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PECULIARITIES OF THE INTEGRATION PROCESS BETWEEN BELARUS AND THE RUSSIAN FEDERATION: ECONOMIC AND POLITICAL ASPECTS

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The emergence of new meso-regions within Eurasia has gone through an extensive process of disintegration. The huge bloc that seemed so solid broke into pieces suddenly and violently, causing great economic and social shocks with long-term consequences. The disintegration process of the 1990s affected the entire Soviet empire. This resulted in diplomatic wars over industrial and military legacies of the Soviet Union, as well as prolonged bloody ethnic conflicts. Most of the newly independent states tried to distance themselves from Russia and shake its political influence. Moldova's and Ukraine's applications to join the European Union and pro-European discourse of politicians seemed to begin the creation of a new meso-area between Europe and Eurasia. However, the declarations did not match the policies and, unlike in Central Europe and in the Baltics, rapid structural reforms were not launched. Macro-scale disintegration in the Eurasian mega-area was incomplete partly because the political ambitions of the newly independent elites could not overcome economic realities: the former republics required Russian natural resources and its huge market. Another reason was incompetence of the governments and the lack of political will. During the last 10 years Ukrainian and Moldovan politicians used a pro-European discourse to disguise a very slow pace of economic reforms.

It has been interesting to observe how, in these circumstances, Russian political elites attempted to launch the processes of re-integration within the Eurasian mega-area to maintain the country's influence in the region. These attempts translated into military re-integration via a collective security pact (1992), the building of a functional customs union (1995), the establishment of a Eurasian Economic Community (2000) and a recent call to create a single economic

space. Russian support of Transnistria may be viewed as an attempt to impede the creation of an Eastern European meso-area. Yet, Russia does not possess sufficient economic might to restore its influence over those countries *at a micro-level*, i.e. via private capital. Integration “from above” is much weaker than “from below” and that is the reason why the re-integration processes in the CIS are more formal than real.

Through this “evolution of disintegration” in the 1990s when all the former Soviet states started to pursue their own political and economic interests and attempted to escape from the permanent shadow of Moscow, most Western observers were surprised by the serious intentions of Belarus to re-integrate with Russia. The most puzzled were the Poles, whose culture and history have had much in common with that of Belarus. According to the former, 1988-1990 was a period of liberation from the hated (in their words) “dominance” of Moscow rather than a time signifying the collapse of the state-planned economy and communist ideology.

Re-integration with the Russian Federation became the most important vector of Belarusian foreign policy since the country’s independence. During the last ten years the integrationist rhetoric has been an integral part of the statements conveyed by government officials and the Belarusian president. On several occasions, the Russian leadership was criticized by its Belarusian counterpart for “impeding the unity process of the fraternal peoples.” Pro-Russian political discourse implied that Belarus became a core-partner of Russia to renew the Eurasian mega-area. This integrationist position seemed to be peculiar in the region. At the same time, the offers of Russian President Vladimir Putin to incorporate Belarus into the Russian Federation and an even “softer” variant – to conclude a monetary union have suddenly met severe resistance within the Belarusian establishment.

Although the integration theme until recently dominated the official mass media, its essence has always been unclear to the Belarusian and Russian people. The process has been full of endless populist declarations, which contradicted the actions of both sides. Belarusian experts have two opposing opinions on what has been implemented between the two countries. The first argues that, “save in name, integration has transformed Belarus into a part of the Russian Federation.” The second argues that the unification process has resulted

in the creation of an artificial entity separated from reality. A third view suggests that the outcomes of the integration process are dependent upon the compatibility of Lukashenka's ambitions in relation to Belarus and Russia and developments in Russian internal and foreign policies. The evidence shows that similar to Ukraine's and Moldova's pro-European aspirations, Belarus' integration with the Russian Federation has been more declarative than real.

This paper attempts to present a deeper analysis of the economic and political aspects of Belarus-Russia integration. The major focus is on the undercurrents, which reveal actual motivations, rationale and the outcomes of this project. As will be argued in this chapter, the entire integration process helped the Belarusian leadership to avoid structural reforms. From this point of view, Belarus, along with Ukraine and Moldova becomes a part of the "reform-slacking meso-area."

ECONOMIC ASPECTS OF BELARUS – RUSSIA INTEGRATION

The intentions of the Belarusian leadership to re-integrate with the Russian Federation after the break-up of the Soviet Union may be explained by three major factors. First, by the beginning of the 1980s Belarus had become the "assembly workshop" of the USSR. There were many giant factories built throughout the country to serve the needs of the entire Union, while Russia was a main supplier of raw materials. Having just 3.5 percent of the USSR's total population, Belarus produced 4.2 percent of its GDP.¹ Political elites and the industrial lobby renounced the creation of efficient borders and the introduction of a national currency because, in their opinion, they could impede the supplies of cheap raw materials and energy resources from Russia.² Unlike in the Baltics or Poland where rapid market-oriented reforms were launched, the Belarusian leadership opted to avoid sliding down an economic crisis by preserving old industrial relations with its eastern neighbour. The first attempts at creating a monetary union

¹ N. Sergeev and A. Fadeev, "Anatomiia soiuza Rossii i Belorussii," *Nezavisimaia gazeta*, 23 September 1998, p. 5.

