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The EU and Belarus Engaged - No Wedding in Sight

András Rácz

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Correspondence to:

PRIF · Baseler Str. 27-31 · 60329 Frankfurt am Main, Germany

Phone: +49(0)69 95 91 04-0 · Fax: +49(0)69 55 84 81

E-Mail: andras.racz@gmail.com

Website: www.prif.org

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Summary

Almost exactly four years ago, on 21 November 2006, the European Commission released a so-called non-paper entitled “What the EU could bring to Belarus” In this document, the EU offered Belarus several political, technical and infrastructural possibilities for cooperation, under the condition that Minsk improves the situation of human rights and fundamental freedoms, including the right to free and fair elections and free media. An overview of the last four years of the EU-Belarus relationship is more than relevant today, coming as it does shortly after the presidential elections in Belarus – which has been re-scheduled to take place on 19 December 2010, earlier than the regular date – and four years after the release of the non-paper.

It is a well known fact that the relationship with the EU is not of primary importance for the Minsk leadership, but is regarded rather as a political tool to counter-balance the overwhelming influence of Russia. The Russian factor not only affects the foreign and security policy of Belarus, but also has a decisive influence on its foreign trade patterns. In other words, the shift in Belarusian foreign policy in a more pro-EU direction, which has been taking place since 2007, is connected with the changing attitude of Russia towards Belarus, and is not an indigenous, domestically motivated move. However, the Belarusian leadership has always been reluctant to commit itself too much to the EU, especially when it comes to democratic values. Instead, Minsk has been striving to narrow EU-Belarus relations down to cooperation on foreign trade, investments, infrastructure, visa issues, etc. – in other words, primarily to technical issues.

Taking into account the EU’s intentions as described in the non-paper, this strategy of managing EU-Belarus relations over the last 4 to 5 years has been largely, though not fully successful from the perspective of the Belarusian regime. On the one hand, the relationship with the EU has clearly improved in recent years: Belarus was included in the Eastern Partnership initiative, the visa ban on Belarusian leaders was by and large suspended, investments from the EU are growing, foreign trade is intensifying, more and more new loans are being received from the West etc. On the other hand, the regime has managed to avoid introducing any significant reforms that would have affected the core structures of the political system in terms of democratic and human rights and fundamental freedoms. Despite the EU’s increasing engagement towards Belarus, the nature of the regime has practically remained the same since the last presidential elections in 2006.

The lack of significant changes in this field can easily be confirmed by using quantitative indicators such as the Democracy Index of the Economist Intelligence Unit, or the “Freedom in the World” indicator compiled by Freedom House. Studying quantitative indicators might well lead to the conclusion that the EU’s policy towards Belarus has seemingly failed in terms of protecting and fostering human rights and civil freedoms. This as well demonstrated by the brutal suppression of the opposition demonstration following the 19 December 2010 election.

However, other quantitative sources, such as the Index of Economic Freedom of the Heritage Foundation and various indicators of the European Bank for Reconstruction and

Development show that the regime has actually changed in recent years to a quite significant extent in terms of economic freedoms such as banking, privatization, trade and investment policy etc. The motivation for such changes is connected to the fact that sustaining social stability is of crucial importance for the Belarusian leadership. Social stability is the factor which has ensured strong domestic support for the Lukashenko system over the last decade. Minsk has been in growing need of external sources of funding since the oil and gas price war on the eve of 2006/2007. The government introduced several measures to intensify foreign trade and attract more investments, and to obtain more and more external loans and credits.

The paper argues that more emphasis should be put on economic transformation within the framework of the conditionality approach of the EU. The main reason for this is that the Lukashenko regime has shown practically no signs of cooperation in terms of human rights and fundamental freedoms. The policy of the regime has remained largely unchanged in these areas over the last four years. On the other hand, Minsk has already conducted a number of significant economic reforms, and others are on the way. The government had the best motivation to do so: by liberalizing the national economy it intends to counter-balance the growing influence of Russia and maintain the level of social stability that guarantees the regime's domestic legitimacy. Belarus is striving to attract Western investors, obtain loans, and increase incomes by privatizing certain elements of the still largely state-dominated national economy. All in all, while the regime is not at all cooperative in terms of human rights, there is a definite readiness for reforms in the field of the economy. Consequently, fostering economic transformation could be the main entry point for the EU's foreign policy towards Belarus.

Focusing on the economy relations would also allow the EU to introduce such sanctions against the Lukashenko regime that would be much more painful, than the ones adopted on 31 January 2011. Indeed, economy is the point, where the EU could motivate Belarus, either in a positive way (by supporting economic reforms), or in a negative way (by introducing economic sanctions that would cause immediate and serious losses of incomes).

The human rights dialogue should, of course, not be abandoned, since protecting human rights and fundamental freedoms is a core value of the European Union as a whole, including its Neighbourhood Policy. This is particularly necessary following the 19 December 2010 events. However, strategic efforts should be concentrated more on the broader economic sphere. All in all, conditionality has not failed as a strategy towards Belarus, but should become more balanced. Instead of a solely human rights and democracy-dominated approach, in the long run EU conditionality should focus also on economic and administrative aspects. Such a shift could be applied also if the EU decides to introduce additional, stronger sanctions. All in all, also economic tools should be used for protecting human rights.

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1. Introduction¹

Slightly more than four years ago, on 21 November 2006, the European Commission released a so-called non-paper entitled *What the EU could bring to Belarus*² In this document, the EU offered Belarus several political, technical and infrastructural possibilities for cooperation, under the condition that Minsk improves the situation of human rights and fundamental freedoms, including the right to free and fair elections and free media. An overview of the last four years of the EU-Belarus relationship is more than relevant today, coming as it does shortly after the next presidential elections in Belarus – which has been re-scheduled to take place on 19 December 2010, earlier than the regular date – and four years after the release of the non-paper. Another new phenomenon is that high-ranking EU politicians have recently visited Minsk and met Alexandr Lukashenko personally. These visitors include the Lithuanian President Dalia Grybauskaitė in October 2010 and the German and Polish Ministers of Foreign Affairs, Guido Westerwelle and Radosław Sikorski, both in November. In addition to these, the sanctions introduced by the EU on Belarus on 31 January 2011³ make a comprehensive overview even more actual.

It is a well known fact that the relationship with the EU is not of primary importance for the leadership in Minsk, but is regarded rather as a political tool to counter-balance the overwhelming influence of Russia. The Russian factor not only affects the foreign and security policy of Belarus, but also has a decisive influence on its foreign trade patterns. In other words, the shift in Belarusian foreign policy in a more pro-EU direction, which has been taking place since 2007, is connected with the changing attitude of Russia towards Belarus, and is not an indigenous, domestically motivated move. Belarusian analyst Vitali Silitski linked this move to the gradual loss of Russian subsidies⁴ that have kept the Belarusian economy running. As Minsk was in great need of alternative sources of income, it turned first of all towards Western Europe. However, the Belarusian leadership has always been reluctant to commit itself too much to the EU, especially when it comes to democratic values. Instead, Minsk has been striving to narrow EU-Belarus relations down to cooperation on foreign trade, investments, infrastructure, visa issues, etc. – in other words, primarily to technical issues. As EU accession has not been on the agenda of the Belarusian government, and it does not want to spoil its relationship with Russia, this

1 The author would like to express his gratitude to the “European Foreign and Security Policy Studies” programme of the Volkswagen Foundation for supporting the work on this report and also to the Peace Research Institute Frankfurt that hosted the project. All possible errors in the text are solely the author’s responsibility.

2 “What the EU could bring to Belarus” 21 November 2006. Accessible: http://ec.europa.eu/delegations/belarus/documents/eu_belarus/non_paper_1106.pdf (15.10.2010).

3 Council Conclusions on Belarus. Council of the European Union, 31 Jan 2011. Accessible: www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/119038.pdf (2.2.2011).

4 Fischer, Sabine: Executive summary. FISCHER, Sabine (ed.): *Back from the Cold? The EU and Belarus in 2009*. Chaillot Papers No. 119. Paris, November 2009. EU Institute for Security Studies, p. 10.

“balancing act” was a reasonable choice of behaviour – though, as we will see, its sustainability is becoming more and more questionable.

Taking into account the EU’s intentions as described in the non-paper, this strategy of managing EU-Belarus relations over the last 4 to 5 years has been largely, though not fully successful from the perspective of the Belarusian regime. On the one hand, the relationship with the EU has clearly improved in recent years: Belarus was included in the Eastern Partnership initiative, the visa ban on Belarusian leaders was by and large suspended, investments from the EU are growing, foreign trade is intensifying, more and more new loans are being received from the West, etc. On the other hand, the regime has managed to avoid introducing any significant reforms that would have affected the core structures of the political system in terms of democratic and human rights and fundamental freedoms. Though a number of changes were introduced in compliance with EU demands, these were not of a structural nature but were only temporary. For example, *not using* force against an opposition demonstration on one occasion does not mean that *no force will be used in the future*, as long as the legal environment has not been changed in a way that bans the use of force against all peaceful demonstrations – and this is not the case. The lack of any structural improvement was well illustrated by the brutal suppression of the opposition protest that followed the 19 December 2010 presidential elections.

Despite the EU’s increasing engagement towards Belarus, the nature of the regime has practically remained the same since the 2006 presidential elections. The system did not comply with the International Labour Organization’s (ILO) recommendations, despite the suspension of the Generalized System of Preferences (GSP) in 2007. As the 2010 presidential elections approached, repression of opposition groups was once again increasing. Although the regime released political prisoners in 2008, people are currently once again being imprisoned for political reasons. Moreover, the “regular” harassment of opposition activists and the use of administrative resources against politicians of the opposition continue; and there has been no improvement in electoral standards. Neither the parliamentary elections in September 2008, nor the municipal elections in April 2010 were more democratic than any of the previous elections held over the last 15 years. Not a single candidate of the opposition has managed to gain a seat either in parliament or in the municipal elections. As the 2010 presidential elections approached, political violence was once again on the rise: Oleg Bebenin, founder and editor of perhaps the best known opposition website, Charter97.org, was found dead at his home on 3 September 2010 and the hurriedly released result of the official inquiry that spoke about suicide leaves many question marks. These negative tendencies reached their peak with the suppression of the opposition protest on 19 December 2011 and the imprisonment of more than 600 opposition activists, including two presidential candidates.

Considering this lack of positive developments, one may easily come to the conclusion that the EU’s original, conditionality-based approach to fostering human rights and fundamental freedoms in Belarus, as described in the non-paper, has clearly failed. Even the recent intensification of the EU’s Eastern Neighbourhood Policy following the August 2008 war in Georgia has not changed this situation, as Belarus did not reciprocate the

EU's increased commitment. However, as the European Security Strategy states, the EU is interested in having "a ring of well-governed countries" around it. This leads us to the research question: Since human rights-based conditionality has produced no tangible results, what could be a more effective entry point for the EU's foreign policy to engage Belarus and to improve the political situation there? How could the EU make Belarus become more integrated in this "ring of well-governed countries"? The importance of this question got further increased by the introduction of the mentioned EU sanctions on 31 January 2011, namely the travel ban and assets freeze against more than 150 Belarusian officials. Finding a more effective foreign policy entry point would also enable the EU to introduce more effective sanctions, if needed.

This paper argues that more emphasis should be put on economic transformation within the framework of the EU's conditionality approach. The main reason for this is that the Lukashenko regime has demonstrated practically no cooperativeness at all in terms of human rights and fundamental freedoms. Over the last four years, the regime has remained grossly unchanged in these areas. On the other hand, Minsk has already conducted a number of significant economic reforms, and others are underway. The government had the best motivation to do so: by liberalizing the national economy, it intends to counter-balance the growing influence of Russia. Belarus is striving to attract Western investors, obtain loans, and increase incomes by privatizing certain elements of the still largely state-dominated national economy. Generally speaking, while the regime is not at all cooperative in terms of human rights, it shows a definite readiness for reforms in the field of the economy. Consequently, fostering economic transformation could be the main entry point for the EU's foreign policy towards Belarus.

