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EU SANCTIONS ON BELARUS AS AN EFFECTIVE POLICY TOOL

Anders Åslund
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CASE – Centrum Analiz Społeczno-Ekonomicznych
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CASE BELARUS

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Contents

1. **Belarus's History of Repression, Financial Crisis, and Western Sanctions**

In July 1994, Alyaksandr Lukashenka was elected president with 80% of the vote on a populist anti-corruption platform against the communist leader, but he soon stopped all economic market reforms and privatization and ruled like a dictator. He achieved some – albeit unstable – financial stabilization, and growth has remained mediocre. Since 2012, Belarus has had no economic growth.

The country's evolution has been characterized by repeated financial crises and intermittent political repression, connected with flawed elections. The European Union (EU) introduced its first sanctions on Belarus as early as 1996 following Lukashenka's amendments to the Constitution of Belarus. The EU suspended its technical assistance program and froze the ratification of its Partnership and Co-Operation Agreement with Belarus. It was already clear that Lukashenka did not opt for democracy or a market economy. In 1998, the EU imposed visa bans on members of the Belarusian government because Belarus violated the Vienna Convention on Diplomatic Relations. A pattern soon evolved with the EU (and later with the United States [US]): imposing sanctions after a flawed election due to human rights violations and later easing them when Lukashenka released political prisoners. Thus, the EU lifted its sanctions in 1999 but reintroduced them after fraudulent parliamentary elections in 2004.

The US adopted its first Belarus Democracy Act in 2004 to support democracy in Belarus. In 2006, the Belarusian presidential elections violated international norms and were deemed neither free nor fair, which led to the US introducing its first sanctions on Belarus. It froze the US assets of the state-owned Belarusian State Concern for Oil and Chemistry (Belneftekhim Concern). In parallel, the EU banned travel for the 36 officials responsible for the election fraud and froze their assets. However, since Belarus had carried out some liberalization, both the EU and the US eased their sanctions in 2008. Furthermore, the EU invited Belarus to its Eastern Partnership in 2009, but since Belarus has not complied with any of the conditions, it has played no role.

Since 2004, the EU and the US have maintained some, but only partial, coordination of their sanctions policy on Belarus, but the differences have been significant. The US has opted to focus on a few big enterprise targets, such as Belneftekhim, while the EU has tended to focus their sanctions on Belarusian officials who commit human rights violations and election fraud.

The presidential election in December 2010 was considered "flawed" by the authoritative Organization for Security and Cooperation in Europe (OSCE) and it was followed by post-election repression. The US and the EU both imposed new, tougher sanctions. The US sanctioned nine major state-owned enterprises from the petroleum and chemical industries, including Belneftekhim, the big fertilizer factory Hrodna Azot, and the Naftan oil refinery. The EU imposed an embargo on exports of arms and froze the assets of 29 enterprises associated with three businessmen close to Lukashenka (Yuri Chyzh, Anatoly Ternavsky, and Vladimir Peftiev). At most, the EU sanctioned 243 people and 32 organizations.

As most of the world, Belarus was hit badly by the global financial crisis in 2008-9. At this time, Lukashenka turned to the International Monetary Fund (IMF) for financial support and received Belarus's only IMF program since 1995.[1] However, because Belarus did not fulfil its commitments, possibly because Lukashenka considered they would be too unpopular before the 2010 presidential elections, the IMF did not renew its financing.

In 2011, Belarus found itself in a severe current account crisis, having nearly depleted its international currency reserves. In late 2011, after Belarus had sold the remaining 50% of shares of the gas distribution monopolist Beltransgas to Gazprom, Russia finally salvaged Belarus's finances with some bilateral loans, cheaper energy, a loan from the Eurasian Fund for Stabilization and Development, and some enterprise purchases. However, Belarus was forced into a drastic devaluation, which caused inflation to skyrocket to 109% year-over-year in December 2011.