² *Ibid.*

with Russia date back to late 1993, when the Belarusian government aspired to reach monetary stabilization not by unpopular reforms but at the expense of the Russian budget.

The second factor explaining Belarus' eastward aspirations was the *inability* of the country's leadership to deal with "sudden" independence. For them, unexpected sovereignty came as a burden rather than an opportunity. The Supreme Soviet (the ruling body of the country at that time) comprised the old Communist Party nomenclature that was unable to take responsibility for an independent way of future development.³ Although the example of the Baltic States showed that it was possible, Prime Minister Kebich declared: "...[A]nd the matter is not only in the brotherhood by blood, we are united (with Russia) in economic terms. Almost all energy resources, raw materials, and components come from Russia and two thirds of our products go there. Dismantling of the USSR and breaking-off economic ties was a tragedy, catastrophic consequences of which affected all the republics, and which turned into an economic Chernobyl for our country. And salvation is only in integration. Unification of both monetary systems is just a step towards a full economic union with Russia. This is, if you like, the only way to save our sovereignty."⁴

The third factor was a lack of national identity that was a result of intensive Russification of the Belarusian people during the Socialist era. This made most of the population absolutely indifferent to independence; hence public support for re-integration with Russia was quite strong.⁵

The new impulse for integration endeavours with Russia was prompted by the political and economic isolation of the country that came with the presidency of Aleksandr Lukashenka. The policies pursued by his government since 1994 resulted in a negative image of Belarus abroad. This image worsened relations with many international

³ V. Tarasevich, A. Lobatch, "Ekonomicheskie efekty integratsii Respubliki Belarus i Rossiiskoi Federatsii," R. Antczak, M. Guzhin'skii, P. Kozazhevskii, eds., *Belorusskaia ekonomika. Ot rynka k planu. 1995-2000* (Warsaw, 2002), pp. 265-296, at p. 266 (www.case.com.pl/upload/publikacja_plik/bg10.pdf).

⁴ V. Kebich, "Zakhavats' suverenitet my zmozham tol'ki z Rasiiai," *Narodnaia gazeta*, 8 December 1994, p. 2.

⁵ J. Zaprudnik, "Belarus: In Search of National Identity, 1990-2000," *Belarusian Review* 13: 2 (2001), p. 25.

political and financial institutions (OSCE, the EU, Council of Europe, IMF, EBRD, etc.) and isolated the country from the global economic trends. Consequently, the country turned almost completely to Russia, which offered economic and political support and made some promises relating to Lukashenka's ambitions.

Russian *economic* interests to integrate with Belarus have been quite vague. Official statements of Yeltsin, Putin or Russian ministers never clearly indicated any economic benefits that Russia could derive from union with Belarus. However it was mentioned that Belarus was an important transportation corridor for Russian exports to the greater European markets. According to some estimates, approximately 70-75 percent of Russian exports to the European Union cross Belarus' territory.⁶ Of more importance is the great interest of Russian big business to have privileged access to the privatization of large Belarusian chemical and petrochemical enterprises. Some other explanations mention that Belarus falls within Russian geopolitical interests and has therefore strategic significance as, for example, a buffer to NATO expansion (Belarus provides an air-defense shield for Russia as well as low frequency naval communications base).

The major stages of Belarus-Russia integration are presented in the following table:

TABLE 1. MAIN STAGES OF BELARUS-RUSSIA INTEGRATION

Period	Stage of integration	Characteristics of the stage
26 June 1992 – 6 January 1995	Establishment of diplomatic relations between Newly Independent States, participation in structures of CIS	Participation in economic union (1993) and creation of free economic zone (1994) among CIS states; attempts to establish a payments union in the CIS and intergovernmental CIS bodies; attempts to establish a Belarus-Russia monetary union (1993).
6 January 1995	Agreement on the customs union	Abolishment of customs at the borders; signature of the treaty on friendship, good neighborliness and cooperation.

⁶ L. Zaiko, "Formula integratsii," *Natsional'naiia ekonomicheskaiia gazeta (NEG)*, No. 14 (April 2003), p. 7.

EMERGING MESO-AREAS IN THE FORMER SOCIALIST COUNTRIES

Period	Stage of integration	Characteristics of the stage
2 April 1996	Community Treaty of Belarus and Russia	The declared goal of the Community was a political and economic unification, unification of resources and intellectual potential for faster economic development, raising living standards. The governments took obligations to coordinate foreign policy, security, border control and combating crime. New institutions were created: Supreme Council, Executive Committee, and Parliament Assembly.
2 April 1997	Transformation of the Community to the Union of Belarus and Russia	The governments signed treaties granting equal rights to citizens of Belarus and Russia and equal conditions for economic agents. The final goal of integration was the establishment of a Belarusian-Russian state (keeping the sovereignty of each country), establishment of supranational institutions and introduction of a single currency. Other tasks included the creation of a single economic space, common transportation and energy systems, coordination of customs policies and economic reforms, unification of monetary systems and tax legislation.
9 December 1999	Union State Treaty of Belarus and Russia	The governments agreed to create the following supranational bodies: Supreme State Council, Council of Ministers, Permanent Committee, and Parliament (which has not been established yet). The unification of other policies was declared (carrying out a common structural policy; unification of civil legislation and creation of a conception of Union State property; creation of a common market for communication services; creation of a common technological space; realization of common policies in environmental security; coordination of labour and social security policies, etc.) It was agreed to introduce the Russian ruble as the only currency within the Union State from 1 January 2005.