The first chapter will take a look at the last four years of political contacts between the EU and Belarus. The task is to map out not only the various EU initiatives regarding Belarus but also the answers and reactions given by the regime. Particular attention is dedicated to the consequences of the war in Georgia in August 2008, which resulted in an upgrading of the relationship with Belarus by the EU. The earlier policy of isolation was replaced by a policy of engagement. This was the main reason why Belarus was finally included in the Eastern Partnership initiative. Since then, there has been no significant progress on the political level; even the Eastern Partnership only generated moderate results. The only exception is the NGO sector, where improvements are remarkable due to the activities of the Civil Society Forum. However, one must add that these achievements are only partially linked to the efforts of the EU as such, but rather to the initiatives of individual Member States. In addition to all these factors, the chapter will briefly analyse the role of the EU's technical assistance programmes as tools for further engagement.

The second chapter studies the role of the EU as an economic partner of Belarus. Besides mapping out the trends of foreign trade, loans and credit programmes, special attention is paid to the role of the EU (and of individual EU countries) on the Belarusian investment market, particularly in terms of foreign direct investments (FDI). The emerging problem is that while Belarus has been trying to liberalize its economy in order to attract foreign – preferably Western – investors and to thus reduce its economic

dependency on Russia, in fact it is Russian capital that dominates the Belarusian investment market. First Vice Prime Minister Vladimir Semashko already warned in February 2008 that “Russian business wants to buy everything it can”⁵ – and according to the analysis of the investment inflow, this trend has strengthened further.

The EU’s Belarus policies have been studied and analyzed by many researchers, for example Gregorz Gromadzki⁶, Lubos Vesely⁷ or George Dura.⁸ However, less attention has been paid to the other side, i.e. to the possible interests and motivations of the Belarusian side in conducting a relationship with the EU. In this regard, one must rely almost exclusively on statements by various Belarusian officials, while only a few experts deal with the question, for example, Vitali Silitski⁹, Dzianis Melyantsou¹⁰, and Kyrill Koktysh.¹¹ This report therefore endeavours to study the relationship between the EU and Belarus not only from an EU perspective, but also from that of Belarus.

When performing such a task, one has to bear in mind that it is fundamentally wrong to picture Belarus as a unified, monolithic entity that follows the single and consistent will of one political leader. From the methodological perspective, one has to separate Minsk’s official foreign policy from the foreign policy of the opposition forces, which are in fact also far from being unified. Such a separation is particularly necessary because the EU also deals with these forces separately, as do the Member States. However, emphasis is placed here on official Belarusian foreign policy, because it is the current president and the government who are the EU’s main cooperation partners, and not the divided – not even always institutionalized – opposition forces. Nevertheless, some attention will, of course, be paid to the civil society sector as well.

The complex and problematic question of the Belarus-Russia relationship is only addressed in this report to the extent required for understanding the context of the role of the EU in Belarusian foreign policy. Thus, patterns of foreign trade and foreign direct investments are studied extensively, while questions of, for instance, energy transit receive less attention.

- 5 Syamashka: “Russian business wants to buy everything it can”. Accessible: <http://charter97.org/en/news/2008/2/21/4060/> (15.10.2010).
- 6 Gromadzki, Grzegorz: Belarusian foreign policy – change or continuity? Fischer, Sabine (ed.): Back from the Cold? The EU and Belarus in 2009. Chaillot Papers No. 119. Paris, November 2009. EU Institute for Security Studies, p. 93-104.
- 7 Vesely, Luboš: The European Union and the Support of Democratic Changes in Belarus – Acts or Words? International Issues & Slovak Foreign Policy Affairs. Vol. XV. No. 2. 2006, p. 37-45.
- 8 Dura, George: The EU’s Limited Response to Belarus’ Pseudo ‘New Foreign Policy’. CEPS Policy Brief. No. 151. February 2008. Accessible: www.ceps.eu/ceps/download/1429 (12.10.2010).
- 9 Hajduk, Kirill – Silitski, Vitali: After the GSP Withdrawal: the Case for the Revision of the EU Policy Towards Belarus. Belarusian Institute for Strategic Studies. 7 Aug 2007. 6. p. Accessible: www.belinstitute.eu/images/stories/documents/gspaug7en.pdf (16.10.2010).
- 10 Melyantsou, Dzianis: Eastern Partnership: The First Year. BISS Blitz. Belarusian Institute for Strategic Studies. 16 May 2010. Accessible: www.belinstitute.eu/images/doc-pdf/bb022010en.pdf (15.10.2010).
- 11 Koktysh, Kirill: „The Belarusian Policy of Russia: the Era of Pragmatism.” In: International Issues & Slovak Foreign Policy Affairs. Vol. XV. No. 2. 2006, p. 18-29.

2. From isolation to engagement: the EU as a political partner of Belarus 2006-2010

2.1 The early years and the era of isolation

In the early nineties, relations between the European Community, later European Union, and Belarus were promising. Diplomatic relations were established in August 1992 and negotiations with the European Commission on a Partnership and Cooperation Agreement (PCA) began in Brussels in November 1993. The PCA was signed on 6 March 1995. The Belarusian side was represented by Alexandr Lukashenko, who was democratically elected President of Belarus in 1994. The Belarusian parliament already ratified the cooperation agreement on 12 April 1995. However, Lukashenko quickly transformed Belarus into a highly authoritarian, dictatorial state. Following the fraudulent referendum on modifying the Belarusian constitution, the European Parliament condemned the developments in Belarus in December 1996 and initiated appropriate steps. Suggestions included suspending the ratification of the PCA and terminating all TACIS (Technical Assistance for the Commonwealth of Independent States) projects, except those aimed at supporting democracy and freedom of the media. Finally, on 15 September 1997, the Council decided to suspend the PCA ratification process and terminated the TACIS and TEMPUS projects, with the few exceptions mentioned above.

However, the Belarusian regime was not excessively embarrassed by these developments. In terms of foreign policy, the country's Russian orientation once again became dominant. This was mostly due to the strong ties "inherited" from the former Soviet Union era. Belarus remains a key transit country for Russian energy deliveries to the West, as approximately 20% of Russian natural gas and 50% of the oil exports are transported via Belarus. These transit revenues, the heavily subsidized prices of Russian energy, and extensive arms exports¹² meant that the Lukashenko regime was not only able to produce impressive GDP growth, but also managed to preserve most of the social benefits of the Soviet era. As a result, and with the help of his firm grip on the media, Lukashenko continued to enjoy high public support until very recently, a fact that is also confirmed by independent think tanks. At the same time, repressive measures against the opposition increased, including a few cases involving the disappearance of key opposition politicians and journalists in 1999/2000.

The suspension of the PCA did not at all unsettle the Belarusian leadership: the EU was perceived as being geographically remote and uninteresting. During this period, Minsk merely regarded the EU as a source of humanitarian funds and aid programmes. Belarus had already started to receive various types of aid in 1992, first from the EC and then from the EU. The range and overall value of aid programmes and grants decreased

12 In the late '90s Belarus was among the world's ten largest arms exporters. Source: SIPRI Arms Transfers Database. Accessible: www.sipri.org/research/armaments/transfers/databases/armstransfers (16.10.2010).

significantly following the authoritarian turnaround in 1994/95, in line with the above mentioned Council decision. However, Belarus's main humanitarian problem, which is also of international significance, namely the management of the consequences of the 1986 Chernobyl disaster, has always remained an exception: the EU continued to support such programmes even in the years of isolation. Implementation of EU aid and assistance programmes was further hindered by the fact that Belarus suspended tax exemption for the TACIS projects in 2002/2003, and also set up a complicated registration procedure for all EU programmes to be implemented in Belarus.

EU-Belarus relations worsened further following the parliamentary elections and a referendum held in 2004 that allowed Lukashenko to stand for presidency for an unlimited number of times. The elections were not only heavily fraudulent, but they were also accompanied by numerous cases of brutal violence against opposition activists and politicians. In reply, the EU issued a visa ban on six Belarusian officials who were held responsible for the violent dispersal of the opposition demonstrations as well as for the disappearances mentioned above.

The activism of the European Union was connected to the fact that Eastern enlargement had already become reality. Belarus with its dictatorial, non-transparent regime had thus become a direct neighbour of the EU. As enlargement approached, the EU started to address the region that "came closer": the first step was the "Wider Europe" document in 2003, followed by the European Neighbourhood Policy launched one year later. However, both documents stressed that Belarus could not become a fully fledged partner of the EU due to its anti-democratic system and the lack of a PCA.

2.1.1 The sanctions that followed the 2006 presidential elections

The 2006 presidential elections, which was yet again anti-democratic, ended once more with a victory for Lukashenko. The candidate of the United Democratic Forces, Alexandr Milinkievich, officially received less than 5% of the votes. The opposition demonstration that started on the eve of the elections was again forcibly dispersed after a few days. Several opposition activists were sentenced to short or medium terms of imprisonment; students were expelled from their universities because of political activism, etc. The EU decided to intensify its pressure on Belarus in order to foster human rights and democratic freedoms. However, it intended to do so without harming the Belarusian population. Some new Member States, particularly Poland and Lithuania, were highly supportive of this approach.

The first step was to widen the visa ban that had already been in force since 2004. Several officials were added to the list in 2006. They were held responsible either for the pre-election irregularities or for the violent treatment of opposition activists following the voting. The visa ban list at the time contained 31 names, including that of Alexandr Lukashenko himself.¹³ The aim of the ban was two-fold: first to put

13 GAERC Press Release No. 8219. 10-11th April, 2006. P. 12. Accessible: www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/89219.pdf. (19.10.2010).

pressure on the leaders themselves, and second, to discredit the regime in the eyes of the ordinary people.¹⁴

In addition, on 19 May 2006, the EU decided to freeze the assets of 36 Belarusian leaders held in European banks.¹⁵ Although the measure sounded impressive at first, especially after it was joined by the United States, it did not have any significant effect in real terms. It was finally introduced following a months-long debate; thus the people targeted had enough time to transfer their assets elsewhere. Moreover, bank accounts held in non-EU banks (including Switzerland, which did not join the ban) were not affected.

The third element of the sanctions, the suspension of the Generalized System of Preferences (GSP) was not directly connected with the presidential elections. The International Labour Organization (ILO) had already been putting pressure on Belarus since 2000 in connection with the limited rights of workers, especially with regard to forming trade unions. In December 2006, the Council of the European Union decided to suspend the GSP after six months in the event that Belarus did not comply with the ILO recommendations. From the 6-month moratorium, it can be seen that the EU hoped to change Belarusian behaviour concerning the human rights issues involved, especially when one takes into account the already worsening relationship Belarus-Russia at the time. For a while, in order to win time, the regime treated the political opposition a bit more liberally, but failed to comply significantly with any of the altogether 12 ILO recommendations. Thus, as a consequence, the GSP was finally suspended on 21 June 2007.

The effectiveness of suspending the GSP generated a great deal of criticism, and not only on the Belarusian side. First, as an immediate response, the regime introduced several harsh measures against the opposition, such as closing down opposition newspapers and tightening its control over the media. Second, the suspension caused much less damage than was originally intended, especially as it did not affect oil exports.¹⁶ Third, the regime managed to communicate the measure domestically as if the EU were “blackmailing” the Belarusian government and working together with the opposition.¹⁷ It might well be that this measure actually worsened the image of the EU among the Belarusian population.