After this dangerous financial crisis, Lukashenka became more careful, both financially and politically. The presidential elections in 2015 were the least dramatic because of limited resistance to Lukashenka due to the severe repressions against civil society after the presidential elections in December 2010. He released political prisoners, and in response, both the EU and the US eased their sanctions. The IMF, the World Bank, and the European Bank for Reconstruction and Development (EBRD) scaled up their operations in Belarus, and the European Investment Bank (EIB) started working there. There was some new hope that Belarus would finally reform, but these hopes were spoiled by the presidential elections of August 2020.

From 1996 until 2016, Lukashenka proved himself somewhat sensitive to Western sanctions, although his behavior was rarely diplomatic. He reacted both to personal and financial sanctions and tried to ease them by releasing political prisoners when he dared to do so. However, since the summer of 2020, many things have changed.

1 See International Monetary Fund, "Belarus, Republic of: Transactions with the Fund from May 01, 1984 to July 31, 2021," available at https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=58&endDate=2099-12-31&finposition_flag=YES.

2. **The Presidential Election of August 2020: Protest, Fraud, Repression, and Western Sanctions**

Until the presidential elections of August 2020, the conventional wisdom was that Lukashenka enjoyed substantial popular support among the rural, poor, and poorly educated population. No credible opinion polls were available, but a common guess was that about one-third of the population supported him, while the opposition was split.

For at least one month before the August 2020 elections, it was clear that the popular mood had changed fundamentally. The opposition against Lukashenka had come together in a kind of popular front. The opposition succeeded in organizing many mass meetings, and it was obvious that Lukashenka's support had finally evaporated. Lukashenka responded by arresting the two main opposition candidates (Siarhei Tsikhanouski and Viktar Babaryka) and forcing the third one (Valery Tsapkala) to emigrate; however, his repressions served to unite and mobilize the opposition.

Strangely, Sviatlana Tsikhanouskaya was allowed to stand in the election on August 9. The official results claimed that Lukashenka won with a majority of 80%, but it was obvious that the vote count was entirely falsified, with unofficial polls indicating that Tsikhanouskaya won with an absolute majority of the vote. This blatant falsification led to mass protests that Belarus had never experienced before, and the regime responded with extreme violence.

The presidential elections offered the West all reasons needed to apply sanctions. The elections had been stolen much more obviously than before, and the repressions were far worse. Even so, it took a surprisingly long time for the West to react, and US President Donald Trump did not even seem to care about the election. At the very least, however, no Western country recognized Lukashenka as the president of Belarus, although Israel did.

In the course of a year, the EU has adopted no less than five sanctions packages, a flight ban, and eventually severe sectoral sanctions. The EU started slowly, but it has escalated its sanctions as Lukashenka has aggravated his repression.

The three Baltic countries – Lithuania, Latvia, and Estonia – were bold pioneers in sanctioning Belarus. On August 31, 2020, they sanctioned 30 top Belarusians, including Lukashenka.[2] Exasperated with the EU's failure to act, the three

2 Andrius Sytas, "Baltic states impose sanctions on Lukashenko and other Belarus officials," Reuters, August 31, 2020, available at https://www.reuters.com/article/us-belarus-election-sanctions/baltic-states-impose-sanctions-on-lukashenko-and-other-belarus-officials-idUSKBN25R0Z7.

Baltic countries sanctioned 100 more Belarusian officials on September 25.[3] Given that many members of the Belarusian upper middle class frequent the nearby Baltic seaside resorts – Jurmala in Latvia and Palanga in Lithuania – these sanctions are likely to bite. Belarus responded with countersanctions against 300 Baltic officials.[4]

With the absence of the US, the EU took the lead. On October 2, it adopted sanctions against 40 citizens of Belarus (its first sanction package).[5] The same day, the US expanded its existing sanctions on Belarus from 2006 from 16 people to 24 people.[6] Three days earlier, the United Kingdom (UK) sanctioned eight Belarusians[7] and Canada eleven.[8] Also, Switzerland and Norway imposed sanctions on Belarus. The reason for the EU not acting earlier was that Cyprus conditioned its approval on sanctions against Turkey, illustrating the problem of the EU to act fast.

