

Blue
Europe

Blue Europe

Another voice series

In the “Another Voice” serie, we at Blue Europe interview external experts to add to our own analysis an important critical and external voice. On the marketplace of ideas, a plurality of opinion is always needed. Our topic today :

Belarus and its neighbours : is Belarus isolated?

The expert



Mikita Makaëŷ (Mikita, Makayou) is accredited Law attorney in Minsk. After completing a Master Degree in International Law at the Belarusian State university, he obtained the Kirkland scholarship at the Higher School of Economics in Warsaw. His academic excellency brought him to mentor Belarusian team within for the International and European Tax Moot Court (Louvain, Belgium). He has since worked with Vilgerts, Baker Tilly Belarus and is currently a fulltime tax consultant at British law firm Lexefiscal LLP. Mikita focuses on Tax, IPR and corporate law, including cross-border reorganisation and tax optimisation, allowing him to work with various foreign and local investors in the Republic of Belarus, government bodies, administrations and banks. He is also one of the founders of the first national student association (NGO) – Brotherhood of Student Organizations of Self-Governance, in which he has been a reviser for several years.



The Interview

Interview conducted by Brian Guilhem Fabrègue, Blue Europe President.

B-E. Hi Mr. Mikita Makayou, could you explain to the readers what is your field of research is? How did you get into it?

M-M. – Hi Mr. Brian Guilhem. My area of interest is primarily related to private business, foreign and local investments. I work as a tax and corporate planning consultant. My story of work in this area is quite ordinary: university-work-advanced training and work again. I also try to participate in the work of NGO as a hobby.

B-E. Belarus economy is very linked with Russia and has little integration with the European economy (<https://oec.world/en/profile/country/blr/>). In 2018, more than 60% of imports were from Russia. Mr. M-M., what are the link between Belarus and Russia, economically wise ?

M-M. - This is quite obvious from the statistics on exports and imports. The Russian Federation has been and remains the main trade partner for Belarus, although the situation may be different for different sectors of the economy.

Russia remains the most important energy supplier for Belarus, in recent years the government has actively considered alternative energy suppliers, especially during the energy crisis in early 2020, but due to the geographic location this did not lead to success. Alternative energy sources in Belarus are poorly developed. Russia is the main country for the sale of Belarusian industrial and agricultural products, where Belarusian products are considered to be of sufficiently high quality.

Nevertheless, the European Union plays a very important role in the trade turnover for Belarus.

B-E. Can we say those relations have deepened in the last few years?

M-M.

- I would avoid making such a statement. If we analyse the statistics, the share of the Russian Federation in Belarus' trade turnover has fluctuated from 46 to 52% in recent years. The share of the Russian Federation in imports is very high, up to 60%. This is also due to the fact that Russia is the main supplier of energy resources. At the same time, Russia's share in exports is app. 40%, which makes it a major trading partner, but not exclusive. (<https://www.belstat.gov.by/ofitsialnaya-statistika/realny-sector-ekonomiki/vneshnyaya-torgovlya/> - This is the link of the State Statistical Committee. Unfortunately, there is no information in English, and the information is presented inconveniently in excel documents).



B-E. “Belarus economy is considered to be in general rather autonomous, sometimes even autarchical, : its import and export per capita in relation to its GDP per person are among the lowest in the world, making it a at least partially self-sufficient economy.” Would you agree with this statement?

M-M. –I can agree in part. This is confirmed at least by the fact that Belarus is one of the few European countries that is not a member of the World Trade Organization, as well as other facts. We are still talking about a European country located at the intersection of important trade flows between the European Union, Ukraine and the Russian Federation, and this is definitely not North Korea or Turkmenistan.

The partly protectionist position of the state is related to the support of state-owned enterprises in some areas, which, given equal competition, will not be competitive. It should be noted that most state-owned enterprises are unprofitable. The state helps by subsidies to a large number of such enterprises in order to preserve the state’s share in the economy. Privatisation of state-owned enterprises is one of the main problems of the economy. Therefore, the relative closedness of the economy helps such enterprises to exist, preserving jobs, although it is obvious that in the long term such policy is negative for the economy.

B-E. Economics imports are of course very relevant, but it may hide a few thing. For instance, how would you define the everyday relation of the Belarus people with foreign good and services, including cultural ones?

M-M. –I doubt we have any official statistics on this matter. However, I can say with a great deal of confidence that Belarusians compare the quantitative and qualitative characteristics of goods or services. The country of origin of the goods is less important.