Source: V. Tarasevich and A. Lobatch, "Ekonomicheskie efekty integratsii Respubliki Belarus i Rossiiskoi Federatsii," R. Antczak et al, eds. *Belarusian Economy from Market to Plan, 1995-2000* (Warsaw, 2001), p.268.

As can be inferred from the table above, the formal integration of Belarus and Russia is quite extensive. The reality though clearly shows that economic unification between the two countries did not proceed beyond declarations. Every year since 1995 new integration initiatives faced growing difficulties to find consensus. Incompatibilities of models and approaches to economic development, differences in economic potential, geopolitical aims and interests became apparent.

The Belarusian economy comprises approximately 3 percent of Russia's and the population of Belarus is 15 times less than that of its eastern neighbour. Is it possible to create an effective Union State endowed with supranational institutions between countries with such enormous differences in size and potential? For President Lukashenka true integration with Russia would bring about a threat to his political power. On the one hand, a creation of common economic space may happen only if Belarus advances in market-oriented reforms. This means that the state would have to drastically reduce its presence in the economy, which would cause an emergence of large private business. The present political regime in Belarus is based on almost absolute control over economic agents and therefore the present political elite could not accept a scenario of "liberal marketization." On the other hand, it is quite obvious that real integration with such a colossal neighbour would sooner or later result in the virtual absorption of Belarus by the Russian Federation. To preserve any tangible sovereignty in these circumstances would simply be impossible. This scenario would lead to the demotion of the Belarusian president to the rank of a provincial governor and the political elite to a provincial bureaucracy. The political ambitions of Lukashenka (as of any other president) run contrary to such an outcome.

Therefore the creation of a common economic space based on harmonization of legislation, unification of tariffs, coordination of economic reforms, etc. remained a mere populist declaration. Even the customs union, which has officially functioned for eight years, has not been working properly: there are approximately 130 unified tariffs.⁷

In fact, the Belarusian leadership needed the integration *process* (not the integration) with Russia to reach two major goals: 1) cheap energy resources (natural gas and oil); and 2) unlimited access to Russian markets. This made Russia an economic policy *donor*: cheap energy resources and the absence of tariffs allowed Belarusian production to be price competitive in Russia without necessary structural reforms. Additional benefits derived from the possibility of *exchanging* Russian raw materials and energy for Belarusian goods (barter trade). In 1997

⁷ Ia. Romanchuk, "Kormit uzhe Rossiia," *Belorusskaia gazeta* (BG), No. 10 (March 2003), p. 7.

Belarus paid just 3 percent in cash for Russian natural gas, the rest was exchanged for products.⁸ In these circumstances the model of state-regulated economy could proceed much longer – at least until the price/quality ratio of Russian goods would become much better (which seemed to take a long time).

The same “pragmatism” inspired the ideas for monetary unification. The strategy pursued by the Belarusian leadership was to achieve “full integration” with “full sovereignty”: utilization of all the benefits of monetary union (primarily, monetary stabilization via introduction of foreign currency), and, at the same time, avoidance to pay for these benefits (preserving some autonomy in monetary policy by saving a second issuing center – the Belarusian National Bank). If the conditions for monetary unification proposed by the Belarusian side were accepted, the Russian budget would have obtained a huge “hole.”

Therefore what the Belarusian leadership needed was an endless *bureaucratic integration*. One of its best examples has been the attempt to design and implement various common programs to enhance cooperation between Belarusian and Russian enterprises. Two of the most famous include the creation of a so-called “Union TV set” (linking Belarusian and Russian state owned television manufacturers for the creation of advanced and competitive televisions) and establishing an automobile consortium of Belarusian and Russian automobile and engine makers called “BelRusAuto.” As many experts anticipated, those programs appeared to be other populist stillborn babies.⁹ In 2000 only few out of 52 declared common programs were launched. In general, as a government official noted, by 2002 only one third of all common programs were “more or less alive.”¹⁰

Both experts and government officials explained the poor performance of the common programs by the absence of a sound economic rationale.¹¹ For example, Belarusian “Horizon” televisions are

⁸ S. Bogdankevich, “Nuzhna li korrekcirovka integratsionnogo protsesssa?,” *NEG*, No. 71 (October 2002), p. 4.

⁹ See, for example, M. Tumilovich, “Ekanamichny idealagichny sens manetarnai integratsyi Belarusi i Rasii,” *Belaruskaja-rasiiskaia integratsyia. Analitychnyia artykuly* (Minsk, 2002), pp. 83-130.

¹⁰ Bogdankevich, “Nuzhna li korrekcirovka,” p. 4.