The EU clarified that the Belarusians were sanctioned because they were "identified as responsible for repression and intimidation against peaceful demonstrators, opposition members and journalists in the wake of the 2020 presidential election in Belarus, as well as for misconduct of the electoral process."[9] The sanctioned people were subject to travel bans and asset freezes.

Both the EU and the US have followed up with more sanctions, pursuing their traditional pattern. The EU sanctions more people, sticking to the principle established in the Nuremberg trials after the second world war that no official must obey "unlawful orders." The Americans, by contrast, tend to sanction fewer individuals, but more big enterprises.

The EU extended its Belarusian sanctions on November 6 and December 17, respectively, to include a total of 84 persons and seven organizations in its second and third sanction packages.

On May 23, Lukashenka greatly aggravated his relationship with the EU, as a Belarusian fighter jet forced[10] a Ryanair plane to land in Belarus so that the regime could arrest a prominent

3 Agence France Presse, "Baltic States Expand Sanctions on Belarus," Barron's, September 25, 2020, available at: https://www.barrons.com/articles/jefferies-stock-buy-51629497577.

4 Reuters, "Belarus to sanction some 300 officials from Baltic states in tit-for-tat move: Belta," September 29, 2020, available at https://www.reuters.com/article/us-belarus-election-sanctions/belarus-to-sanction-some-300-officials-from-baltic-states-in-tit-for-tat-move-belta-idUSKBN26K2F4.

5 The Council of the European Union, "Belarus: EU imposes sanctions for repression and election falsification," October 2, 2020, available at https://www.consilium.europa.eu/en/press/press-releases/2020/10/02/belarus-eu-imposes-sanctions-for-repression-and-election-falsification/?mc_cid=f9594bcb0e&mc_eid=c1b7085789.

6 U.S. Department of the Treasury, "Treasury Sanctions Belarus Officials for Undermining Democracy," October 2, 2020, available at https://home.treasury.gov/news/press-releases/sm1143.

7 Foreign, Commonwealth & Development Office and The Rt Hon Dominic Raab MP, "Belarus: UK sanctions 8 members of regime, including Alexander Lukashenko," September 29, 2020, available at https://www.gov.uk/government/news/belarus-uk-sanctions-eight-members-of-regime-including-alexander-lukashenko.

8 Jason Douglas, "U.K., Canada Impose Sanctions on Belarusian President Lukashenko," The Wall Street Journal, September 30, 2020, available at https://www.wsj.com/articles/u-k-canada-impose-sanctions-on-belarusian-president-lukashenko-11601400152.

9 The Council of the European Union, "Belarus: EU imposes sanctions for repression and election falsification," October 2, 2020, available at https://www.consilium.europa.eu/en/press/press-releases/2020/10/02/belarus-eu-imposes-sanctions-for-repression-and-election-falsification/?mc_cid=f9594bcb0e&mc_eid=c1b7085789.

10 Graeme Wood, "The Ryanair Hijacking Pierced the Delusion of Flight," The Atlantic, May 28, 2021, available at https://www.theatlantic.com/ideas/archive/2021/05/belarus-ryanair-hijacking/619028/.

Belarusian journalist, Raman Pratasevich. This plane had departed from Athens and was on its way to Vilnius through Belarusian air space. Thus, Belarus hijacked an EU airplane flying between two EU capitals. The EU reacted fast and forcefully at its Foreign Council meeting on May 24-25, and on June 4 it banned Belarusian airplanes from EU airspace as well as flights to Belarus. Ukraine, the US, and many other countries enacted similar bans. Since Lukashenka had restricted land border crossings to EU countries and Ukraine, flying was the primary means for ordinary Belarusians to depart from Belarus.