14 EU to extend Belarus visa ban list. Belarus News and Analysis. 21 Sept 2006. Accessible: www.data.minsk.by/belarusnews/092006/151.html. (19.10.2010).

15 EU freezes Belarus leaders' assets. EurActiv.com 19 May 2006. Accessible: www.euractiv.com/en/east-mediterranean/eu-freezes-belarus-leaders-assets/article-155434?_print (19.10.2010).

16 Estimates vary from 30 to 70 million USD loss annually, instead of the planned approx. 300 - 400 million. For more information, see Belarus Exclusion from GSP: Possible Repercussions. Belarusian Institute for Strategic Studies. 2007. p. 1. Accessible: www.belinstitute.eu/images/stories/documents/biss_gsp_eng.pdf (10.9.2010).

17 For more information, see: Belarus and the EU: The end of a short-lived romance? Office for a Democratic Belarus, 22 August 2007. Accessible: www.democraticbelarus.eu/node/2054 (10.9.2010).

2.1.2 “We were standing on one foot, though we need to stand on two”

The situation changed fundamentally with the Russia-Belarus “gas price war” that took place at the turn of 2006/2007. Belarus had constantly had to face the threat of a moderate but steady increase in the price of gas since the signing of the agreement covering the period 2007 to 2010. Even the cost of the “moderate” increase was high: Belarus had to gradually hand over 50% of Beltransgaz, the key gas transit company that controlled the gas pipelines crossing the country. Thus not only did the price of gas start to rise, but the country’s position as a key gas transit country also began to dwindle. The Russian-Belarusian relationship has cooled down significantly since the gas price conflict.¹⁸ Even the current propaganda war between Moscow and Minsk can be traced back to this period.

The Lukashenko regime realized, of course, that it was necessary to normalize relations with the West in order to counter-balance Russian dominance. To avoid endangering his own rule, Lukashenko started a gradual, cautious opening-up that focused almost exclusively on the economy. The first such step actually took place before the Russia-Belarus gas conflict, in autumn 2006,¹⁹ when Russian pressure started to intensify.

As a first response, the EU issued the non-paper “What could the European Union bring to Belarus?” already mentioned. This document set out 12 pre-conditions where the Lukashenko regime was to produce considerable improvements. Compliance would open up the possibility for Belarus to benefit from the ENP. A supportive EP declaration, also adopted in November, stated: “in order to engage in any substantial dialogue with the EU, Belarus needs to implement the remaining conditions laid down in the ‘non-paper’”.

On 21 November 2006, Minsk suggested to the EU the start of an “energy dialogue”; and December saw the appointment of the first-ever Plenipotentiary Representative of Belarus to the EU. The position was given to Sergey Gaydukevich, who – interestingly enough – had participated in the March presidential elections as an “opposition” candidate “against” Lukashenko. In mid-January, the first high-level Western visit to Belarus took place when René van der Linden, President of the Parliamentary Assembly of the Council of Europe, was received in Minsk.²⁰

The official re-positioning of Belarusian foreign policy took place two weeks later: in an interview with the Reuters news agency on 2 February 2007, Lukashenko declared that Belarus should become a bridge between Russia and the West, and that neglecting the Western dimension was a mistake. As he put it: “We were standing on

18 On the complexity of the Belarus-Russia relationship, see: Belarus and Russia: Friends forever? Belarus Analyses, March 2007, Pontis Foundation. Accessible: www.nadaciapontis.sk/tmp/asset_cache/link/0000015995/Belarus%20and%20Russia%20Friends%20Forever.pdf (10.9.2010).

19 Russia’s Belarus-policies are well illustrated by: KOKTYSH, Kirill: The Belarusian Policy of Russia: the Era of Pragmatism. In: International Issues & Slovak Foreign Policy Affairs. Vol. XV. No. 2. 2006, p. 18-29.

20 Belarus: In Minsk, PACE President Calls For Democratic Change. RFE/RL Belarus Service, 19 Jan 2007. Accessible: www.rferl.org/featuresarticle/2007/01/51a681cc-5972-4587-b744-ebd241e75a93.html (6.2.2007).

one foot, instead of standing on two.” Thus he openly announced the importance of improving relations with the West.²¹

The announcement was followed by certain steps of goodwill: on 29 March 2007, the Belarusian opposition was able to hold a large rally commemorating the presidential election of the previous year and no serious police counter-measures were taken. The International Helsinki Committee, which had been under pressure from the authorities for a long time, had its operational permit extended and, in April, Lukashenko also agreed that the European Commission could open its representation in Minsk.

As a concrete response to the Belarusian offer of an energy dialogue, the EU had already started a large-scale technical assistance programme in Belarus in 2006, aimed at improving the country’s overall energy security. The significance of this programme is easily understandable, taking into account the rapidly rising price of Russian gas. All in all, the programme has a budget of 5 million EUR for the period 2007 to 2010.²²

The EU, of course, did not only support the Belarusian regime. Following the presidential election, large-scale projects were launched in order to provide the Belarusian population with alternative media coverage. In addition, a major EU programme has been operational since October 2006 that awards scholarships abroad to Belarusian students who have been expelled from their home universities due to political activism. Another programme was launched in April 2008 in order to support the European Humanitarian University, a Belarusian university-in-exile that operates in neighbouring Vilnius.

However, no significant improvements took place in the overall relationship between the EU and Belarus between early 2007 and mid-2008. Minsk still failed to comply with any of the EU’s demands related to human rights and fundamental freedoms. The ad hoc liberal measures did not change the structure of the system, and the regime again started to use force against the opposition. For instance, in January 2008, opposition activist Andrei Kim was arrested for participating in a demonstration and sentenced to one and a half years of imprisonment in April. Several other activists were fined or their freedom restricted. On 25 March 2008, the police again used extensive violence against opposition demonstrators, who were commemorating the 2006 presidential elections. Such measures were radically different from the regime’s relatively peaceful attitude towards the same demonstration a year earlier and again marked the lack of any substantial change in the behaviour of the authorities. All in all, the conditionality principle laid down in the non-paper did not appear to be working as no improvements took place regarding the main issues.²³

21 Reuters New Agency: interview with President Alexandr Lukashenko. 2 Feb 2007. Accessible: www.president.gov.by/press49990.html#doc (6.2.2007).

22 Commission Decision on the ENPI Annual Action Programme 2007 in favour of Belarus to be financed under Article 19 08 01 03 of the general budget of the European Communities. Accessible: http://ec.europa.eu/europeaid/documents/aap/2007/ec_aap-2007_by_en.pdf (13.10.2010).

23 For a detailed analysis of the results of the conditionality approach, see: <http://pdc.ceu.hu/archive/00005433/01/mo042009en.pdf>.

2.2 The turning point - August 2008

The war in Georgia in August 2008 brought a definite change in the whole EU Neighbourhood Policy. Instead of seeking direct confrontation with Russia, the EU decided to intensify its policies towards the common neighbourhood. As stated in the Presidency Conclusions of the Extraordinary Council Meeting held on 1 September 2008, the EU “decides to step up its relations with the eastern neighbours.”²⁴

Belarus noticed the change, and as a move of goodwill, all political prisoners were released in the second half of August 2008, including former presidential candidate Alexandr Kazulin. Benita Ferrero-Waldner declared on behalf of the EU:

This news comes at a critical time as Belarus prepares for parliamentary elections next month. I very much hope the positive momentum will continue and allow the European Union and Belarus to rapidly develop closer relations²⁵

In reality, the positive momentum did not continue since the parliamentary elections on 28 September were just as undemocratic as they “usually” are in Belarus. No opposition candidate was able to gain a seat in parliament, despite some earlier hopes.

Nevertheless, the EU had re-started the dialogue with the Belarusian authorities. The first step was the six-month suspension of the visa ban against almost all Belarusian officials, including Lukashenko himself, but excluding Lidiya Yermoshina, Head of the Central Electoral Committee of Belarus, who was held responsible for the anti-democratic nature of the elections. Altogether, the ban on 36 of the 41 officials included on the list was suspended.²⁶ The Belarusian leadership expressed its readiness to renew technical cooperation with the EU during the visit to Minsk by Hugues Mingarelli, Deputy Director of DG External Relations, on 5/6 November 2008. It mentioned three main areas: food safety, contacts between financial institutions and the harmonization of food safety regulations.²⁷ A few days later, on 13 November 2008, Head of Presidential Administration Uladzimir Makey declared that the Belarusian leadership was interested in cooperation with the EU on all levels.

The financial crisis that started in autumn 2008 seriously affected the Belarusian economy; and rising Russian energy prices contributed further to the problems. It thus became especially important to attract as much foreign investment as possible in the longer term, while, in the shorter term, the regime aimed at obtaining a large loan from the IMF. In order to gain support from the IMF, Belarus also did its best to further improve relations with the EU.

24 Presidency Conclusions of the Extraordinary European Council. Brussels. 1 September 2008. Accessible: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/102545.pdf (12.10.2010).

25 Benita Ferrero-Waldner today welcomes the release of Andrei Kim and Siarhei Parsyukevich. Office for a Democratic Belarus. 20 Aug 2008. Accessible: <http://democraticbelarus.eu/node/4822> (13.10.2010).

26 EU preparing to renew Belarus sanctions as election looms. EUobserver.com. 27 Sept 2010. Accessible: <http://euobserver.com/9/30895> (14.10.2010).

27 EU Wants to Cooperate With Belarus in Three New Areas. 5 November 2008 Accessible: www.istockanalyst.com/article/viewiStockNews+articleid_2772304.html (9.11.2009).

In an attempt to demonstrate the goodwill of the regime, the state distribution monopolist Belsayuzdruk was again allowed to distribute the opposition newspapers *Narodnaya Volya* and *Nasha Niva* from November 2008. After the publication of the first version of the Eastern Partnership document, which was favourable to Belarus, the Lukashenko regime permitted the registration of the “For Freedom” movement of former presidential candidate Alexandr Milinkievich on 17 December 2008. The EU responded by launching two extensive assistance programmes on environmental assistance and food safety in 2008 and 2009 respectively.

The recommendations of the ILO had also mentioned the need to improve the situation of small and medium-sized enterprises. As this actually overlapped with the government’s intentions to intensify domestic economic growth, a tax reform was introduced in October and a presidential decree issued in December simplifying the system of import duties.²⁸ On the other hand, on 10 November 2008, Lukashenko signed a particularly repressive law on information sources that seriously limited independent media. In addition, a month later, police arrested several young activists who had organized a commemoration of the anniversary of the Universal Declaration of Human Rights.

Though the elections on 28 September 2008 fell short of international standards, the EU still continued the process of renewing its relationship with Belarus. Besides the above-mentioned release of political prisoners, another key motive was the fact that Belarus refused to recognize the “independence” of Abkhazia and South-Ossetia, despite strong pressure from Russia. This was very much appreciated by the EU. In fact, this non-recognition was a precondition for Belarus’s inclusion in the Eastern Partnership, as was openly stated by Czech foreign minister Karel Schwarzenberg in December 2009:²⁹ “If they recognize South Ossetia and Abkhazia, it would create a very, very difficult situation for Belarus because Belarus would be out of the European consensus.” Minsk did not recognize South Ossetia and Abkhazia and thus finally became included in the Eastern Partnership project. On the other hand, this non-recognition became a serious breaking point in Russia-Belarus relations. Moscow had expressed hopes from the very beginning that Minsk would recognize the two break-away republics, but this did not happen.