¹¹ Tumilovich, “Ekanamichny idealagichny sens,” p. 91.

competitive in Russia and Belarus only because they contain components produced by Philips or Thompson. An attempt to manufacture an advanced TV set based on Belarusian and Russian technologies given current circumstances is simply wishful thinking. Another reason has been the excessive trust in the bureaucratic mechanisms of the programs' realization. The resistance of the ministries in both countries to delegate authority to supranational institutions of the Union State has been quite strong. Besides, the programs continuously lacked direct subsidies from the Union State budget; the latter has also been poorly financed.¹²

Bureaucratic integration processes that were realized in common programs and populist treaties did not show any significant results. Belarusian enterprises continued to rely on the unlimited access to Russian markets. The economic effects of such an opportunity were ambiguous. First, the 'single vector' policy led to a situation whereby 57 percent of Belarusian foreign trade was concluded with Russia (as for 2002), which made the Belarusian economy extremely sensitive to decisions taken by the Russian government.¹³ For comparison, other CIS states comprise just 4.4 percent of Belarusian foreign trade. In 2002 Russia imported 83.6 percent of all machine-tools produced in Belarus, 73.8 percent of bicycles, 70 percent of automobile tires, 68.4 percent of TV sets, 68 percent of tractors, 66.7 percent of trucks, 47.2 percent of refrigerators, 43.8 percent of chemical fibers, etc. At the same time, the share of Russian exports to Belarus comprised, among others, 100 percent of natural gas, 97.3 percent of coal, 89.6 percent of ferrous metals, and 86.5 percent of oil.¹⁴

Second, the resulting trade diversion from the advanced markets, where competition stimulated introduction of modern technologies, preserved old and, in many cases, inefficient economic relations with Russian enterprises. While in 1995 Belarus imported around 65 percent of the so-called "investment goods" from advanced countries, in 1999 over 50 percent of them came from the Russian Federation.¹⁵ It froze the much-needed restructuring of Belarusian state enterprises and kept

¹² Zaiko, "Formula integratsii," p. 7.

¹³ Tarasevich, Lobatch, "Ekonomicheskie efekty integratsii," p. 279.

¹⁴ *Vneshniaia torgovlia Respubliki Belarus v 2002 g.* (Minsk, 2003), p. 33.

¹⁵ V. Rudenkov, "Vneshniaia torgovlia RB mashinostroitel'nyimi tovarami," *Belorusskii ekonomicheskii zhurnal*, No. 5 (May, 2003), p. 21.

production reliant on heavy resource and energy consumption. This situation led to continual deterioration of the price/quality ratio of Belarusian goods.

In general, Belarus lost the precious opportunity to smooth the effects of structural reform. The ability to sell goods in Russia could have absorbed the painful impact of restructuring for many Belarusian companies. The time is already lost as the revival of Russian industries and manufacture of better quality products have started to squeeze Belarusian goods out of the Russian markets.¹⁶

With the advent of Putin, the economic policy of the Russian government became very pragmatic and strict. It enforced tight fiscal discipline, worked to mobilize all state resources and to eliminate “black holes” in the state budget and the customs system. As a result, energy prices for Belarusian customers rose and barter trade had to be substituted with cash payments. The major message from Moscow was that Russia stopped donating to the Belarusian economic model and terminated the use of integration to avoid economic reforms. Forcing out barter schemes from mutual trade hit hardest those Belarusian enterprises that could not sell their products otherwise, and eliminated price distortions that were often very favourable to Belarusian partners. The enhanced competitiveness of Russian industries, which was a result of reforms, forced Belarusian producers to lower prices, in some cases even below cost (e.g. Minsk Tractor Factory [MTZ] and Minsk Automobile Factory [MAZ] in years 2001 and 2002¹⁷). Moreover, the elimination of trade distortions was reflected by Belarusian statistics: in 2001 the *quantity* of exports to Russia grew by 9.5 percent while *revenue* from exports dropped by 7.5 percent.¹⁸

In 2001, the Russian government reviewed the integration process with its western neighbour and in particular, the provisions relating to the possible creation of a monetary union with Belarus. It was well understood that the Belarusian economic model that used monetary expansion to stimulate economic growth would create a great “hole” in the Russian budget if monetary unification took place. Therefore, Russia

¹⁶ Problems of competitiveness of Belarusian products in Russia have been largely discussed in *BG* and *Belorusskii rynok* through 2002-2003.

¹⁷ Rudenkov, “Vneshniaia torgovlia RB,” p. 23.

¹⁸ *Vneshniaia torgovlia Respubliki Belarus v 2002 g.*, p. 9.

determined certain conditions for monetary integration with Belarus, insisting that the Belarusian government: a) refuse to finance budget deficits from National Bank loans; b) stop subsidies and privileged loans; c) intensify small-scale privatization; d) sells state shares of large companies on the stock market; e) sells enterprises that are close to bankruptcy; and f) unify taxation and customs laws with Russia's.¹⁹

In fact, these requirements resembled standard IMF recommendations stated in economic stabilization and structural transformation programs. The peculiarity of the Russian requirements was an attempt to *force full-scale privatization*, in which Russian companies would have excellent opportunities to obtain relatively cheap control over Belarusian industries. As was mentioned, Belarusian chemical and petrochemical industries are of a great interest for Russian big business. Compared to other Belarusian sectors the equipment in those industries has not been worn out; the enterprises are profitable and have potential for growth. Russian oil and gas giants (Gazprom, Lukoil, Itera, Surgutneftegaz, and TNK) officially expressed interest in buying those enterprises. Full economic dependence on Russia and absence of economic cooperation with the advanced economies placed Belarus under pressure to sell them exclusively to Russian investors.²⁰ Belarus needs investments badly and it is unlikely that foreign companies will participate in tenders (the business climate in the country ranks very low and important foreign investors, such as Ford, Ikea, and MAN left the country). It is no secret that Russian oil companies have powerful lobbyists in the Kremlin and they have direct access to Lukashenka. This would make their interests in Belarus very well protected.