On June 21, the EU, the US, the UK, and Canada all imposed coordinated sanctions.[11] For the EU, this amounted to its fourth package of sanctions "over enduring repression and the forced landing of a Ryanair flight."[12] As broad-based international sanctions are considered more effective, this was a major step forward. These Western powers have now agreed to pursue a substantial sanctions package comprised of personal, trade, financial, and technological export sanctions (no sectoral sanctions were enacted at this point). As a consequence, EU sanctions were extended to cover 166 persons and 15 entities. Many of these 15 business entities are private, belonging to friends and associates of Lukashenka. Of the eight enterprises in the fourth package, five are privately owned his associates. It is commendable that the EU has focused its sanctions on Lukashenka's associates and their enterprises.

On June 24, the EU pursued a major escalation by introducing sectoral sanctions in five areas: finance, petroleum product exports, potash exports, arms exports, and tobacco exports. The US, the UK, and Canada waited until August 9 – the anniversary of the stolen election – to impose sanctions, but it is an exaggeration to say that they were coordinated.

The June 24 EU sanctions were far more severe than previous EU sanctions. First, these trade sanctions apply[13] to all exports of petroleum products (but not crude oil) and 15-20% of the potash from Belarus. These two product groups account for around 60% of Belarus's exports to the West, potentially reducing the ability of state companies to receive export revenues from the West. Second, all financing of Belarusian state and state-owned banks is sanctioned, though loans of up to 90 days are allowed. This applies to all kinds of financial services, including bonds and shares. These rules appear to block any possibility for Belarus to issue more sovereign bonds, while secondary trade in sovereign Belarusian debt remains allowed. The EIB will stop any disbursement or payment to projects in the public sector

11 Antony J. Blinken, Secretary of State, "Holding the Lukashenka Regime and Its Enablers to Account," U.S. Department of State, June 21, 2021, available at https://www.state.gov/holding-the-lukashenka-regime-and-its-enablers-to-account/.

12 The Council of the European Union, "Belarus: fourth package of EU sanctions over enduring repression and the forced landing of a Ryanair flight," June 21, 2021, available at https://www.consilium.europa.eu/en/press/press-releases/2021/06/21/belarus-fourth-package-of-eu-sanctions-over-enduring-repression-and-the-forced-landing-of-a-ryanair-flight/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Belarus%3a+fourth+package+of+EU+sanctions+over+enduring+repression+and+the+forced+landing+of+a+Ryanair+flight.

13 The Council of the European Union, Council Regulation (EU) 2021/1030 of 24 June 2021 amending Regulation (EC) No 765/2006 concerning restrictive measures in respect of Belarus, Official Journal of the European Union, June 24, 2021, available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.LI.2021.224.01.0001.01.ENG&toc=OJ%3AL%3A2021%3A224I%3ATOC.

as well as any existing technical assistance service contracts. Furthermore, Member States will be required to limit the involvement of multilateral development banks – such as the World Bank and the EBRD – in Belarus. However, on August 23, 2021, the IMF disbursed a new SDR allocation of $650 billion, of which Belarus received $940 million without any conditions, which runs counter to EU financial sanctions. Third, the EU prohibits the sale of all kinds of technology to Belarusian state agencies that can be used for repression.

The EU sanctions target the public sector and crony enterprises, but not bona fide private enterprises. Unfortunately, however, these sanctions might not impose severe financial pressure on Lukashenka because they contain major loopholes. First, contracts signed before June 25, 2021 are excluded from sanctions, and the big potash producer Belaruskali operates with long-term contracts. For example, it has a five-year contract with the important Norwegian company Yara. Moreover, for unclear reasons, the EU specification of potash sanctioned covers only 15-20% of Belaruskali's production. Furthermore, in the long run, Belarus may be able to avoid sanctions through trade with Russia, Ukraine, the UK, or intermediaries from other countries. Finally, Belarusian enterprises tend to transfer sanctioned assets to companies that are not sanctioned, thus evading sanctions. The US sanctions in August were more complete that the EU sanctions on potash.