Minsk has clearly been aiming at winning time and playing the EU and Russia off against one another for more than two years now. As far as Moscow is concerned, the issue of non-recognition may have arisen during the negotiations when Russia decided not to deliver the final 500 million USD of a 2 billion loan to Belarus in June 2009. On 3 August 2010, President Dmitry Medvedev, speaking at the summit of the Commonwealth of Independent States, said that Lukashenko had promised to recognize the two “republics”, but he had not fulfilled his commitments. On 2 October 2010, Lukashenko,

28 EU and Belarus in the Fourth Quarter of 2008: Analysis and Monitoring. Belarusian Institute for Strategic Studies. 01/2009 (29.1.2009).

29 EU warns Belarus not to recognize separatist regions. The New York Times, 3 Dec 2009. Accessible: www.nytimes.com/2009/02/23/world/europe/23iht-union.4.20381388.html (10.10.2010).

speaking at a news conference held for Russian journalists, openly declared that Minsk should have recognized the two territories, and in fact was willing to do so. The only problem was that Moscow was not prepared to compensate Minsk for the losses it might suffer due to worsening relations with the EU following this recognition.³⁰

2.3 From the Eastern Partnership to the January 2011 EU sanctions

The Eastern Partnership (EaP) project of the European Union originates from a Polish-Swedish proposal prepared in 2008. Following several modifications, the Eastern Partnership was finally launched at the Prague Summit in May 2009. Though there were intense debates on whether to invite Belarus, Minsk was finally included in the Eastern Partnership initiative, probably also thanks to its consistent policy of non-recognition of the two break-away republics. As a preliminary gesture, the visa ban was again suspended for a further six months in March 2009. Thus Lukashenko theoretically became able to participate in the Prague summit in May 2009. Lukashenko quickly made good use of the opportunity provided by the suspension of the visa ban and visited Italy in April 2009, where he met both Pope Benedict XVI and Silvio Berlusconi.³¹ However, in order to avoid a scandal, Belarus was finally represented at the Prague summit not by the President but by Prime Minister Sergey Sidorski.

As far as content is concerned, the Eastern Partnership proposes both bilateral and multilateral actions. Bilaterally, the EaP promotes new association agreements, agreements on Comprehensive Deep Free Trade, long-term visa liberalization, energy security cooperation, institution-building programmes as well as regional development projects. Multilateral programmes are aimed at sharing EU experiences on reforms and promoting EU legislation and standards. The following thematic platforms were agreed: democracy and human rights; good governance and stability; economic integration and convergence with EU policies; environment, climate change and energy security; contacts between people. In addition, six so-called flagship projects were also launched, for example an integrated border management programme, diversification of energy supplies, etc.³²

30 Abkhazia: Belarus Recognition Likely to Come? Belarus News and Analysis. 4 Oct 2010. Accessible: www.data.minsk.by/belarusnews/102010/36.html (10.10.2010).

31 Lukashenko, Berlusconi discuss Belarus rapprochement with Europe. Belarus News and Analysis. 28 April 2010. Accessible: www.data.minsk.by/belarusnews/042009/206.html (10.10.2010).

As a response, Berlusconi returned the visit in November 2009, thus becoming the first president from an EU Member State to meet Lukashenko bilaterally for a long time. For more information, see: Lukashenko interpreted the Berlusconi visit as a gesture of EU backing. President of Belarus Alexander Lukashenko regards Berlusconi's visit as sign of Italy's support in international politics. TVR.by 1 Dec 2009. Accessible: <http://www.tvr.by/eng/president.asp?id=20896> (10.10.2010).

32 For a detailed official presentation on the Eastern Partnership, see: www.eeas.europa.eu/eastern/docs/eastern_partnership_road_shows.pdf (15.10.2010).

From the institutional point of view, there are biannual Eastern Partnership summits and annual meetings of the foreign ministers of the EU and the partner countries. In addition, an inter-parliamentary assembly, Euronest, was set up involving the European Parliament and the parliaments of the Eastern partners. A Civil Society Forum was also organized in order to represent the civil societies of the partner countries.

The Civil Society Forum aims at strengthening the role of civil society in the targeted countries by promoting contacts between them and by facilitating their dialogue with the local authorities. The activities of the Civil Society Forum are financed by the European Commission. The Civil Society Forum of the EaP held its first meeting a year later, in November 2009, and elected its Steering Committee. More than 200 civil society organizations participated: approximately 140 of them were from the EaP region, while others were from EU countries.³³ Four working groups were set up at the first forum to address the main challenges that civil society has to face in the EaP countries. The topics of the working groups corresponded to the topics of the four thematic platforms of the EaP. All four working groups produced draft recommendations that were later further elaborated by the elected working group coordinators. The second Civil Society Forum meeting was held a year later in Berlin in November 2010 and overviewed developments in the four working group areas and elaborated further recommendations.³⁴

Belarus was included in all the EaP programmes and thus became a fully fledged member, although originally there were plans to only partially include Minsk in a 5+1 framework. However, it must be added that participation by the Belarusian state in EU assistance programmes is still hampered by the lack of the Partnership and Cooperation Agreement. Without a PCA, Belarus is not a fully fledged member of the European Neighbourhood Policy and thus cannot fully benefit from the European Neighbourhood and Partnership Instrument (ENPI) programmes.

The opportunity to participate in the Eastern Partnership means different things for the Belarusian state and for the opposition and civil society. For the state, the EaP provides an opportunity to demonstrate the strong political ties between the EU and Belarus which Minsk can rely on during its debates with Moscow. Furthermore, the bilateral and multilateral projects offer possibilities to conduct infrastructural, technical and environmental developments in the country, though the lack of a PCA is a crucial hampering factor.

The benefits of EaP accession are much more important for Belarusian civil society. Participation in the work of the Civil Society Forum also provides a certain legitimacy and protection back at home, at least as far as those major NGOs which were present at the Forum are concerned: the Belarusian Association of Journalists, the Belarusian Helsinki Committee, etc. They are also able to improve their contacts and connections with other

33 First meeting of the Civil Society Forum (16-17 November 2009). European Union External Action. Accessible: http://eeas.europa.eu/eastern/civil_society/first_csf_meeting_2009_en.htm (15.10.2010).

34 Second meeting of the Civil Society Forum (18-19 November 2010) – BERLIN. European Union External Action. Accessible: http://eeas.europa.eu/eastern/civil_society/second_csf_meeting_2010_en.htm (20.11.2010).

civil society organizations, both from the Eastern Partnership region and from the EU. Moreover, they also have the opportunity to represent Belarus in some way in the work of the Euronest Parliamentary Assembly, although this is not an easy issue as will be discussed later in detail.

However, inclusion in the EaP did not seem to have a significant effect on the regime. Repressive measures were continued without any visible sign of improvement. New cases of political imprisonment were even to be seen in February 2009 – when Belarus's participation at the Eastern Partnership summit was only being discussed – with the arrest of three leaders of protesting entrepreneurs. These arrests were followed by another case in June 2009, when an activist of the opposition movement “Young Front” was sentenced to imprisonment. After a year spent in preliminary custody, Mikalai Autokhovich, one of the businessmen arrested in 2009, received a five-year sentence in a highly non-transparent criminal case in May 2010.³⁵

An important warning signal from the EU to Minsk was that the first meeting of the Euronest Parliamentary Assembly had to be postponed in March 2010 as no agreement could be reached on who should represent Belarus. While Minsk wanted the country to be represented by its parliament, the EaP adopted a decision that the ten Belarusian mandates should be given to representatives of opposition organizations and NGOs.³⁶ The decision was first postponed until after the April local elections in Belarus. However, Euronest decided not to recognize the legitimacy of the Belarusian parliament following the local elections on 25 April 2010, during which once again no opposition candidates received a mandate. Thus the participation of Belarusian MPs in the organization is currently blocked.

Numerous other events also took place which demonstrated the dissatisfaction of the West over the failure of Belarus to improve the human rights situation. In April 2010, the Parliamentary Assembly of the Council of Europe suspended its high-level contacts with Minsk in response to two cases involving the death penalty in March.³⁷ Also in April, the ILO again highlighted the violation of workers' rights in Belarus – at the same time as an event called “Belarus Investment Days” was held in Geneva to promote Belarus to foreign investors.³⁸ In May, the OSCE together with the EU extensively criticized a more restrictive than ever, new law on the use of the Internet.³⁹

35 New names in the political prisoner list of Belarus. [www.humanrightshouse.org](http://humanrightshouse.org) (11.5.2010). Accessible: <http://humanrightshouse.org/Articles/14202.html> (11.10.2010).

36 First Meeting of EURONEST Parliamentary Assembly Postponed. Office for Democratic Belarus. 18 March 2010. Accessible: <http://democraticbelarus.eu/node/8554> (11.10.2010).

37 PACE suspends high-level contacts with Belarus. Belarus News and Analysis. 29 April 2010. <http://data.minsk.by/belarusnews/042010/235.html>

38 Belarus Violating Workers' Rights. Belarus News and Analysis. 28 April 2010. Accessible: <http://data.minsk.by/belarusnews/042010/215.html> (11.10.2010).

39 OSCE media freedom representative criticizes pressure against independent media in Belarus, offers to support discussion of new Internet legislation. Euronest.blogspot.com 19 May 2010. Accessible: <http://Euronest.blogspot.com/2010/05/osce-media-freedom-representative.html> (11.10.2010).

The document entitled “Taking Stock of the European Neighbourhood Policy”, which was launched on the fifth anniversary of the ENP in May 2010, used rather moderate wording about the results achieved in Belarus. In fact, it only mentioned the lack of a visa facilitation agreement, the existence of an Energy Memorandum of Understanding and the problem of the death penalty.⁴⁰ Thus Stefan Füle, EU Commissioner for Enlargement and Neighbourhood Policy, was also in a difficult situation when he had to evaluate the performance of Belarus on the first anniversary of the Eastern Partnership. On 14 May 2010, he declared that though he did not regret allowing Belarus to join the initiative and expressed readiness to cooperate more closely, “engagement depends on the Belarusian leadership’s position on human rights and fundamental freedoms.”⁴¹ Füle continued to use the same wording during a speech delivered at the Euronest Parliamentary Assembly on 10 June 2010. He encouraged further engagement with Belarus, stressing that isolation did not produce any results, and declared that free and fair elections would be on the top of his agenda during his visit to Minsk.⁴²

It would appear that the EU agenda on Belarus is still based on the situation of human rights and fundamental freedoms even though the regime has not shown any readiness to conduct fundamental changes in this field. For instance, at the time of finishing this report, it is already obvious that the presidential elections in December 2010 were no less fraudulent than previous ones. Besides, the regime brutally cracked down the opposition protests held in Minsk on the eve of the elections. More than 600 opposition activists were arrested, including two presidential candidates and many foreign journalists. One of the opposition candidates, Uladzimir Neklyayev was heavily beaten by unidentified attackers, and was later arrested directly in the hospital and taken to prison from there. Though most of the arrested opposition demonstrators were released after 10-15 days of administrative detention, approximately 30-40 of them are still in prison and are going to face a trial. If sentenced, they could be imprisoned even for fifteen years. When OSCE protested against the way of conducting the presidential elections and also against the behavior of the authorities, in late December the regime ordered the OSCE representation to be closed down. At this point, the human rights-based conditionality of the EU’s policy towards Belarus is being seriously questioned by the sheer lack of visible improvements.

As an answer to the suppression of the opposition protests in Minsk on 19 December 2010, the EU decided to introduce sanctions against Belarus on 31 January 2011.⁴³ The

40 Communication from the Commission to the European Parliament and the Council. Taking stock of the European Neighbourhood Policy. COM(2010) 207. 12 May 2010. Accessible: http://ec.europa.eu/world/enp/pdf/progress2010/com10_207_en.pdf (10.10.2010).