In 2002 the Belarusian leadership rejected Putin's integration radical proposal – to include Belarus into the Russian Federation. Nonetheless, the Russian government since then has been very persistent in its integration initiatives: it continues to insist on the introduction of the Russian ruble in Belarus and, explicitly or implicitly, on privatization of state enterprises.

¹⁹ V. Silitski, "Ekanamichnaia palityka Lukashenki," *Belaruska-rasiiskaia integratsyia*, pp. 33-82.

²⁰ See, for example, N. Grib, "Milliard za 'Naftan' s 'Polimirom' niko ne dast," *BG*, No. 22 (June 2003), p. 6; and Ia. Romanchuk, "Balans truby," *BG*, No. 48 (December 2003), p. 5.

At this time, the economic policies of both countries have deviated so much that the introduction of the Russian ruble in 2005 or 2006 would cause a serious shock for the Belarusian economic model, in which economic growth has been induced by monetary expansion. Monetary unification in the long run would inevitably lead to a conflict in implementation of the monetary policy between the two countries. The exchange rate of the Russian ruble for the most part depends on fluctuations of world oil prices. An increase in the price of oil leads to inflow of foreign currency to Russia and appreciation of the ruble and, at the same time, a decrease in competitiveness of Russian production. Belarus may benefit from this only having a softer currency, which would allow the possibility to successfully compete on Russian markets because of the lower prices for goods.²¹ A single currency in these circumstances would cause a recession in Belarusian industries. In general, the Belarusian government realizes that introducing the Russian ruble would force painful economic structural reforms. The possibility to keep inefficient enterprises by unlimited state subsidies would be eliminated and this would cause a rise in unemployment and serious social tensions. That is why the Belarusian government postpones and drags out the final treaty on monetary union by setting new conditions barely acceptable for the Russian side. For example, Belarus asks for compensation of US \$ 2 billion and a number of technical credits.²² Another bid in this “game” was the future price of natural gas. The Belarusian president ordered the government to keep the price of gas low (at an internal Russian level) “at all costs”. In 2003 Belarus bought 10.2 billion m³ of gas from Gazprom at US \$ 36 per 1000 m³. Gazprom intends to raise the price up to US \$ 50.²³ In this case the direct loss would amount to approximately US \$ 143 million. At the time this paper was written, the price for gas was not yet fixed.

Thus, Belarus formally “drops out” of a meso-area that is emerging between Europe and Eurasia. Renewal of the Eurasian mega-area seems to be the country’s strategic goal. However, the evidence shows that

²¹ A. Luchenok, “Plokhogo bol’she chem khorošhego prineset perehod na rossiiskii rubl’,” *NEG*, No. 91 (December 2002), p. 4.

²² S. Zhibanov, “Rubl’ ne tonet – poka net ‘chrezvychainykh proisshestvii,’” *BG*, No. 46 (December 2003), p. 12.

²³ N. Grib, “Miller v tumane: deshevyi gaz dlia Belarusi dorozhe kontrol’nogo paketa Beltransgaza,” *BG*, No. 46 (December 2003), p. 3.

the *process* of economic integration during the last 10 years was conducted for simple purposes: access to cheap resources and large Russian markets. The Belarusian economy, which saw little reform and remained 85 percent state owned, could survive only in these circumstances. Integration with Russia became an “iron lung”, which softened the consequences of poor domestic economic policies. From this angle Belarus is similar to Ukraine and Moldova, where slow structural reforms have been disguised under political declarations. Therefore the three countries comprise “a reform-slacking meso-area”.

POLITICAL ASPECTS OF BELARUS-RUSSIA INTEGRATION

Aleksandr Lukashenka used integration with Russia as one of the main points in his program during his presidential campaign in 1994. Later, in 1995 he faced a serious weakening of his political position in Belarus, which was caused by mismatched economic policies aimed at preserving the old system with the necessity of reform. He was strongly criticized by several Belarusian parliamentarians as well as by international institutions for the inadequacies of his policies. In these circumstances, he turned to Russia seeking political and economic support.

Lukashenka overcame conflicts in his relations with Moscow – that appeared during the first few months of his presidency – by making some generous integration offers which could not be refused by Russia. These were stipulated in the Treaty on Friendship, Good Neighborliness and Cooperation signed in 1995: a) prolongation of Russia’s military presence in Belarus until 2010 and access to anti-aircraft defense; b) creation of a customs union (the western border of Belarus in fact was to become a military and customs border of the Russian Federation as it was suggested to have joint border control and customs services); c) Belarus was ready to provide a transit corridor to Kaliningrad; d) additionally, Belarus agreed to waive duties for transit of some Russian goods (mainly oil and gas) to Europe.²⁴ In turn, Belarus obtained guaranties for further

²⁴ Iu. Drakokhrust, D. Furman, “Perepetii integratsii (razvitie protsessa belorussko-rossiiskogo ob’edineniia),” *Belorussia i Rossiia: obshchestva i gosudarstva* (Moscow, 1998), p. 34-49, at p. 39.