In the summer of 2021, the EU, the US, the UK, and Canada all sanctioned Lukashenka's cronies – or "wallets" as the US Treasury called them. The US Treasury singled out Lukashenka's "Energy Wallet" – Mikalai Varabei, his "Tobacco Wallet" – Aliaksey Aleksin, "who benefits from a near-monopoly on production of tobacco products in Belarus," and his "Construction Wallet" – the Karic Construction Empire, headed by Serbian and Cypriot national Nebojsa Karic.[14]

Under the Trump administration, the US paid little attention to the human rights violations in Belarus. Even so, in December 2020, it sanctioned[15] four major state agencies that were violating human rights: the Central Commission of the Republic of Belarus on Elections and Holding Republican Referenda, the Minsk Special Purpose Police Unit (Minsk OMON), the Main Internal Affairs Directorate of the Minsk City Executive Committee (Minsk GUVD), and KGB Alpha.

Since January 2021, the gradually assembled Biden administration has stepped up its game. On April 19, 2021, it ended[16] its waiver of sanctions on nine big state enterprises, including Belneftekhim, Naftan Oil Refinery, and Grodno Azot. Meanwhile, the US increased[17] visa restrictions by 16 people to a total of 109 Belarusian

14 U.S. Department of Treasury, "Treasury Holds the Belarusian Regime to Account on Anniversary of Fraudulent Election," August 9, 2021. https://home.treasury.gov/news/press-releases/jy0315

15 U.S. Department of the Treasury, "Treasury Sanctions Additional Belarusian Regime Actors for Undermining Democracy," December 23, 2020, available at https://home.treasury.gov/news/press-releases/sm1222.

16 U.S. Department of the Treasury, "Issuance of Belarus General License 2H," April19, 2021, available at https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20210419.

17 Reuters, "U.S. slaps sanctions on Belarus over human rights abuses, erosion of democracy," June 21, 2021, available at https://www.reuters.com/world/europe/us-slaps-belarus-related-sanctions-more-than-dozen-individuals-entities-2021-06-21/.

individuals and added five more entities, including the State Security Committee of the Republic of Belarus, the Internal Troops of the Ministry of Internal Affairs (MVD) of the Republic of Belarus, and the Main Directorate for Combating Organized Crime and Corruption of the MVD of the Republic of Belarus.

3. **The Structure of the Belarusian Economy and Foreign Trade**

Economic Structure

The Belarusian economy, as compared to the Central European EU Member States, is characterized by a relatively high share of agriculture[18] (7.8% of value added in 2019), a negligible share of mining, but a comparable share of services (at 56%) and a comparable share of industry (at 36%, including construction). However, over the last decade, the only sector that grew was the service sector (48% of value added in 2009), while both industry and agriculture were in relative decline. While the share of manufacturing in GDP was 25% in 2019, which is not much different from many industrialized economies, the structure of industrial production indicates a major problem: it relies heavily on resources (domestic and imported). The most prominent industrial sector is food (almost 30% of all manufacturing output in 2020), followed by the fuel processing and chemical sectors (12.8% and 9.1%, respectively, in 2020). In the latter, production of fertilizers is predominant. Other notable sectors include rubber and plastics, the metal industry, machinery and equipment, and transport equipment. The two latter sectors include the production of heavy machinery and utility trucks, military trucks, buses, and rail equipment. In the service sector, the main segments include trade, transport, information, and communication.