41 EU Enlargement Commissioner Says Eastern Partnership ‘Absolutely A Success’. RFERL, 14 May 2010. Accessible: www.rferl.org/content/EU_Enlargement_Commissioner_Says_Eastern_Partnership_Absolutely_A_Success/2042264.html (19.10.2010).

42 Commissioner Füle encourages full engagement with Belarus. Euronest.blogspot.com. 10 June 2010. Accessible: <http://Euronest.blogspot.com/2010/06/commissioner-fule-encourages-full.html> (10.10.2010).

43 Council Conclusions on Belarus. Council of the European Union, 31 Jan 2011. Accessible: www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/119038.pdf (2.2.2011).

travel ban that was earlier suspended against Lukashenko and many other Belarusian leaders was reinstated and also extended. Currently altogether 158 Belarusian officials are on the visa ban list. Freezing their bank accounts held in the EU was also ordered. Besides, the EU has decided to intensify relations with ordinary Belarusian people and the civil society.

The above mentioned lack of improvements in the field of human rights can easily be verified by using quantitative methods to draw up a balance on how the closer relationship with the EU and the internal reforms conducted by the government have changed Belarus in terms of political and human rights in recent years. Improvements in these fields have been declared crucial from the perspective of cooperation with the EU; on many occasions, they were even declared virtual preconditions (for example, regarding the suspension of the GSP benefits).

Three quantitative sources, three quantitative indexes, which have been compiled by international NGOs, show the same results. The Polity IV Project⁴⁴ of the Center for Systemic Peace and Colorado State University, the “Democracy Index” of the Economist Intelligence Unit⁴⁵ and the Freedom House “Freedom in the World” project⁴⁶ all demonstrate that no lasting, structural improvements have taken place in terms of human rights and fundamental freedoms since 2006.

From these results, one may conclude that all recent measures on the part of the Belarusian government that were communicated as being liberal were only of an ad hoc character and neither indicated nor generated structural changes. In simple terms: the fact that the regime releases political prisoners once, as it did in 2008, does not give any guarantee that no one will be imprisoned for political reasons later, such as it happened after 2009. Another example could be the handling of opposition media: if the regime lifts the ban on the publication of an opposition journal, as it happened with the newspapers *Nasha Niva* and *Narodnaya Volya* in 2008, this alone does not mean that the legal environment has been changed in a way that such bans cannot be imposed later. The regime’s fluctuating attitude towards the Polish minority is a perfect example: the treatment of the Poles in Belarus has constantly been subject to developments in bilateral Polish-Belarusian relations, regardless of any EU efforts to foster minority rights in general. No structural progress has taken place despite the fact that the country has improved its relationship with the European Union, has also been included in the Eastern

44 Polity IV Project. Brief description. Center for Systemic Peace and Colorado University. Accessible: www.systemicpeace.org/polity/polity4.htm (15.10.2010).

45 The Economist Intelligence Unit Index of Democracy 2006. Available: http://www.economist.com/media/pdf/DEMOCRACY_INDEX_2007_v3.pdf (15.10.2010).

The Economist Intelligence Unit Index of Democracy 2008. Available: <http://graphics.eiu.com/PDF/Democracy%20Index%202008.pdf> (15.10.2010).

46 Freedom in the World. Freedom House. Available: <http://www.freedomhouse.org/template.cfm?page=15> (2.12.2010).

Partnership initiative, and has made the improvement of Western contacts an integral part of its multivectoral foreign policy.

On the other hand, studying quantitative indicators might also lead to the conclusion that the EU's policy towards Belarus has seemingly failed in terms of protecting and fostering human rights and civil freedoms. Practically no structural changes have taken place. Some of the government's ad hoc measures were accepted by the EU – such as the release of political prisoners or the more moderate handling of opposition demonstrations – and certain benefits were thus granted to Minsk, as seen earlier in this chapter. Some other measures were not accepted, as happened with the trade unions, but the sanctions imposed such as the suspension of the GSP preferences did not hit the regime particularly hard so that it can live with them and continue to impose the measures that have come under criticism.

3. The EU as an economic partner of Belarus

This chapter examines the economic contacts between the EU and Belarus. The main question is whether and to what extent Belarus can rely on the EU in terms of counterbalancing Russian economic dominance. Three aspects of this question will be studied. Following a short introduction, the first aspect is the role and share of the EU as a foreign trade partner of Belarus. The second aspect is the role of the EU and Western Europe as a source of investments. Special attention will be paid to the particularities of the inflow of capital into Belarus. The third part focuses on the EU and the West as sources of credit and loans to the Lukashenko regime.

3.1 The crisis of the Belarusian economic model

Sustaining social stability is of crucial importance for the Belarusian leadership. This social stability is the factor which has indeed ensured strong domestic support for the Lukashenko system over the last decade. Numerous social achievements of the Soviet system have been preserved in Belarus such as free education, free health care, relatively high pensions compared to other CIS countries, etc. Belarusian officials have repeatedly stressed that this social stability is to be maintained – or, at least, radical cuts are to be avoided. Efforts by the regime to protect the population from the consequences of rising energy prices are an integral element of this strategy.

One has to admit that it has proved possible to more or less maintain this social stability even under the circumstances of the economic crisis. According to a recent non-state survey presented in Minsk in June 2010⁴⁷, society has not been affected to a significant extent by the crisis. While basically 2/3 of the population felt the negative

47 Social impact of the global financial crisis. Belarusian Institute of Strategic Studies and IMP Research Center. Accessible: www.belinstitute.eu/images/doc-pdf/Data_crisis_en.pdf (15.10.2010).

effects of the crisis, only some 15% of the respondents said that their material well-being had deteriorated significantly in the last 12 months. Of course, painful steps were taken, such as the 20% devaluation of the Belarusian ruble in January 2009, which was the precondition for a 2.5 billion IMF loan. Nevertheless, the population could still be protected to a large extent.

This policy of maintaining social stability meant that Minsk has been in growing need of external sources of funding since the oil and gas price war at the turn of 2006/2007. Although the measures taken to intensify foreign trade and attract more investments produced impressive results, this alone was not enough to make up for the income lost due to rising energy prices. Thus a growing number of external loans and credits are also needed to sustain the social stability that guarantees the stability of the system. The result is a peculiarity of the indebtedness of the Belarusian state: the newer credits are not being spent on structural economic reforms, but are being used to maintain the standard of living and social stability in the country, while still avoiding radical reforms and cuts.

3.2 The EU as a foreign trade partner

Trade relations between Belarus and the EU countries improved dynamically until 2008. Since 2008, there has been a significant decrease in EU-Belarus trade due to the economic crisis. The decrease particularly affected Belarusian exports of steel and textile products to the EU, as these sectors were also affected by the suspension of the GSP benefits. Exports of fuel and mining products also fell by almost half from 2007 to 2009. This was connected with the rise in Russian oil prices. As import prices from Russia rise, it becomes less and less profitable from the Belarusian perspective to re-export petroleum products to the European Union – although this re-export was considered one of the engines of the “Belarusian economic miracle in the early and mid-2000s”.⁴⁸

48 Zlotnikov, Leonid: The Belarusian 'economic miracle' – illusions and reality. FISCHER, Sabine (ed.): Back from the Cold? The EU and Belarus in 2009. Chaillot Papers No. 119. Paris, November 2009. EU Institute for Security Studies, p. 77.

Figure 1: Trade of Belarus with the EU in 2005-2009⁴⁹

| | EU share in total BY exports [%] | EU share in total BY imports [%] | Balance [million EUR] | Total [million EUR] |
|-------------|--|--|--------------------------|------------------------|
| 2005 | 44.7 | 21.6 | 2,825 | 8,669 |
| 2006 | 46.3 | 22.6 | 3,256 | 11,247 |
| 2007 | 43.9 | 21.9 | 3,203 | 12,289 |
| 2008 | 43.6 | 22.0 | 3,731 | 15,435 |
| 2009 | 38.9 | 25.0 | 415 | 10,270 |

As seen from the official EU DG Trade statistics, the EU plays a very important role in the foreign trade of Belarus, being constantly Minsk's second most important foreign trade partner with a 30.7% share. In terms of exports, Belarus has been exporting more to the EU than it does to Russia since 2007: the EU's share is 38.9%, while Russia's is 33.7%.⁵⁰ Of course, a significant part of Belarusian exports to the EU consisted of fuel and mining products – still at 49.5% in 2009 despite the above mentioned decrease. As Belarus has practically no oil production of its own and its mining sector is also insignificant, these products originate mostly from the processing and re-export of oil imported from Russia.

Another pattern also becomes visible when analyzing the share of individual countries in the foreign trade of Belarus. Namely the significant role that emerging economies play in the exports of Belarus. Brazil, India, China and Venezuela together have a share of 8.5% of Belarusian exports. This is almost equal to the position of Ukraine, a direct neighbour and partner in the Commonwealth of Independent States (CIS).

49 Belarus Trade Statistics 2009. Accessible: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113351.pdf (13.10.2010).

50 Belarus Trade Statistics 2009. Accessible: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113351.pdf (13.10.2010).

Figure 2: The top 15 most important foreign trade partners of Belarus in 2008-2009, with EU countries listed separately⁵¹

| Country | | Share in total Belarus turnover | Exports, million USD | Jan.–Dec. 2009 as compared to Jan.–Dec. 2008 | Imports, million USD | Jan.–Dec. 2009 as compared to Jan.–Dec. 2008 |
|---------|---------------|---------------------------------|----------------------|--|----------------------|--|
| 1. | Russia | 46.7% | 6 692.0 | 63.8% | 16 584.4 | 71.1% |
| 2. | Netherlands | 7.9% | 3 680.4 | 69.1% | 238.8 | 65.6% |
| 3. | Germany | 6.5% | 984.6 | 121.4% | 2 243.0 | 80.3% |
| 4. | Ukraine | 6.0% | 1 692.8 | 61.1% | 1 283.2 | 60.7% |
| 5. | Latvia | 3.6% | 1 658.4 | 77.5% | 111.7 | 80.9% |
| 6. | Poland | 3.3% | 829.9 | 46.2% | 831.4 | 72.0% |
| 7. | China | 2.6% | 173.9 | 27.9% | 1 121.8 | 79.3% |
| 8. | Great Britain | 2.0% | 798.0 | 57.3% | 200.5 | 74.2% |
| 9. | Italy | 1.8% | 187.6 | 58.1% | 707.0 | 81.1% |
| 10. | India | 1.3% | 550.9 | 146.3% | 115.9 | 99.3% |
| 11. | Lithuania | 1.3% | 370.9 | 59.9% | 257.5 | 110.2% |
| 12. | Brazil | 1.2% | 486.2 | 40.6% | 118.4 | 76.3% |
| 13. | Kazakhstan | 0.8% | 312.8 | 87.0% | 74.9 | 43.6% |
| 14. | Moldova | 0.5% | 170.4 | 70.7% | 84.6 | 91.4% |
| 15. | Uzbekistan | 0.3% | 106.2 | 77.3% | 23.0 | 77.0% |

Of the 27 EU countries, Belarus's by far most important trading partners are the Netherlands (7.9% of total Belarus turnover), Germany (6.5%), Latvia (3.6%) and Poland (3.3%). Germany's second place is understandable, taking into account the country's overall economic power and the prioritized role Eastern Europe enjoys in German foreign policy. The high share of Latvia and Poland is due to the fact that they serve as transit countries for Belarusian exports. However, the leading position of the Netherlands might be somewhat surprising, considering the fact that diplomatic relations between The Hague and Minsk are practically frozen. The Netherlands does not even have an embassy in Minsk; Dutch interests are represented through the Warsaw embassy. By contrast, the private and business spheres are seemingly much more active: according to the website of the Belarusian embassy in The Hague: "The Kingdom of the Netherlands is one of the biggest trade partners of Belarus in Europe. The strong emphasis is given to such spheres as agriculture, logistics, and high technologies."⁵² Dutch human rights NGOs are also very active in Belarus.