energy supplies at reduced prices and unlimited access to Russian markets. Although the opposition protested, the Supreme Council ratified the treaty in April 1995. This integration initiative appealed to the majority of Belarusians because “national patriotism” failed to fill the ideological vacuum in society at that time. The president’s plea for traditional attitudes coined as “Soviet conservatism” was actually an effective political maneuver.²⁵

During the first stages of the integration process, the Belarusian president was a major initiator of the activities, none of which were imposed on him. The ability to determine the conditions of Belarus – Russia unification provided the Belarusian leader:

- guaranteed support of Russian political and economic elites in his struggle for power;

- significant economic benefits from Russia, which assisted in the relative success of his economic model and helped to avoid internal destabilization and massive dissatisfaction with his policies;

- minimization of the outcomes of international isolation via the creation of an “alternative system” of international relations that bypassed European institutions;

- the standing (though short lived) of an influential independent player in Russian politics.²⁶

Both Russian political elites and society expressed an interest in integration with Belarus during mid-1990s. The restoration of the Russian Empire and the re-establishment of political and economic domination over the republics of the former Soviet Union became the foremost political tasks at that time.²⁷ Even though reintegration of the former republics was almost unachievable, the readiness of Belarus for fast multilevel political, economic and military unification provided an excellent opportunity to the Russian political elites to declare the general probability of the integration project to voters. Lukashenka successfully made himself a symbol of hope for the restoration of former Russian eminence.²⁸ For the Kremlin, relations with Lukashenka helped to negate

²⁵ Ibid., p. 40.

²⁶ See V. Silitski, “Palitychnaia ekanomiia belaruska-rasiiskai integratsii,” *Belaruska-rasiiskaia integratsiia*, pp. 222-270, at p. 225.

²⁷ Ibid., p. 227.

²⁸ Ibid.

accusations in absence of political will and neglecting of Russian interests. The Belarusian president was able to manipulate the attitudes of the Russian political elites deriving benefits for his personal power inside Belarus. In 1996, when the Treaty on the Community of Belarus and Russia was prepared, Lukashenka basically stated the price for his intentions of rapprochement with Russia: writing off approximately US \$ one billion of Belarusian debts (which was implemented). Yeltsin, in turn, used the new treaty for demonstration of his firmness to renovate the broken relations with the former Soviet republics and expiate his "guilt" for dismantling of the USSR, which was still considered as betrayal by many people.²⁹ The integration process run by Lukashenka-Yeltsin assisted both presidents to reach their on-going political goals; it stagnated every time their interests diverged and was revived again only when the mutual need for showing integration activities came to light.

Discussions surrounding the prospects of Belarus-Russia integration in the late 1990s were centered on the issue of whether the Belarusian leader intended to vie for the Russian presidency by using the integration process to reach this aim. Although personal intentions and hidden hopes are difficult to confirm with documents, Lukashenka's vision of integration, the nature of his requirements from the Russian leadership, which he presented along with every integration agreement, the way of his appearance on the Russian political scene, and the effect of his political actions demonstrate such ambitions.

Since 1995 it became evident that Lukashenka was not interested in a *merger* of the two countries but rather in a tight *confederation*. He intended to create a supranational structure where every participant was equal and able to keep sufficient independence in internal affairs. If this plan had been successfully realized the Belarusian president would have legalized his presence in Russian politics having kept unlimited power within his own country.³⁰ Even if the idea that the Russian Federation give up a substantial part of its sovereignty for the sake of union with its neighbour, which is 15 times smaller in population seems absurd, however it almost came to being in April 1997. The Draft

²⁹ Drakokhrust, Furman, "Perepetii integratsii," p. 37.

³⁰ *Ibid.*, p. 41.

Treaty on the Union of Belarus and Russia envisaged a transfer of some authority in the spheres of defense, security, fiscal and monetary policies to the Supreme Council of the Union. The latter was a supranational body consisting of four representatives from each country: presidents, prime ministers, heads of upper and lower chambers of the parliaments. These eight participants would in turn elect one chancellor. Decisions in the Supreme Council were taken by simple majority voting. In this situation four Belarusian votes plus a vote of Gennadii Seleznev (the head of Russian Duma at that time), who was a communist and an old supporter of Lukashenka, gave more power to the Belarusian president in the new Union *de facto* and *de jure*. Two days before the signature of the treaty a text was leaked to the media that caused a scandal. The liberals headed by Anatoliy Chubais and Boris Nemtsov accused the communists and Lukashenka in collusion to remove Yeltsin from power. In a few days Yeltsin ordered to rewrite the treaty, which turned into another formal pact.³¹

It was mentioned by Russian politicians that open support of Lukashenka by communists and nationalists was caused by their inability to reach their political goals by their own means.³² Despite the fact that they had a majority in the Duma and controlled a number of regions, they lacked a charismatic leader admired by certain sectors of society, without whom they were doomed to be outsiders in political struggles. Many of them considered the Belarusian president to be the figure they were looking for. A confederation with Belarus in league with Lukashenka allowed Russian communists to become influential in supranational bodies of the Union.³³ Real integration and a virtual merger with Russia would diminish the Belarusian president's status to the level of a provincial governor and was obviously acceptable neither by Lukashenka nor by his supporters in Russia.