At the same time, if I exaggerate, that some goods and products of European origin are considered to be of the highest quality, then goods and services of Belarusian origin. Russian and Chinese goods are considered less preferable in terms of quality. However, I repeat, in everyday life the brand, quality and price of the product is important, and not the place where the product was created. In terms of cultural attitudes, I do not see any strong differences between the Belarusian consumer and the average European.

B-E. How is the economy of Belarus structured legally wise? How does the corporate law works, broadly speaking?

M-M. –Belarus belongs to the Civil law system. Businesses, both public and private, mainly operate within the framework of joint stock companies or limited liability companies. Corporate law is based on the Civil Code and other regulations. In addition, presidential decrees and edicts are widespread, which additionally regulate corporate law. Moreover, these decrees and edicts have the force of law. The role of decrees and edicts for economy is gradually increasing.



B-E. Is there an important independent private sector in Belarus? How strong is it?

M-M. –The share of the private sector in Belarus is about a third of the country’s GDP. Compared to neighboring countries, this is a fairly low figure. Therefore, we cannot talk about the crucial role of the private sector in the economy.

Nevertheless, the share of payments by organizations of the non-state sector of the economy in the formation of budget revenues is growing every year. For example, in 2018, the share of payments by organizations in the non-state sector of the economy amounted to 47.9% of all receipts, which is 0.5 % more than in 2017¹. The share of organizations of the public sector of the economy in the total amount of budget revenues is 46.8%. That is, most of the budget is generated by the private sector.

B-E. Central and Eastern Europe usually have a very pro-business stance written in the hard law, especially as to innovation. Is it also true for Belarus? Do you have an example? Is there tax advantages for new entrepreneurs?

M-M. – Yes, in general. In recent years the government has tried to pursue a position on business development. However, this is sometimes complicated by the personal position of the President of Belarus. At the same time, we can name some successful examples of private sector development thanks to government incentives.

The most successful example is the High-Tech Park (HTP) - an economic zone for IT companies. HTP is one of the largest IT clusters in Central and Eastern Europe. The project is focused on the export of software or the development of other products using high technologies. The main feature of the HTP is its extraterritorial nature. In the park, legal entities can be engaged not only in the development of IT products, but also in the promotion, advertising and technical support of end users. These activities also include the development of biotechnology, medical, aviation and space technologies, e-sports, and all types of cryptographic activities: mining, cryptocurrency exchange, cryptocurrency exchangers, cryptocurrency funds, blockchain and smart contracts research. High-Tech Park residents are exempt from income tax; VAT on turnover from sales in Belarus; offshore tax when paying for advertising, marketing, intermediary services, when paying dividends; land tax; real estate tax; WHT etc².

In addition, there are 6 free economic zones in the country, whose residents are exempt from income tax and real estate tax. Separately, it should be said about the industrial park “Great Stone”, where special conditions apply: exemption from income tax for ten years; exemption from land tax, property tax, exemption from WHT. However, the investment amount must be at

1 <https://www.belta.by/economics/view/chastnyj-sektor-v-2018-godu-obespechil-479-postuplenij-v-bjudzhet-belarusi-335359-2019/>

2 <https://www.investinbelarus.by/preferencial-regimes/hi-tech-park/>



least the equivalent of US \$ 5 million, and in case of research and development, US \$ 500,000³.

In addition, business entities running a business for the production of goods in any city on the territory of Belarus, with the exception of large cities (more than 50 thousand inhabitants), have tax benefits. There are also other special business conditions.

At the same time, it should be noted that all tax benefits do not guarantee the predictability of administration, therefore, this reduces the investment attractiveness of the country. In this case, I note that even with such conditions for doing business, due to unforeseen actions by the authorities in the summer of 2020, especially after the presidential elections on August 9, such as interruptions to the Internet connection, dawn raids, massive violence against citizens, business owners discuss relocation to neighboring countries.

B-E. According to most Think Tanks and international observer, the main problem about administration in Belarus is its administration, (optional : both slow and sometimes corrupt). According to your experience, is it true? Does it hinder economic development?

M-M. – I can agree in part. The administration is indeed an obstacle to the development of the country and, in particular, the economy. At the same time, the legislative framework can sometimes be prepared very well. For example, in the ranking of doing business, Belarus ranks 49th in 2020 (37th in 2019), but sometimes, in practice, local and foreign investors may face additional problems and misunderstandings on the part of the administration. This concerns the slow consideration of problems by the administration, bureaucratic ways to slow down business processes, as well as the fear of making decisions without the sanction of higher officials.