51 External trade. Export.by Information export support website. Accessible: http://export.by/en/bel_info/o_belarusi/konomicheskii_kaleidoskop8c6/vneshnyaya_torgovlyacd6.html (15.10.2010).

52 Belarus – The Netherlands. Embassy of the Republic of Belarus in the Kingdom of the Netherlands. Accessible: www.netherlands.belembassy.org/eng/bilateral/ (15.10.2010).

3.3 The EU and Western Europe as investors

In order to overcome economic hardships, the Lukashenko regime has also been constantly striving to enhance the Belarusian economy since 2007, and especially to liberalize the investment climate. Several measures have been taken, of which clearly the most important was the abolition of the so-called “golden share rule”. This law made it possible for the state to take control of any joint stock company in which it had even the smallest share. This represented an intolerable risk for most foreign investors. The law, which continuously generated criticism, was finally abolished on 4 March 2008⁵³ in order to attract more foreign investors to the country.

Liberalization has significantly contributed to the inflow of foreign investments. In 2008, a total of 6.525 billion USD in foreign capital was invested in Belarus, which meant a 1.2 billion increase compared to 2007. The share of FDI in 2008 was 2.280 billion USD, which meant an almost 40% increase compared to the 1.769 billion in 2007. The most important foreign investors in 2008 and 2009 were:

Figure 3: Main source countries of foreign investments in Belarus in 2008⁵⁴

| Foreign investments in Belarus in 2008 | | | Share of FDI | | |
|--|----------------------|--------------------------------------|----------------------|----------------------|--------------------------------------|
| Country | Amount [million USD] | Share of all foreign investments [%] | Country | Amount [million USD] | Share of all foreign investments [%] |
| Russia | 2167.0 | 33.2 | Switzerland | 1215.7 | 53.3 |
| Switzerland | 1225.4 | 18.8 | Russia | 328.5 | 14.4 |
| Austria | 739.8 | 14.5 | Cyprus | 263.1 | 11.5 |
| Great Britain | 713.9 | 10.9 | Germany | 93.7 | 4.1 |
| Cyprus | 555.7 | 8.5 | Great Britain | 42.2 | 1.9 |

53 Belarus abolishes golden share rule. 4 March 2008. Accessible: <http://www.president.gov.by/en/press53426.html> (15.10.2010).

54 О поступлении иностранных инвестиций в экономику Беларуси за 2008 году. Accessible: <http://mfa.gov.by/ru/economic/investment/ba4c6a14a9f339cd.html> (19.5.2009).

Figure 4: Main source countries of foreign investments in Belarus in 2009⁵⁵

| Foreign investments in Belarus in 2009 | | | Share of FDI | | |
|--|----------------------|--------------------------------------|--------------------|----------------------|----------------------|
| Country | Amount [million USD] | Share of all foreign investments [%] | Country | Amount [million USD] | Share of all FDI [%] |
| Russia | 6067.0 | 65.3 | Russia | 4026.5 | 82.5 |
| Austria | 931.7 | 10.0 | Switzerland | 353.1 | 7.3 |
| Cyprus | 536.5 | 6.1 | Cyprus | 102.0 | 2.2 |
| Great Britain | 467.7 | 5.0 | Germany | 51.6 | 1.1 |
| Switzerland | 371.2 | 4.0 | - | - | - |

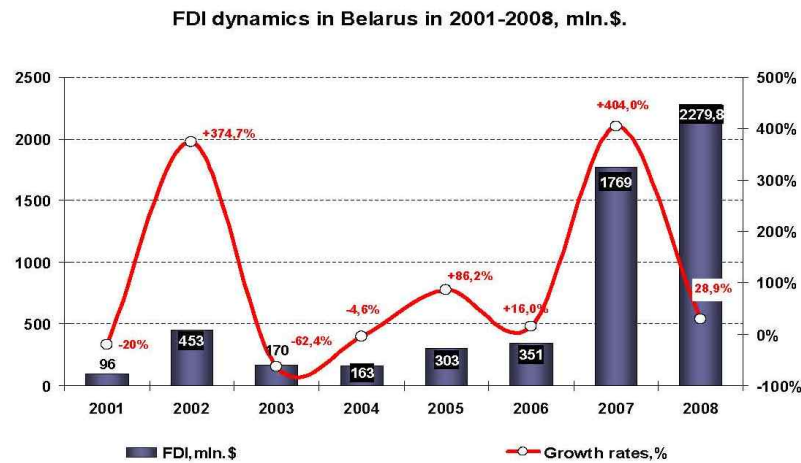
The inflow of foreign investments to the economy of Belarus accelerated further in 2009. Altogether more than 9.3 billion USD was invested, which meant a 1.4 times increase compared to the 2008 results.

On the one hand, investments from Austria, Great Britain and Cyprus have decreased. On the other hand, Russia not only remained the most important investor, but the amount of Russian capital inflow almost tripled within the course of one year! Russia has remarkably increased its share in overall foreign investments from 33.2% to 65.3%. The change is even more spectacular in terms of FDI: while Russian FDI represented only 14.4% in 2008, its share grew to 82.5% in 2009, which means an almost sixfold increase in one year.

At the same time, the amount of capital originating from Switzerland has dropped considerably: in 2009 it was only about a quarter of the previous year's value. Again, FDI inflow shows even more spectacular trends: while in 2008 more than 53% of all FDI was of Swiss origin, this figure dropped to 7.3% in 2009. Such large-scale falls are highly unusual. One probable explanation is that most of the capital (including FDI) that came from Switzerland was of Russian origin – and that with the continuing liberalization of the investment climate there is now no longer any need to use Swiss intermediaries.

Another particularity that might support suspicions about the presence of non-transparent investor structures is the dynamics of the FDI inflow into Belarus.⁵⁶

55 О поступлении иностранных инвестиций в экономику Беларуси за 2009 году. Accessible: www.mfa.gov.by/ru/economic/investment/ (13.10.2010).

Figure 5: FDI dynamics in Belarus in 2001-2008 (million USD)

At a first glance, the dynamic increase between 2006 and 2007 could be interpreted as a spectacular success of the regime's liberalization policies. However, one has to note that the highest increase in FDI inflow in 2006/2007 – it grew more than 500% – was *well before* the abolition of the “golden share” regulation, although that law was considered to be the biggest obstacle to foreign investors! Moreover, most liberalizing measures were not passed until 2008 or later.

This particularity also seems to support the hypothesis that the decisive majority of the FDI inflow into Belarus at the time was not composed of real external capital that operated according to market-economy principles. Instead, it might be connected with Russian and Belarusian political elites who were well aware of the abolition of the “golden share” law in advance. (Why should Russian elites have been aware of the removal of the golden share rule, and not interested Western business people?)

An interesting discrepancy emerges when one compares the main investment and FDI source countries (listed in Figures 3 and 4) with the main trading partners of Belarus (listed in Figure 2). It can be seen that only a few of the main investor countries appear on the list of main trading partners. The only two overlaps in Western Europe are Germany and Great Britain: in other words, these are the two countries which conduct intensive trade with Belarus and also conduct direct investments there. Of the other three Western European main sources of investments – Austria, Cyprus and Switzerland – the latter two are well-known for their liberal legal environment which allows the operation of highly non-transparent companies. Furthermore, one has to keep in mind that one of the main characteristics of direct investments is that the investor is usually rewarded with a certain controlling share of the given company.

56 Based on the data of the Belarusian UNITER Investment Company and on their Macroeconomic Overview: Belarusian Economy: 2008 results, published in 2009. p. 13. Accessible: www.uniter.by/_modules/_cfiles/files/macro_2008_en_45.pdf (13.10.2010).

There have been numerous opposition claims that elements of foreign (direct) investments into Belarus are in fact connected to Belarusian and Russian business groups. According to this unconfirmed information, these investments already represented a kind of hidden privatization before actual liberalization started. The potential of the corrupt Belarusian bureaucracy to prevent these processes is questionable.⁵⁷ The Slovak NGO Pontis Foundation already warned in 2007 of the dangers of less transparent, hidden privatization processes.⁵⁸ In its analysis, the Foundation mentioned the example of the Belarusian mobile phone provider Velcom, which was sold first of all to a Cypriot company in 2007, before 70% of it was acquired by Telekom Austria Group only three months later.⁵⁹ If one adds that the Russian telecommunication giant Sistema is currently planning to buy Telekom Austria Group⁶⁰, then claims about the hidden transfer of Russian capital through Western countries to Belarus would not appear to be completely without foundation. In any case, it is worth remembering the outcry of first Vice Prime Minister Vladimir Semashko in February 2008: “Russian business wants to buy everything it can.”⁶¹

All in all, the Belarusian policy of liberalizing the investment climate appears to be on course to backfire. Instead of attracting foreign investments from both the East and West in a balanced way, the inflow of Russian capital is clearly dominating the trend.

3.4 The EU and Western Europe as creditors

The Russia-Belarus relationship was less problematic in the early 2000s than it is today. Thus from 2003 to 2006, Belarus’s external debt was decreasing due to the economic growth which the regime was able to produce due to the privileged price of Russian energy. The turnabout came in 2006/2007, when the price of Russian gas more than

57 In August 2008, Belarusian economist Leonid Zlotnikov noted in an interview given to Radio Free Europe that the real danger was not only in Russian capital, but also in the corrupt domestic bureaucracy which might “sneakily sell out Belarus for bribes”. Belarus’s Privatization Plan Reveals Change in Thinking. RFERL 25 Aug 2008. Accessible: www.rferl.org/content/Belarus_Privatization_Plan_Reveals_Change_In_Thinking/1193694.html (15.10.2010).

58 The Regime Change(s). Survey of the Current Trends and Development in Belarus. Summer 2007. Pontis Foundation. Accessible: [www.nadaciapontis.sk/tmp/asset_cache/link/0000017223/Pontis%20Survey%20The%20Regime%20Change\(s\).pdf](http://www.nadaciapontis.sk/tmp/asset_cache/link/0000017223/Pontis%20Survey%20The%20Regime%20Change(s).pdf) (15.10.2010).

59 Telekom Austria kauft sich in Weißrussland ein. Accessible: www.heise.de/newsticker/meldung/Telekom-Austria-kauft-sich-in-Weissrussland-ein-181521.html (15.10.2010).

60 Russia’s Sistema to Acquire Telekom Austria? 1 April 2010. www.intomobile.com/2010/04/01/russias-sistema-to-acquire-telekom-austria/ (15.10.2010).

61 Syamashka: “Russian business wants to buy everything it can”. Accessible: <http://charter97.org/en/news/2008/2/21/4060/> (15.10.2010).

doubled. Since then, the government has been relying on external financing to a growing extent.⁶² The figure below shows the growth of gross foreign debt between 2001 and 2007:

Figure 6: Dynamics of the foreign debt of Belarus from 2001 to 2007⁶³ (Columns: external debt in billion USD. Line: external debt in share of the GDP)



In line with its foreign policy of “standing on two feet”, Belarus is striving to obtain the necessary credits from both the East and the West. Minsk already started to negotiate a, 1.2 billion USD credit with China in February 2007, which was finally delivered in the course of that year. The first larger loan from Russia of 1.5 billion USD was obtained in December 2007 in order to counter-balance the consequences of the rising price of gas. Another Russian credit of 2 billion USD followed in 2008, while the IMF also granted a 2.5 billion stand-by stabilization loan on 31 December 2008.⁶⁴ Finally, the IMF loan was upgraded to 3.46 billion USD in spring 2010. On the other hand, Russia refused to deliver the last 500 million of its 2 billion loan due to the serious economic and political disputes between Minsk and Moscow – which also included the problem of the recognition of Abkhazia and South Ossetia. Since then, the foreign debt has kept growing rapidly and, according to the data of the National Bank, reached the total of 23.171 billion USD in July

62 Shymanovich, Gleb: Belarus external debt: Sustaining Levels in a Time of Global Crisis. Belarus Public Policy Fund. Minsk, 2009. pp.3. Accessible: www.nadaciapontis.sk/tmp/asset_cache/link/0000022758/0906_Belarus_Analysis_BelarusExternalDebt.pdf (16.10.2010).

