015.

Svetlana Alexievich was born on the 31st of May 1948, in the Ukrainian town of Ivano-Frankovsk. Her father is Belarusian and her mother is Ukrainian. After her father's demobilisation from the army the family returned to Belarus and settled in a village where both parents worked as school teachers.

She began to write poetry in her school days and she contributed articles to the school newspaper. At that time she needed a two year work record (as was the rule in those days) in order to enrol in the department of journalism of Minsk University, and she entered it in 1967. During her university years she won several awards at the republican and all-Union competitions for academic and students' papers.

Ms Alexievich is the first Belarusian to be awarded a Nobel Prize by the Swedish Academy and the eleventh woman who has received the Nobel Prize in Literature. ●





**IGOR
LIKHOGRUD**

Chairman of the Board
Moscow-Minsk Bank

Published on
November 5, 2016

Feel the vibe of the city of Minsk

“The very heart of the city is famous for its unique atmosphere that comes from a combination of architecture, colours, flavours and aromas as well as the friendliness of the market traders and the wide range of high quality products.”

Every city has a place that brings people together; a place where you can meet anyone from high street clerks and bankers through plumbers and students to pensioners and young mothers with their children. Barcelona has its famous Mercat de La Boqueria and Minsk has its Komarovskiy market, located in the city centre. This place lets everyone feel the vibe of not only Minsk, but the whole of Belarus.



It is here that a quick glimpse into the fruit basket, carried by a typical resident, will easily help you determine the financial well-being of Belarusians. A loud conversation between two elderly ladies, at the greengrocer's, will keep you up-to-date with the latest news in the capital city. The prices you see on the meat counter, at the butcher's, will permit you to forecast an increase in deposits, or say, the fall of payments on loans.

There is space for a little respite, where you can rest for a while and take a short break from shopping, before going back again to choose the best apples, pears or plums. It is here that our bank has its offices, in the very heart of the city that is famous for its unique atmosphere that comes from a combination of architecture, colours, flavours and aromas as well as the friendliness of the market traders and the wide range of high quality products.

Belarus has invested a lot in order to increase the birth rate and we see the growth. That gives us hope and makes us believe that Belarus has great potential for growth. I know it might sound pompous but children are the country's future.

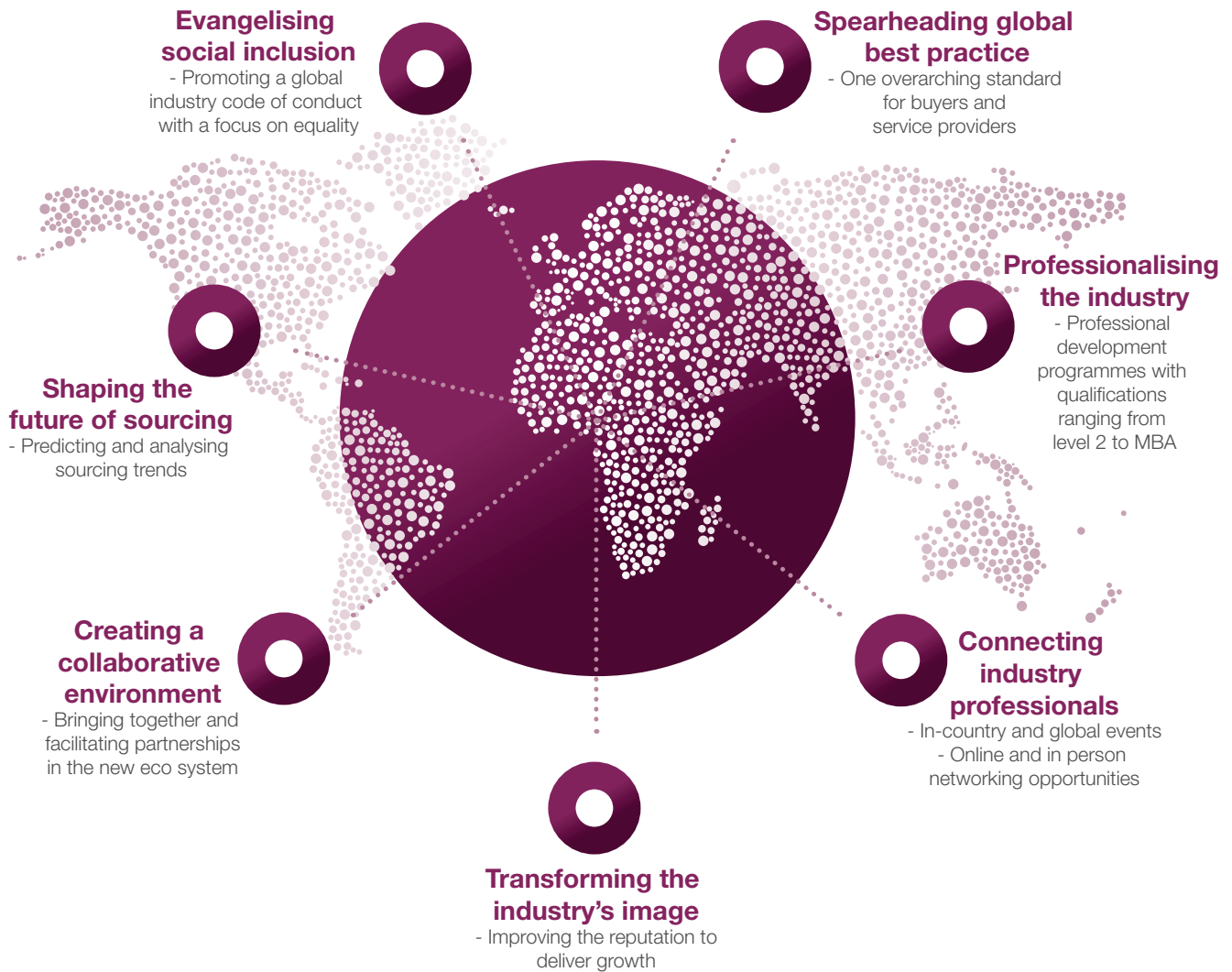
In the recent years, we have also seen, more often than not, that the locals tend to bypass the counters and shelves that hold expensive exotic produce. Obviously, this is due to a decrease in purchasing power, against the backdrop of fluctuating neighbouring economies. The situation has forced many companies to rethink their current situation and their vision of the future.

Despite the difficulties faced by any young, developing country, Belarus is gradually changing the lives of its citizens for the better, although not as fast as all of us would like. The possibilities and freedoms for the private sector are growing, foreign investments are being generated and a lot of attention is being paid to the development of new, relevant fields of economy.

Minsk is a modern, dynamic city; it offers the largest transport and logistics centre, a cultural and scientific capital with high educational standards, positive diversity, a clean and green environment, and mostly importantly, a city on the rise. New hotels and restaurants, new shopping malls and new residential developments are being built and new investments are being made. This is to the benefit of both the almost two million residents and for tourists.

For those of you, who have never visited the city or the country, it is important to come and see; visit the sights, try the food and meet the people. I am sure there is no better place to start a visit than the Komarovskiy market, where you can take the city's pulse and start your journey across Belarus. ●

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