Along with strengthening of the alliance with communist and nationalist opposition, Lukashenka started to seek support from Russian regional leaders. Starting from 1996 he made several visits to various Russian regions, during which he signed agreements on economic

³¹ See, for example, Zaprudnik, "Belarus," pp. 29-30.

³² *Ibid.*

³³ Zaiko, "Formula integratsii," p. 7.

cooperation. Besides, he actively promoted the “Belarusian economic model” to the inhabitants of the Russian provinces. Economic turmoil in Russia during the 1990s and especially enormous delays of wage payments made the “Belarusian model” very attractive for many Russian citizens. The Belarusian president’s speeches contained unveiled criticisms of Yeltsin and the economic policies of his government. These criticisms got particularly pointed in those regions, where their leaders shared dissatisfaction with Kremlin policies.³⁴ Russian liberals and their allies in the Yeltsin administration realized the potential danger of Lukashenka’s alliance with the communists, but they did not have enough power to halt the integration process since the attitudes of the Russian society were very much in favour of it.³⁵

In 1999 the Belarusian leader made another endeavor to enter the Russian political scene. The next integration experiment attempted to create a strange formation barely known in the international experience – the Union State. This treaty was prepared by the supervision of Russian Prime Minister Sergei Stepashin (a known liberal), who had very modest aspirations towards Belarus-Russia integration. His variant of the treaty that was made public in mid-1999 excluded the position of the Union State president (in the Belarusian variant the post of president rotated in two-year periods). It was suggested that all resolutions of the Union approved by the Union State parliament and the Supreme Council had to be confirmed (signed) by the two presidents to have legal power. Such a variant limited the abilities of the supranational institutions, which could have been manipulated by the Belarusian president (given the support of the communists in the union parliament and the Supreme Council). Accordingly, the scope of authority of the supranational institutions was much smaller compared to what was suggested by Lukashenka. In general, the treaty reduced the chances for the Belarusian leader to enter internal Russian politics to zero. Lukashenka met the Russian variant of the treaty with an unhidden anger. In his emotional commentaries he called the suggested treaty “empty” and publicly accused Stepashin of undermining the integration process.

³⁴ Silitski, “Palitychnaia ekanomiia,” p. 240.

³⁵ *Ibid.*, pp. 240-241.

The Belarusian variant of political union was only attractive to the anti-Yeltsin opposition, and this fact increased the determination of Yeltsin's supporters to "derail the integration train". According to Russian analysts, opponents of the "integration with Lukashenka" outweighed its supporters in the government as well as among the persons who determined information policies of the media. Although a "pro-Lukashenka camp" was quite powerful in the Duma, its real influence in post-communist Russia was incomparable with the might of government officials and oligarchs, whose alliance encircled Yeltsin. Starting from early 2000, it became very likely that Russia would insist on "the Eastern German" variant of unification, which meant virtual absorption of Belarus by the Russian Federation.

Apart from Lukashenka himself, resistance to this scenario was expressed not only by the Belarusian *nomenklatura*, which would turn into a provincial bureaucracy if the country's sovereignty was lost, but also, unexpectedly for Russians, the majority of Belarusian society. The most surprising was that despite the dominance of integration issues in Belarusian politics during the entire period of Lukashenka's presidency, support for unification among Belarusians declined significantly. It dropped from 45.6 percent in 1994 to less than 16 percent in 2002.³⁶ This tendency reflected the fact that Belarusians got accustomed to their independence. Another explanation of this trend was a number of political, economic and military crises that happened in Russia during the 1990s. According to Belarusian analysts, the hidden policy of Russification that accompanied the integration process did not halt the support for Belarusian sovereignty. The Russian language, fostered by the current political system, in many cases became the language of the country's cultural revival. Much the same can be said about the Belarusian language. Advocates of the country's sovereignty comprised adherents to both "ethnic" and "civil" or "state" nationalism.³⁷

Putin's assertion to the Russian presidency changed the political essence of the integration process. Unlike his predecessor, Putin did not have a "complex of guilt" for the dismantling of the USSR. Having

³⁶ These figures show respondents that supported a merging into one state; see Tumilovich, "Ekanamichny idealagichny sens," p. 112.

³⁷ Silitski, "Palitychnaia ekanomiia," p. 235.

vast civil support in his country, Putin did not need to draw into integration games with Belarus to increase his political capital. Rather, the institutions created by Yeltsin and Lukashenka were used for “privileged political exile” of certain members of the “Yeltsin family”. A case in point is, Pavel Borodin, the mighty former head of Yeltsin’s administration, became chancellor of the Union State in 2000. Progress in relations with the West released the Russian government from a duty to “feed” its population with illusions of the country’s growing eminence by creating pseudo-alliances.

As was mentioned earlier, these developments carried an open defiance to the economic and political plans of the Belarusian leader: Moscow had neither the need nor desire to pay for integration with Belarus. On the contrary, it was time for Belarus to pay for integration. The last blow to the “Belarusian economic model” could become the privatization of the best pieces of Belarusian industry to Russian oligarchs. The Belarusian leader understands that the privatization and consequent loss of control over Belarusian enterprises, which provide around 80 percent of the hard currency revenue of the Belarusian industrial sector, would drastically decrease his economic and political power in the country. This is why the process of privatization has been constantly dragged out by deliberately setting unacceptable conditions for potential investors: the government offered to sell no more than 43 percent of shares. In turn, investors had to buy entire production chains rather than single enterprises. Investors were restricted in firing workers and were obliged to maintain a social infrastructure (kindergartens, health clinics, etc.). Moreover, the stated price was, according to Russian businessmen, “ridiculously high.”³⁸ The first call for tender to participate in Belarusian privatization in 2002 resulted in no applications.