63 Макроэкономическое обозрение состояния экономики Беларуси. ИТОГИ 2008. UNITER Investment company. www.uniter.by/_modules/_files/files/macro_2008__rus_44.pdf 4 Aug 2009. (14.10.2010).

64 IMF loan to step up stability of Belarus economy. BelTA. 31 Dec 2008. Accessible: <http://www.belta.by/en/news/econom?id=317709> (2.1.2009).

2010, which is equal to 45% of the GDP.⁶⁵ Thus the external debt has practically quadrupled in the course of five years since the start of taking out huge loans and credits; it increased more than threefold compared to the GDP.

By July 2010, the amount of state debt was 8.479 billion USD, thus practically one third of all foreign debt was state debt. In the previous year, the state debt had been 7.891 billion USD, an increase of around 10% from 2009 to 2010. Belarus's main creditors are Russia, Venezuela, Germany, the United States, the IMF and the World Bank.⁶⁶

Another problem is the risky composition of the Belarusian debts. The country's foreign debt structure is characterized by short-term debts, mainly trade loans, which have particularly high servicing costs, especially under the circumstances of the global economic crisis. A possible way out, for example by increasing the share of long-term lending from abroad, is hampered by the lack of transparent financial accounting.⁶⁷ (The low rate of financial freedom is explicitly demonstrated by Figure 7.)

All in all, the need to attract increasing external funds strengthens the influence of Russia, on the one hand, as Moscow is by far the largest creditor of Belarus. On the other hand, together with the principle of "standing on two feet", it also guarantees the continuation of the economic opening-up of Belarus towards the West, as the regime intends to maintain a balance in its external dependencies.

3.4.1 *Non-Western creditors and investors – an alliance of autocracies emerging?*

One has to add that a "third foot" is also emerging in Belarus's foreign and economic policy, namely the developing world. Minsk has been striving to strengthen political and particularly economic ties with countries like Venezuela, Iran and China. Until recently, these efforts had produced only marginal results: for instance, Venezuela provided a 500 million USD loan to Belarus in December 2008 with a seven-year repayment term, and technical cooperation projects were also launched, including projects aimed at the military industry. However, the trend is changing rapidly: in October 2010, Belarus and Venezuela signed a contract on deliveries of 2.5 million tons of Venezuelan oil to Belarus (which also received support from Lithuania, which will serve as a transit country with shipments through the port of Klaipėda.⁶⁸) The possibility of the appearance of

65 Gross foreign debt of Belarus has reached 45.5% of GDP. Ibelarus.eu 15 Sept 2010. Available: <http://ibelarus.eu/?p=1234> (15.10.2010).

66 Belarus' foreign debt down 0.7% in July to \$8.479 bln. PriorBank. Accessible: <http://www.priorbank.by/e/news/biz/42895/> (15.10.2010).

67 SHYMANOVICH, Gleb: Belarus external debt: Sustaining Levels in a Time of Global Crisis. Belarus Public Policy Fund. Minsk, 2009. pp.3. Accessible: www.nadaciapontis.sk/tmp/asset_cache/link/0000022758/0906_Belarus_Analysis_BelarusExternalDebt.pdf, p. 7-8 (16.10.2010).

68 Lithuania and Belarus come to terms on Venezuelan oil transit. 18 Oct 2010. Accessible: www.baltic-course.com/eng/transport/?doc=32520 (20.10.2010).

Venezuelan oil on the Belarusian – and also on the Ukrainian – market also started to worry Russia.⁶⁹

As far as China is concerned: in March 2010, Beijing promised to provide Belarus with a 1 billion USD loan to be spent on bilateral cooperation projects, and promises were also given regarding 7.5 billion USD in the form of non-repayable aid.⁷⁰ According to the information of the Business New Europe magazine, the overall value of the loan deal package that was agreed during Lukashenko's visit to Beijing in October is 15 billion USD. This sum includes infrastructure projects to be realized in Minsk using Chinese money.⁷¹

These signs indicate that Belarus's gradual re-orientation from the Russia-West axis to a real multivectoral policy has started to deliver first results. Both the appearance of Venezuelan oil in Eastern Europe and the inflow of Chinese capital pose a challenge to the strong position of Russia. Moreover, to a certain extent they also decrease the importance of Europe as a possible alternative or counter-balance to Russian dominance.

3.5 Economic freedom – winds of (limited) change

In contrast with the static, stagnating situation of human rights, some changes in the economy are indeed visible when one uses quantitative indicators. As sources, the analysis relies on the Index of Economic Freedom, compiled by the Heritage Foundation and various indexes of the European Bank for Reconstruction and Development (EBRD).

The Index of Economic Freedom is based on measuring ten parameters, each on a 1-100 scale, composed of several sub-questions. The ten main parameters monitored are: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labour freedom. Some of the factors measured are also connected to the broader sphere of human rights and democratic norms, such as property rights or freedom from corruption. From this perspective, Belarus's performance in the last few years is more than interesting due to its asymmetric nature:

69 For example, see: Полный Каракас в Украине. Реалистичность планов Чавеса–Лукашенко–Януковича весьма сомнительна. *Nezavisimaya Gazeta*, 20 Oct 2010. Accessible: www.ng.ru/cis/2010-10-20/1_karakas.html (20.10.2010).

70 China promises 1 bln loan to Belarus. *RIA Novosti*. 25 March 2010. Accessible: <http://en.rian.ru/world/20100325/158303977.html> (20.10.2010).

71 “Business New Europe”: EU and US won't support last dictator of Europe. *Business New Europe*. 20 Oct 2010. Accessible: www.charter97.org/en/news/2010/10/20/33115/ (20.10.2010).

Figure 7: The performance of Belarus according to the Index of Economic Freedom⁷²

| Year | Overall score | Business freedom | Trade freedom | Fiscal freedom | Government spendings | Monetary freedom | Investment freedom | Financial freedom | Property rights | Freedom from corruption | Labor freedom |
|------|---------------|------------------|---------------|----------------|----------------------|------------------|--------------------|-------------------|-----------------|-------------------------|---------------|
| 2010 | 48.7 | 72.1 | 80.3 | 85.5 | 32.0 | 62.6 | 20.0 | 10.0 | 20.0 | 20.0 | 84.8 |
| 2009 | 45.0 | 63.7 | 67.2 | 79.4 | 30.9 | 66.8 | 20.0 | 10.0 | 20.0 | 21.0 | 70.8 |
| 2008 | 45.3 | 58.8 | 52.2 | 81.0 | 55.5 | 66.2 | 20.0 | 10.0 | 20.0 | 21.0 | 68.6 |
| 2007 | 47.0 | 55.7 | 67.2 | 81.8 | 60.0 | 61.5 | 20.0 | 10.0 | 20.0 | 26.0 | 68.2 |
| 2006 | 47.5 | 54.4 | 67.2 | 78.9 | 33.2 | 49.8 | 30.0 | 30.0 | 30.0 | 33.0 | 68.2 |

Business and trade freedom have improved significantly between 2005 and 2010, especially over the last two years. Development was limited in terms of monetary and fiscal freedom, although the latter is still above the world average. (See Figure No. 8.) So is labour freedom, which shows that the country's labour market also improved a lot last year, although it largely stagnated until then.

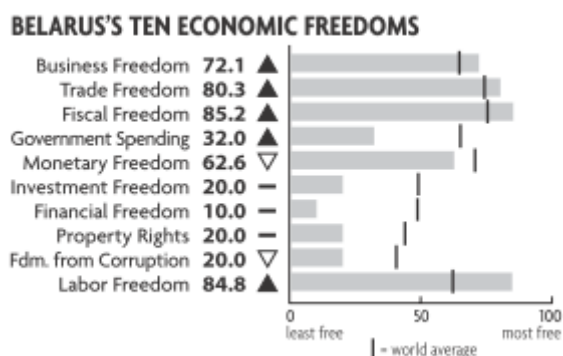
However, practically no developments are visible regarding investment freedom, financial freedom, property rights and freedom from corruption. According to the index results, the regime remained largely unchanged in these aspects. In other words, the liberalization discussed before did not affect all sectors of the economy. Especially interesting is the consistent grading of investment freedom. It might show that despite the numerous government measures to attract foreign investments, the investment market has remained largely closed, restrictive and discriminative. Taking into account the large capital inflow that took place in the last 2 to 3 years and the continued restrictive character of the investment market, one can draw the conclusion that most of these investments probably happened in a largely non-transparent way, without free and fair competition. According to the Heritage Foundation analysis: "The government openly states that it wants to control all economic activity."⁷³ The largely unchanged – actually slightly worsening –

72 Explore the data. Index of Economic Freedom. The Heritage Foundation. Accessible: www.heritage.org/Index/Explore.aspx?view=by-region-country-year (17.10.2010).

73 Ibid.

corruption levels seem to support this statement regarding the general lack of transparency in the business sphere.

Figure 8: Belarus’ ten economic freedoms in 2010, compared to the 2009 ratings⁷⁴



A similar picture is seen if one studies the indexes of the European Bank for Reconstruction and Development. The EBRD provides analyses of processes in certain economic sectors, such as enterprises, the financial sector and markets and trade. Though the data for 2010 is not yet available, some changes are indeed already visible:

Figure 9: Performance of Belarus according to the EBRD indexes⁷⁵

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|
| EBD index of small-scale privatization | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| EBRD index of large-scale privatization | 1.0 | 1.0 | 1.0 | 1.7 | 1.7 |
| EBRD index of enterprise reform | 1.0 | 1.0 | 1.0 | 1.7 | 1.7 |
| EBRD index of price liberalization | 2.7 | 2.7 | 2.7 | 2.7 | 3.0 |
| EBRD index of forex and trade liberalization | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| EBRD index of competition policy | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| EBRD index of banking sector reform | 1.7 | 1.7 | 2.0 | 2.0 | 2.3 |
| EBRD index of reform of non-bank financial institutions | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |

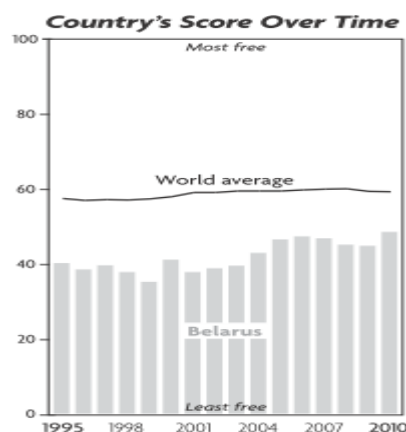
74 Belarus information on economic freedom. Index of Economic Freedom. The Heritage Foundation. Accessible: www.heritage.org/index/country/belarus (17.10.2010).

75 Belarus: Key Developments and Challenges. Transition Report 2009. Transition in crisis? European Bank for Reconstruction and Development. p. 144-147. www.ebrd.com/downloads/research/transition/TR09.pdf (12.11.2010).