What makes Belarus significantly different from the economies of EU Member States is the large public sector. Its size is, however, subject to some uncertainty. EBRD Transition Reports repeatedly report that the public sector generated as much as 75% of GDP. Belstat's official data on the enterprise sector, however, claim that state ownership accounted for around 39% of employment in 2020. This number does not include enterprises where the state has a minority ownership but is de facto controlling the enterprise, nor does it include the quasi-private enterprises of proto-oligarchs that economically support the regime.[19] Other sources[20] point to roughly 30% of overall employment in the economy (not just the enterprise sector) in state-owned enterprises (SOEs) in 2019, while employment in public services (administration, health, and education, among others) accounted for 26%. According to

18 National Statistical Committee of the Republic of Belarus, "National Accounts of the Republic of Belarus," n.d., available at https://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/catalogues-of-statistical-publications/national-accounts-of-the-republic-of-belarus/.

19 Tom Lantos Human Rights Commission, "Democracy and Human Rights in Belarus," May 6, 2021, available at https://humanrightscommission.house.gov/events/hearings/democracy-and-human-rights-belarus.

20 Pavel Danejko, Aleksandr Čubrik, Kirill Gajduk, Katerina Bornukova, Dmitrij Kruk, "Transformacija sektora gosudarstvennyh kommerčeskih predprijatij v Belarusi" [Павел Данейко, Александр Чубрик, Кирилл Гайдук, Катерина Борнукова, Дмитрий Крук, "Трансформация сектора государственных коммерческих предприятий в Беларуси"], BEROC, Policy Paper no. 100, 2020, available at: https://www.beroc.org/upload/iblock/090/0905f-36e9689c76a13e9078f62e8f0d1.pdf.

the ORBIS database, of the largest 100 companies in Belarus, the state has an ownership share in at least 40 of them (it is important to note though that not all companies have detailed ownership data available). In recent years, these 40 companies have accounted for roughly half of the revenue of the top 100 enterprises. Furthermore, over 45% of the revenue of the top 100 companies is generated by 10 companies with an identified share of Russian ownership, including the largest enterprise in Belarus, Gazprom Transgaz Belarus (formerly Beltransgaz OAO, operating the gas pipelines). While the total revenue of the top 20 SOEs in 2019 amounted to $20.7 billion[21] (32% of GDP, which was $64.6 billion), combined profits were only USD 1.1 billion (of which 40% is due to potash production), with seven companies reporting considerable losses.

However, the share of the public sector in the economy is declining over time. Even according to official data, the share in employment dropped by at least 20 percentage points since 1995. The Belarusian economy can be described as hybrid.[22] Alongside the inefficient, heavily subsidized, and overregulated SOEs, the private sector is thriving, in particular in the service sector where SMEs are proliferating.[23] Moreover, public opinion polls indicate that support for market-oriented values is prevailing, in particular in the younger cohorts of the population. This includes the Eurobarometer study[24] as well as the Global Index of Economic Mentality,[25] which both show great potential for

Table 1. Employment in the enterprise sector, by ownership type

Ownership	1995	2000	2005	2010	2015	2020
state	59.8	57.2	51.8	44.7	39.3	39.0
private	40.1	42.4	46.9	53.6	57.3	56.6
private mixed with foreign share	0.5	1.4	2.5	3.9	6.7	6.5
foreign	0.1	0.4	1.3	1.7	3.4	4.4

Source: own elaboration on Belstat's data.

21 Maksim Adaskevich, "State-Owned Companies in Belarus: How Much are They Worth and Will They Be Privatized any Time Soon?" CASE Belarus, Policy Brief, April 2021, available at https://case-belarus.eu/wp-content/uploads/2021/05/policy-brief-soes.pdf.

22 Kiryl Rudy, "State Capitalism in Belarus: Behind Economic Anemia," [in:] Alexander Rozanov, Alexander Barannikov, Olga Belyaeva, and Mikhail Smirnov, Public Sector Crisis Management, IntechOpen, 2020, available at https://www.intechopen.com/chapters/73192.

23 OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Belarus," OECD Publishing, Paris, 2020, available at https://www.oecd-ilibrary.org/sites/76ff2ee0-en/index.html?itemId=/content/component/76ff2ee0-en.

