

WHAT NEXT FOR BELARUS?

What can international investors expect amidst the political crisis?

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BELARUS IN TURMOIL

The political crisis in Belarus shows no signs of abating. On the contrary, since the hotly-disputed and (as claimed by the EU, the US and others) fraudulent Presidential elections on August 9th, the opposition protests have continued to grow, both in volume and confidence. More than 200,000 people joined the largest ever protest rally in the country's history on August 16th.

To date, there seems to be a complete absence of dialogue between the two sides of the conflict. President Lukashenko and his team have refused to engage with the recently-formed opposition council, instead reverting to their traditional playbook, citing foreign interference and calling on Russia to help Belarus protect its sovereignty. President Putin this week declared that Russia is ready to provide military and law enforcement support to Belarus when and if the situation demands – a clear signal to the EU & US not to interfere in the Crisis.

Whatever the outcome of the protests, it seems apparent that the political model Belarus has followed since independence is withering before our very eyes and almost certainly will never recover. Belarus will be forced to undertake sweeping, fundamental changes, as it searches for a new path and is squeezed between the competing interests of the EU and Russia. This will likely bring a long period of instability, whether or not Lukashenko remains in power.

For many years, international investors into Belarus have been faced with a trade-off between the upside of political stability and the downside of accommodating an undemocratic administration. As this stability ebbs away, businesses will face a new dilemma: maintain ties with the current regime or, should it begin to appear that Lukashenko will indeed lose power, approach new political groups as they begin to emerge from the shadows, but without (at least yet) any official authority.

This latter option will not be as straightforward as many might think. Any power transition will likely be messy and drawn out (Lukashenko already having essentially threatened to fight to the death to cling to power – a position we expect him to maintain unless, for example, there is a fracture among the elite or he is heavily pressured by Russia to undertake a managed transition to a chosen successor), and will see the polarization of political forces and the emergence of new and various groups of influence.

Should Lukashenko remain in power, we see Belarus moving even further towards political isolation, with even the pretence of democracy likely to be sacrificed. This could involve a much greater role for law enforcement agencies, closer relations with Russia and complete control of the business sector by the State. However, the country's geographic position, emboldened opposition and current climate of protest could mean such moves to greater centralization will backfire and cause even more instability and conflict moving forward.

Notwithstanding the pace at which this crisis is moving, below we take a more detailed look at some of the implications for the international business community in Belarus, with a particular focus on how they will need to re-model their relationships with the current and any future administration.

KEY ASPECTS OF THE CRISIS RELEVANT TO INVESTORS

International companies are clearly walking a tightrope during this Crisis. Their first priority will clearly be the welfare of their employees and wider community. But as the Crisis persists, companies will need to negotiate an ever-widening minefield, trying to appease a range of increasingly committed stakeholders on both sides. Against this backdrop, there are a number of key characteristics of the current situation that we feel are integral considerations, to be taken into account as companies consider how to react moving forward:

- › **Do not expect a quick resolution:** mass protests erupted on August 9, have been continuous ever since and are showing no signs of fading away anytime soon. The current situation could theoretically become the new status quo for many months and beyond.
- › **The impersonal nature of the opposition:** until the recent establishment of the opposition council, there has no clear political leadership to the protests or elaborated mechanism for regime change, other than to put pressure on authorities to promote new elections. In the long term, this puts businesses in a difficult situation: should Lukashenko depart, it is not clear with whom they should build a dialogue and cooperation, although we note that many companies have already begun communicating directly with the opposition council.
- › **The political elite remains mostly united, at least so far:** no serious split in the elites has yet been observed and Lukashenko mostly retains the support of security forces and high-ranking officials. However, there is already a trend for middle and lower ranking officials to move to the opposition camp. Some officials and law enforcement officers (a small number, but significant precedents) have resigned or sided with the protesters, some refuse to obey orders or have left for vacation. Employees of state-owned media have stopped working, different professional communities (physicians, for instance) have criticized the security forces. If the opposition succeeds, these figures could take significant positions within any new government structure.
- › **The elite's autonomy and the emergence of new centres of influence:** the prolongation of the political conflict, especially should Lukashenko eventually depart, will lead to the disintegration of the system of bureaucratic control, causing an increase in the role of political parties and civil organizations, as well as in the autonomy of regional elites.
- › **The importance of security issues and the rule of law:** the actions of the authorities during the Crisis have featured numerous violations of the law, mostly of course towards political activities, but in some cases also aimed at businesses (Belgazprombank, Uber, Yandex and others¹). Belarus' critical and influential IT sector released an open letter threatening to move their businesses out of the country, unless the violence is stopped and new elections are held. There is a danger that as the economic situation worsens and Lukashenko remains in power, unlawful pressure on businesses may be increased. In this case, law enforcement agencies and courts will not be reliable guarantors of legal rights.