In the present circumstances, when the dependence of the Belarusian economy on Russia is enormous, a key question remains: how long will Lukashenka be able to keep his (and the country’s) political sovereignty? If Russia persists introducing the Russian ruble in Belarus, this could be the most serious step towards political annexation of the country. It may be well observed that the Russian government is

³⁸ N. Grib, “Trillion v Ustavnoi fond: Problemy belorusskoi privatizatsii,” *BG*, No. 11 (March 2003), p. 5.

purposefully squeezing the “vice” and eliminating places for maneuver for the Belarusian leader. In fact, all those benefits and privileges, which Belarus has been using to fuel its economic model, are becoming an object of economic and political blackmail (i.e. it could be easily inferred from official statements that the price for natural gas to Belarus depends on the willingness of the Belarusian government to privatize certain companies on acceptable conditions). Alternatively, some opinions state that Lukashenka requires guarantees for his political future (i.e. support for his third presidential term and securing his position as an independent ruler in Belarus) to start the sale of Belarusian property to Russian businessmen.

Thus, the model of *political* integration with the Russian Federation did not result in any viable structure imposing any serious commitments on both sides. In fact, the process of political integration did not attempt to launch re-integration of Eurasian mega-area. In reality, the Belarusian president used it to reach his personal political goals. Integration with Russia has been the only political scene for Lukashenka, where he could demonstrate “great achievements” of his rule to his electorate. He could either bear an image of “great integrator” or become “staunch defender of Belarusian sovereignty” but still be “big and important guy” in the eyes of Belarusian public. In fact, integration theme was constantly used to hide failures in foreign and domestic economic policies.

CONCLUSIONS

Together with Ukraine and Moldova, Belarus is a part of the Eastern European meso-area emerging between Europe and Eurasia. The position of the country is quite peculiar: while two other states declare pro-European aspirations, Belarus seems to become Russia’s major partner to launch re-integration in Eurasian mega-area. The Belarus-Russia integration process has over ten years of history. It comprised a number of treaties on unification that declared mutual aspirations to create an economic union between the two countries as well as the establishment of supranational institutions. However, a closer look shows that the bulk of integration remains on paper.

Aleksandr Lukashenka used the integration process to demonstrate his willingness to bring about rapprochement between both states. As such, Belarus was given the possibility to purchase Russian energy resources at internal Russian prices and unlimited access to Russian markets. In turn, Boris Yeltsin needed to demonstrate post-Soviet re-integration to improve his political image at home.

What happened in reality was that Russia became a donor to the Belarusian economy, whereby the Belarusian leader could avoid market-oriented reforms and strengthen his political power inside the country. Furthermore, the efforts of the president to create a confederation with Russia implied that he tried to use the establishment of supranational ruling bodies to gain access to Russian political levers.

Opening borders to Russia brought about disadvantages for economic development in Belarus since they created trade diversion from more competitive and technologically advanced markets in Western Europe to the less competitive and less demanding Russian markets. "Easy" exports to Russia postponed necessary structural reforms in state-owned Belarusian companies and made the Belarusian economy dependent on a single trading partner and, correspondingly, on its internal political and economic situation.

With the advent of Putin's presidency the integration process between Belarus and the Russian Federation shifted from declarations to practical steps. Russian economic policy became much more pragmatic and Moscow displayed its determination to continue market-oriented reforms. The message to Minsk was that Russia stopped subsidizing the Belarusian economic model. Moreover, the Russian leadership expressed its intentions to use Belarus' economic dependence in the interests of Russian business; namely to obtain control over Belarusian industries.

The political ambitions of Lukashenka to enter Russian politics were restrained not only by the concrete actions of the Russian government and the presidential administration, but also by Putin's personality. According to the majority of Belarusian political scientists, Putin would win the elections of the Union State president not only in Russia, but also in Belarus.

The introduction of the Russian ruble in Belarus, which is now starting to be "softly" imposed by Russian government, would be very

painful for the unreformed Belarusian economy. Relative economic and social stability in Belarus has been supported by soft fiscal and monetary policies; a transition to tighter policies pursued by the Russian government and the Russian Central Bank would eliminate the possibilities of unlimited subsidies to Belarusian enterprises and the use of devaluation to enhance the competitive advantage of Belarusian goods in Russia. If reforms are not launched, it will lead to inevitable stagnation of many Belarusian industries.

In general, the Belarusian leadership used the process of Belarus-Russia integration to avoid structural reforms that would have decreased the power of the state and, consequently, the power of the president. As a politician, Lukashenka used integration rhetoric simply to create an image of a great ruler and to disguise failures in foreign and domestic policies. In this sense Belarus becomes similar to Ukraine and Moldova, where political discourse masks inefficient and insufficient structural reforms. This way, the three countries comprise "a reform-slacking meso-area".