24 The European Parliament, "Eurobarometer: The EP and the expectations of European citizens," n.d., available at https://www.europarl.europa.eu/at-your-service/en/be-heard/eurobarometer.

25 Brad Lips, Pal Czegledi, Carlos Newland, "Global Index of Economic Mentality," Atlas Network, 2020, available at https://www.atlasnetwork.org/assets/uploads/misc/GIEMREVISED4.pdf.

the adoption of free market principles. This means that while significant labor and capital resources are blocked in the inefficient, state-run parts of the economy, reallocation towards the private sector has great potential as far as future growth is concerned. Therefore, it is vital that the sanction measures taken by the Western powers specifically target the state sector of the economy.

Foreign Trade

The main trading partners[26] of Belarus are Russia and the EU, with shares in Belarus's exports at 41.3% and 25.0%, respectively, in 2019. Belarus's exports of goods and services to the EU (excluding the UK) in 2019 amounted[27] to $6.7 billion, with merchandise exports at $4.7 billion. Other important partners on the export side include Ukraine (11.5%), the UK (8.1%), and Kazakhstan (2.0%). The main Belarusian export goods are fuels, machinery and transport equipment, chemical products, various low-tech manufacturing products (textiles, apparel, metal products, and wood products, among others), and food and live animals. These five categories account for 83% of all Belarusian goods exports. However, the product structure of trade with its main partners is quite different – food and agricultural products and transport equipment are predominantly exported to Russia, while both fuels and chemical products are mainly destined to the EU (see Table 2).

Merchandise trade with the EU is not very diversified. Analysis of the top product categories in exports is presented in Table 3. The 11 categories that contributed more than 1% to Belarus's exports to the EU in 2019 accounted for 75% of total Belarusian goods exports to the EU, of which a major part was fuels (45.8%). Other top export products were potassium fertilizers (potash), various metal and wood products (including furniture and parts of furniture), as well as transport equipment (mainly railway equipment). The export structure largely overlaps with SOEs and companies owned by proto-oligarchs. One SOE (Belaruskali) is the sole producer of potash and another SOE (Belarusian Potash Company) the sole seller. For petroleum products, one refinery is 100% state-owned (Naftan) and another one (Mozyr) is owned predominantly by the state and partially by Russian capital. Together, potash and fuels account for roughly 59% of all Belarusian exports to the EU and 61% of its overall exports to OECD countries. Production in the wood sector is more diversified with several foreign companies operating alongside the SOEs, while in the production of railway equipment, Swiss company Stadler is present.

Therefore, given the dominance of state ownership in the fertilizer and oil refining sectors as well as their macroeconomic importance and their potential role in providing liquidity to the regime, restrictions on the exports of these products to the EU could have a significant impact on the economic foundations of the regime. Furthermore, a policy such as this would not harm the independent private sector or SMEs.Metal products, in particular scrap-derived steel products, are another source of foreign currency receipts for the regime. An inefficient SOE, BMZ, is the monopolist in

26 Data retrieved from the World Integrated Trade Solution (WITS), available at https://wits.worldbank.org/countrysnapshot/en/BLR.

27 European Commission, "Countries and regions: Belarus," 2021, available at https://ec.europa.eu/trade/policy/countries-and-regions/countries/belarus/.