¹ The local Uber offices were searched on 13/08/20 for undisclosed reasons. Media has suggested the authorities were looking to seize the log of recent taxi rides and that social media and telecoms providers are being pressurized to give up user data

- › **The erosion of Lukashenko's legitimacy:** we are witnessing Lukashenko's growing dependence on bureaucracy and, above all, the security apparatus. Accordingly, any future loss of their support will inevitably lead to his loss of power. Due to his forceful attempts to quell the protests, it seems unthinkable that Lukashenko could ever regain his popularity and prove the legality of his re-election. In such a situation, even if he retains power for a long period, the implementation of economic and political programs (reforms, constitutional amendments, etc.) will be neither credible nor successful.
- › Based on the decision of the European Council on August 19, after the expiration of Lukashenko's current term (at the beginning of November 2020), his powers to act on behalf of the Republic of Belarus will be questioned by the EU countries, and later, possibly, by the US. This means any agreements and transactions concluded by Lukashenko will have a controversial legal status for Western countries and may be challenged in the future. Also, such transactions could be challenged and declared null and void by opposition political forces if they come to power.
- › **Belarus' attractiveness to investors is dropping sharply:** the political crisis has already severely impacted the business climate and the attractiveness of Belarus for inward investment. A number of international companies have already threatened to relocate all employees² and are abandoning plans to recruit additional staff, as well as postponing investment projects (for example Wargaming, and Yandex). Strikes at industrial enterprises, should they persist, will negatively affect an economy already reeling from the impact of the COVID-19 pandemic and years of corruption and economic stagnation. According to [V. Bielski](#), assistant to the President for financial and credit system issues, the current losses from the protests amounted to about \$500 million, with deferred losses estimated at billions more. Perhaps the one message from investors that the regime may heed is the economic damage being wreaked by the Crisis.
- › **Belarus' position in the EAEU:** after the Presidential elections, all leaders of the EAEU countries congratulated Lukashenko, so his legitimacy will not formally be questioned in the EAEU. Nevertheless, the negotiating positions of Belarus have been severely undermined by the Crisis, to the extent that we expect its participation within the EAEU institutions to be reduced. Most of the Belarusian opposition leaders do not advocate withdrawal from the EAEU, yet should they come to power, the Belarusian delegation to the Eurasian commission may be revised and we would expect growing scepticism towards Eurasian integration.
- › **Accounting for sanctions risks:** there is a high probability of personal sanctions from the EU and the US. Such sanctions may apply to businessmen and companies associated with government officials and especially the top management headed by Lukashenko. If such sanctions are imposed, cooperation with targeted companies and businessmen will pose considerable risks.
- › **The likelihood of an external solution to the Crisis:** in the absence of internal political dialogue, the chances of an external solution to is increasingly likely. Consultations on this matter are being held between the EU, Russia and the US, but the position of each party has not yet been fully determined, although plenty of posturing is taking place. Russia's strategic goal is, at the very least, to keep Belarus within its own sphere of political influence and either to maintain the status quo in bilateral relations (i.e. ensure Belarus stays within the Union State, the CSTO and the EAEU) or even increase formal ties further. At the same time, Russia has refrained from unequivocal political and financial support for Lukashenko, which could be revealing. It seems Russia will try to position itself as a mediator in the Crisis and informal leader during any possible transitional period.

² According to [a LinkedIn survey](#), 12 IT companies have begun full relocation of their staff, 59 partially & a further 112 are evaluating relocation

CONCLUDING THOUGHTS – FOR NOW

Given this fast-moving, complex and all-consuming Crisis, companies operating in Belarus may find it difficult to ‘stay neutral’, encouraged on the one side by their employees and on the other by the authorities themselves. Many will argue reasonably, of course, that given this is a battle for the very future direction of Belarus, corporate considerations pale into insignificance. But companies will also wish and need to navigate this crisis with the least impact on their local operations, both on a human and a corporate level. This will require a steady but flexible approach to the coming months as the crisis unfolds, including the abstention from all long-term planning (virtually impossible right now) and a gentle, unannounced freezing of public co-operation with state-owned media and other institutions, which are becoming a lightning rod for the protests. At the same time, however, any overt action which could be interpreted as criticism of the State could backfire considerably. While difficult to maintain, a low profile is advised.

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www.kesarev.com

Kesarev

10, Nikolskaya Str., 6-th floor, 109012, Moscow, Russia, phone: +7.495.662-98-59, e-mail: info@kesarev.com

If you would like to discuss the matter on this paper, please contact: Yury Panasik, Partner via y.panasik@kesarev.com