With regard to corruption, it should be noted that it is not noticeable at the level of medium and small businesses. It can even be noted that this is not worth worrying about. For example, you most likely will not face corruption when registering and liquidating companies, communicating with tax authorities, and obtaining licenses or permits. However, in projects in which the families of a narrow circle of the country's top leadership are interested, we can assume the presence of corruption schemes. For example, in cases of large tenders. However, I draw this conclusion only from publicly available sources, and not from personal experience.

B-E. Industry plays a big part in ex-Soviet bloc countries, which often gives them an edge as to future re-industrialisation. In Byelorussian law, is there any key public policy working in this sense? In that case, what would be the key industries concerned?

M-M. – At the moment, Belarus lacks a general public policy on re-industrialization of the industrial sector of the economy. There are sporadic steps and actions, but I would not say that they are systemic.

3 <https://pravo.by/document/?guid=12551&p0=P31700166&p1=1>



Another view - Blue Europe

B-E. Belarus is one of the few countries in Europe not in the EU nor in the European Economic area, with Russia. However, this doesn't mean that Belarus doesn't trade with the rest of European countries. In your experience, are there any major difficulties?

M-M. – I can only name quite ordinary things: Belarus and the EU countries are in different customs unions (Belarus is a member of the Eurasian Economic Union), Belarus is not a member of the WTO, the difficult political relations between the leadership of Belarus and the EU - all this complicates trade.

At the same time, in my opinion, there are not many local or hidden barriers. For example, cultural barriers, which could have been talked about back in the 90s, are now being removed. The young generation of entrepreneurs and top managers are already quite successfully cooperating with European, Asian and American partners. On the other hand, representatives of government bodies, including customs services, still belong to the older generation, who do not understand modern trends in business and international trade, nor even speak foreign languages.

B-E. Are there any International firms doing business in Belarus? What are the major economic collaboration that you imagine in the years to come ?

M-M. –Yes, there are certainly such companies.

I am not an economic analyst to predict collaboration in the near future given this volatile environment. In case of changes in political leadership and a short period of stabilization, a new wave of collaboration with both European investors and Russian and Chinese investors can be expected. Otherwise, I can only imagine working with Russian business, since the current behavior of the authorities is too high-risk for other investors.

In case of successful development of situation, I can assume an active collaboration in the IT sphere, as well as in the industrial sector, taking into account the inexpensive labor force in Belarus and the favorable tax regime.

B-E. (optional) Media often write that the Belarus economy is directly controlled by Lukashenko? Is it true? What is the role of the authoritarian president in the economy?

M-M. – This is not entirely true. Although the president certainly determines the vector of economic development of the country. Naturally, where there is a personal interest of Lukashenko and his family, the president can intervene in economic issues. For example, the sphere of gambling, construction, sport and even the military industry. In areas where the interests of the president are absent, control is much lower.

Here I can say the following: the most successful sphere in Belarus in recent years has become the IT sphere, where Lukashenko did not control the process absolutely, since neither he nor his 'circle of fiends' understands this.



The role of an authoritarian leader in the economy can be successful, as we see in the example of Singapore, but only if the economy develops in accordance with international trends, with a high level of top management and a complete absence of corruption. At the same time, unfortunately, we cannot observe this in Belarus. The problem with personnel is especially urgent, since the opinion of the most progressive and educated politicians is ignored by the president. For example, 2 months before the elections, Lukashenko dismissed the relatively liberal ministers, including the prime minister, replacing them with more dedicated, but completely far from economic issues, representatives of 'the military bloc in the government.

B-E. Belarus diaspora is mainly located in Russia (see part 3 of our analysis). How does the administration manage its relation with Belarus foreign residents?

M-M. - There is no systematic support for communication between the administration and the diaspora. I can assume that the main reason for this is that most of the people who leave the country have a negative attitude towards the current administration.

We can name examples when the diaspora invested in Belarus through foreign companies, but such communication takes place at the level of the private sector, but not from the administration. There are attempts to maintain relations with the diaspora at the level of the Ministry of Foreign Affairs, but this level of work is insignificant.

B-E. The rest of Belarus diaspora is located in the rest of the world. Are there any strong community ties (such a for instance on the Italian model), or is it looser (such)?

M-M. - As mentioned above, it is more the second option (as the Scandinavian models).