As seen from the indexes, changes between 2005 and 2009 took place particularly in the areas of large-scale privatization, enterprise reform, price liberalization and banking sector reform. For example, the registration of new enterprises was simplified, as were real estate transactions, etc. On the other hand, the EBRD report points out that the complicated tax system was the main hindrance factor in doing business in 2009.⁷⁶

All in all, the general hypothesis concerning the unchanged nature of the regime seems to be only partially true in terms of economic freedom. From the outside perspective, some general developments are visible, also represented by the country's improving overall score (see Figure 9.), and improvements are spectacular in terms of business, trade and fiscal freedoms (see Figure 8). On the other hand, the continuing critical corruption situation and low level of investment and financial freedoms may show that instead of the government-communicated liberalization, some kind of controlled "marketization" is taking place, with state control remaining strong.

Figure 10: Change of Belarus's overall score according to the *Index of Economic Freedom*.⁷⁷



However, looking at the situation from the perspective of the regime, one may say that, generally speaking, this model does not seem to have failed completely. According to the indicators, the opening-up policy has not affected all sectors of the economy, which means that efforts by the state administration to preserve control – especially over the investment climate and privatization – have been basically successful.

This means that the European Union's policies of pushing for market economy reforms and the adoption of EU standards have also been partially successful. They are successful because in some ways the Belarusian economy is seemingly coming closer to

⁷⁶ Ibid. p. 144.

⁷⁷ Belarus information on economic freedom. Index of Economic Freedom. The Heritage Foundation. Accessible: www.heritage.org/index/country/belarus (17.10.2010).

liberal Western standards, especially in terms of business and trade freedoms. Nevertheless, the above-mentioned shortcomings are important warning signals: despite some sectoral developments, the regime's overall economic characteristics have remained largely unchanged. Belarus is still very far from being an open, liberal market economy. According to the analysis of Belarusian economist Leonid Zlotnikov, the main purpose of the reforms is to allow such a degree of economic freedom as is necessary to keep social dissatisfaction under control.⁷⁸ As President Lukashenko himself put it: "It is the state's and the president's most prominent task to control three things: power (which is impossible to privatize), property and money."⁷⁹

On the other hand, the signs may also be interpreted to indicate that the Lukashenko regime is definitely ready to conduct changes in the economic sphere. In terms of political and civil freedoms, no structural improvements are to be seen at all, despite pressure from the EU. The regime seems to be resisting and is trying to "out-manoeuvre" the EU with ad hoc instead of structural steps. Minsk has continued doing this despite all the political and economic hardships it has suffered due to the worsening relationship with Russia, rising energy prices, etc. One should have no illusions: the Lukashenko regime is not willing to "give in" in the spheres of human rights and political freedoms, not even to a lesser extent. This has been demonstrated extensively over the last four years. However, the prospects of further development and cooperation are definitely much brighter in the sphere of the economy.

4. Conclusions and recommendations

All in all, the question is still there: Judging by its results, has the conditionality-based approach of the EU's foreign policy towards Belarus failed? From the perspective of Belarus, relations with the EU have definitely become closer in recent years, both politically and economically – until, of course, the suppression of the opposition protests after 19 December 2010, discussed later. The turning point was the August 2008 war in Georgia. Since then, the EU has transformed its approach towards the post-Soviet region in general, and so towards Belarus. The earlier policy of isolation and sanctions has been replaced by a policy of engagement. An important step in this reconciliation was the suspension of the travel ban on Belarusian leaders. As a result, the political dialogue between Belarus and the EU has been intensified, and numerous technical assistance programmes have been launched. Belarus was also included in the EU's Eastern Partnership initiative, although not as a fully fledged member. This was not possible because the country still does not have a Partnership and Cooperation Agreement with

78 ZLOTNIKOV, Leonid: The Belarusian 'economic miracle' – illusions and reality. FISCHER, Sabine (ed.): *Back from the Cold? The EU and Belarus in 2009*. Chaillot Papers No. 119. Paris, November 2009. EU Institute for Security Studies, p. 77.

79 Quoted by: ZLOTNIKOV, *ibid.*

the EU. Negotiations on the PCA were suspended in 1995 due to anti-democratic domestic developments in Belarus.

This shift in EU policy towards engagement fit perfectly with the general multivectoral, balancing strategy which has been characterizing Belarusian foreign policy in recent years. Minsk managed to tighten contacts with the European Union without actually complying with any of the EU's demands concerning human rights and fundamental freedoms. The EU could not prevail even over such a relatively marginal question as the suspension of the death penalty, although this would have actually been a 'cheap move' for the regime. Numerous other policy fields could also be mentioned where the regime managed to resist conditionality-based pressure from the EU: the situation of human rights and fundamental freedoms has not improved, nor have electoral standards or the freedom of the media. The December presidential elections did not make any changes in this respect, and the human rights situation became only worse. All in all, the main characteristics of the regime have remained unchanged in all these areas.

The only exception is the economy, where results are ambiguous. Minsk has indeed conducted a certain opening-up process and passed a number of liberalizing measures (privatization has been started, although in a strictly state-controlled way, etc.). However, these measures have attracted far less capital from the West than was intended. Instead, the inflow of Russian capital is dominating the Belarusian investment market to a rapidly growing extent. Minsk's 'multivectoralist' efforts were not particularly successful in this respect, as the liberalization measures actually seem to be strengthening Russian influence instead of helping to counter-balance it.

The first chapter of the current study examines the political contacts between the EU and Belarus between 2006 and 2010. The main finding of the research is that, despite the launch of the conditionality-based EU engagement in 2005 and the inclusion of Belarus in the Eastern Partnership in 2009, practically no improvements have taken place in the field of human rights and democratic freedoms, although these were the very conditions for the EU's engagement.

This, on one hand, confirms the hypothesis set out in the introduction, namely that Belarus has managed to intensify its relationship with the EU without introducing any significant changes in the political nature of its regime. Thus the answer to the first research question of the extent to which human rights-based conditionality has failed is: Practically no improvements have taken place.

On the other hand, the second chapter shows that the EU is a key trading and investment partner for Belarus and that the Lukashenko regime is indeed prepared to introduce liberal changes in the field of the economy and trade in connection with the above mentioned efforts to open up the economy. These factors altogether lead to the following recommendations.

4.1 Policy recommendations to the European Union:

1. Taking into account the strategic need of the regime to cooperate with the EU, the economy appears to be the area on which the European Union should focus when trying to deal with the Lukashenko regime. Due to increasing pressure from Russia, Minsk in any case needed to start liberalizing and marketizing its economy in order both to fulfil the IMF requirements necessary for further loans and attract foreign investors. The European Union should try to make use of this domestic momentum. The human rights dialogue should, of course, not be abandoned since protecting human rights and fundamental freedoms is a core value of the entire European Union, including its Neighbourhood Policy. This is particularly true following the 19 December 2010 events. However, strategic efforts are to be concentrated more on the broader economic sphere: either supporting the reform of the Belarusian economy by various means, from business cooperation and investment projects to increased technical assistance, or hitting it hard in case of non-compliance by suspending the payment of loans, etc. All in all, conditionality has not failed as a strategy towards Belarus, but it should become more balanced. Instead of a solely human rights and democracy-dominated approach, in the long run EU conditionality should focus also on economic and administrative aspects. Such a shift could also be applied in case the EU decides to introduce additional, stronger sanctions. All in all, also economic tools should be used for protecting human rights.

2. Technical types of cooperation seem to work well since they meet the intentions of the regime to cooperate. These are mostly non-politicized questions which are of interest both to the EU and Belarus (border demarcation, Chernobyl-related assistance projects, etc.) – meaning that Minsk does not have to make political compromises that would endanger the stability of the regime. Thus fostering further technical cooperation might be a policy through which the EU could both improve its own security and also exert a certain influence on the Lukashenko regime. The flagship projects of the Eastern Partnership provide perfect opportunities to include Belarus in issues which are also of interest to Minsk. This would allow closer approximation between the EU and Belarus and would support the adoption of EU regulations and standards to an increasing extent – provided, of course, that Minsk would be ready to comply in the issue of political prisoners.

3. Conditionality concerning visa issues should be simplified. It should be separated from the general political developments described in the non-paper and tied much more to the technical details and cooperativeness of the Belarusian authorities, for example their willingness to curtail illegal immigration, to improve border management practices, etc. This is especially true following the visit of Lithuanian President Dalia Grybauskaitė to Minsk, during which a visa facilitation agreement of high symbolic importance was reached. The Lithuanian and Belarusian presidents agreed that those residents of their countries who live closer than 50 kilometres from the border can travel visa-free to the

other country to a distance of a maximum of 50 kilometres, Vilnius included. This small window opened by Lithuania could easily be widened to represent a door towards Belarus: an EU-level visa facilitation regime would supposedly be the best tool to engage not only the Belarusian elite, but also the people as a whole. Ukraine, Moldova and Georgia already have visa facilitation agreements with the EU, so does Russia. Moreover, an action plan for a visa-free regime was approved for Ukraine on 26 October 2010. Visa facilitation negotiations with Armenia and Azerbaijan are to start, probably at the turn of 2010/2011. Under such circumstances, it would appear counter-productive to continue excluding Belarus from the visa facilitation dialogue while all other Eastern neighbours have either been given visa facilitation or negotiations are about to start. In addition, simplifying the visa regime for ordinary Belarusians and maintaining the visa ban against the targeted officials could well go together. Such a differentiated move would fully be in line with the EU intention to intensify relations with ordinary Belarusians and civil society, as described in the 31 January 2011 decision.

4. However, when discussing these engagement opportunities, the EU should communicate clearly that with the suppression of opposition protests the red line has been crossed. As a condition for lifting the sanctions imposed January 2011, Minsk has to release all political prisoners. It should also be declared that in case of non-compliance, the EU would be ready to suspend even the existing political ties (including the participation of Minsk in the Eastern Partnership). As we have demonstrated, economy is the area where the EU indeed possesses leverage.

5. If the EU were to introduce strict economic sanctions against Belarus, the regime would face two choices. It could turn to Russia. This would imply; however, that Russian political and economic influence increases even more – a prospect that Lukashenko tried to avoid with his policy of “standing on two feet”. If Minsk would be forced even to recognize the independence of Abkhazia and South Ossetia, this would seal Belarus off from the West for a long time. The other option is that Minsk, in order to avoid complete dependence on Russia, it would have to accept Western demands. As elections are already over, and the political opposition is still very fragmented, the release of political prisoner would not mean any serious risk for Lukashenko. Thus, it appears rather likely that Minsk will try to return to the status quo ante – the pre-election situation, when the EU treated Belarus generally as a partner.

6. In order to secure concessions from Minsk the EU should threaten to impose severe economic sanctions – or, at least start to publicly speak about doing so. Furthermore, the EU should take care not to be deceived by any Belarusian dilatory efforts (for example, releasing only some political prisoners). Setting clear and achievable demands supported by strong economic and political pressure would supposedly lead the EU-Belarus relations back to the status, as it was before the presidential elections. The

situation then was, of course, not satisfactory. However, such an outcome would be better than the current stalemate or the option of Belarus turning fully to the East.

7. When considering these steps, one has to keep in mind that a third vector is emerging in Belarusian foreign policy besides Russia and the EU, namely a group of authoritarian countries composed of China, Iran and Venezuela. These states are providing various forms of economic aid to Minsk in exchange for business and political concessions. Their increasing economic and political presence in the direct neighbourhood of the EU is indeed a matter of concern that is to be taken into account when designing the EU's policy towards Belarus. In the short run this third vector would not be able to counter-balance the negative effects of any strong EU economic sanctions. However, in the long run this factor must not be ignored.

The views expressed here are the author's own and do not necessarily represent the official position of either the Peace Research Institute Frankfurt or the Hungarian Institute of International Affairs.

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