Analyses OSW

CENTRE FOR EASTERN STUDIES 15.06.2022 www.osw.waw.pl

Belarus receives limited economic support from Russia

Kamil Kłysiński

During a meeting with the governor of the Kursk Oblast, Roman Starovoyt, on 9 June, Alexander Lukashenka announced that Russian financial support of $1.5 billion had been granted to Belarus. The funds are to be used to implement anti-import programmes to compensate for the two countries' lack of access to a range of products and technologies due to the introduction of Western sanctions. The launch of joint projects was mentioned at a meeting of the Eurasian Economic Forum on 26 May by Vladimir Putin, who pointed to the "considerable competence" of Belarusian companies in microelectronics manufacturing. Another of the topics of the two leaders' talks in Sochi on 22 May was collective action in connection with the sanctions regime. Also on 9 June, the Russian government adopted amendments to the bilateral agreement of 9 February 2021 on the export of petroleum products from Belarus via Russian ports. As a result of this modification, fuel suppliers there gained access to port infrastructure throughout the Russian Federation. Earlier, on 2 June, Leningrad Region Governor Aleksandr Drozdenko, declared the possibility of making terminals in Russian Baltic ports available for the transshipment of Belarusian goods until a separate Belarusian port is built in the region (the investment is currently at the preliminary design stage). On 10 June a meeting was held between representatives of the two countries' finance ministries regarding the issue of Belarusian bonds on the Russian Federation's market. The government in Moscow has announced not only its support for this project but also facilitations for Belarusian companies interested in participating in Russian state tenders.

Commentary

- Western sanctions – introduced after the rigged presidential election in August 2020, and then increased as a consequence of Minsk's support for the Russian aggression against Ukraine – have cut Belarus off from the EU and Ukrainian markets in practical terms. Access to ports in the Baltic states has also been blocked, most notably Klaipeda, where most of Belarus's potassium fertiliser exports are transshipped. According to the Belarusian government, losses due to the embargo on domestic goods will reach as much as $18 billion this year, which is almost half the value of last year's exports. The Western sanctions regime will also result in a deep recession, which both the World Bank and the Moscow-controlled Eurasian Stabilisation and Development Fund estimate will be at least 6.5% of GDP this year. In this situation, only closer cooperation with Russia can save the country's economy from complete collapse. It will further increase Minsk's dependence on Moscow. The scale of this phenomenon is demonstrated by the results of Belarusian foreign trade, in which Russia's share rose from 48% in January to 63% in

April.

- The actions of the Russian side indicate that it is continuing its long-standing policy of subsidising the Belarusian economy. Unrestricted access to ports significantly broadens the potential reach of supplies of potassium fertilisers, one of the main commodities exported by Belarus. The (so far only declared) launch of anti-import projects would at least partly mitigate the losses resulting from the inaccessibility of the EU and Ukrainian markets. Furthermore, it cannot be ruled out that the issuing of Belarusian bonds (there is no information on their value) in the context of the recession already observed in both countries, may in fact be a form of covert financial support from Moscow, repaying Minsk for its loyalty in its critical narrative towards the West and Ukraine and for making its territory available to the Russian armed forces.

- However, the real value of the subsidies, despite assurances from both sides, will be quite limited. Russia's port infrastructure currently lacks the spare capacity adequate to meet its neighbour's demand, due in part to Western restrictions and corporate boycotts that are significantly impeding cargo handling. The possibilities for the cooperation of Russian Railways, which under the new sanction conditions is primarily focused on the reorganisation of internal transport, are similar. Questions about the scale of the increase in transport costs and the related price competitiveness of Belarusian exporters also remain open. In turn, anti-import projects may temporarily improve the condition of Belarusian industry, especially in the arms and machine-building sectors, which have for years been closely cooperating with Russian firms (for example, Minsk's microelectronics manufacturer Integral). However, due to the lack of advanced technologies of its own, cooperation between the two countries will neither be able to contribute to the modernisation of the Belarusian industrial infrastructure, which is largely outdated, nor to compensate for the broken ties with their Western partners.