this sector. Outside potash and fuels, SOEs accounted for 32.6% of overall exports (goods and services) in 2019 as compared to roughly 50% in 2012.[28] The main categories in service exports are transport (over 10% of goods and services combined), ICT services (3.7%), and travel and tourism (2.3%).[29] Unfortunately, no detailed data on the structure of services trade with the EU is publicly available.The SOEs in Belarus are old-fashioned and overstaffed, even if they produce the best Soviet products ever made. Because of its economic structure, Belarus is highly dependent on Russia for both its exports and imports. Its post-Soviet manufactures can only be sold to Russia because their quality is hardly sufficient for the West. On the import side, the share of Russia in 2019 was 54.8% and the EU at 18.4%. Product-wise, the largest category is fuels (24.8%), where almost all imports come from Russia (44% of all imports from Russia). Other large categories include machinery and transport equipment. The EU is a significant source of imports in high- and medium-tech products, in particular machinery and equipment as well as chemical products (mainly pharmaceuticals and medicaments). The EU exports to Belarus are much more diversified than the EU imports from Belarus. The top categories include transport equipment and parts of transport equipment, machinery, electrical apparatus, and several agri-food categories including fruit and vegetables. It would be difficult to single out the EU export goods that are directly related to the functioning of the regime, except dual use goods that can be used for military and civil purposes. At the same time, Belarus imports cheap oil and natural gas from Russia to produce petroleum and fertilizers, which account for a large part of its exports to the West.

The general government debt of Belarus at the end of 2020 stood at 37.3%, of which over 80% was external debt (and a vast majority of the domestic debt is held in foreign currencies). The level of overall indebtedness increased after a significant reduction of debt in previous years. Servicing of general government debt (interest plus principal) is roughly 4% of annual GDP, which was not a problem as Belarus was running a budget surplus for the last decade. This allowed the government to accumulate significant cash buffers[30] which were used to service debt in 2020 when a significant budget deficit was recorded. However, these buffers will be exhausted in 2021 as the budgetary situation is not likely to improve. Moreover, the larger and larger amount of central government budget should be spent on servicing public debt. For example, in the 1st quarter of 2021, 10.8% of central budget expenditures were spent on servicing interests only (without principal). Belarus has been seeking support in Russia, but the negotiated in September 2020 Russian loans amounted to only USD 1.5 billion (2.5% of GDP) paid by June 2021. Moreover, a significant source of the competitive position of Belarusian

28 Pavel Danejko, Aleksandr Čubrik, Kirill Gajduk, Katerina Bornukova, Dmitrij Kruk, "Transformacija sektora gosudarstvennyh kommerčeskih predprijatij v Belarusi" [Павел Данейко, Александр Чубрик, Кирилл Гайдук, Катерина Борнукова, Дмитрий Крук, "Трансформация сектора государственных коммерческих предприятий в Беларуси"], BEROC, Policy Paper no. 100, 2020, available at: http://www.research.by/webroot/delivery/files/pdp2020r07.pdf.

29 Data retrieved from the Atlas of Economic Complexity, available at https://atlas.cid.harvard.edu/countries/28/export-basket.

30 Fitch Ratings, "Fitch Affirms Belarus at 'B'; Outlook Stable," May 15, 2020, available at https://www.fitchratings.com/research/sovereigns/fitch-affirms-belarus-at-b-outlook-stable-15-05-2020.

Table 2. Belarusian exports in 2019: Main product categories (SITC classification)

Product	Share in total exports of Belarus (%)	Share of exports to the EU in total product exports (%)	Share of product in total exports to the EU (%)	Share of exports to Russia in total product exports (%)
Food and live animals	14.7	2.8	1.6	83.0
Beverages and tobacco	0.6	10.0	0.2	42.0
Crude materials, except fuels	3.9	54.2	8.3	29.2
Mineral fuels, lubricants and related products	20.7	59.8	49.4	1.2
Animal and vegetable oils, fats and waxes	0.8	23.9	0.8	55.6
Chemicals and related products, n.e.s.	15.9	14.4	9.1	22.9
Basic manufactures	15.2	31.2	18.9	45.4
Machinery and transport equipment	16.5	9.2	6.1	70.1
Miscellaneous manufactured articles	7.1	19.0	5.4	69.2
Commodities and transactions not classified	4.6			

Source: UN Comtrade

Table 3. Top Belarusian exports to the EU (3-digit SITC) in 2019

Product	Share in total exports of Belarus (%)	Share of exports to the EU in total product exports (%)	Share of product in total exports to the EU (%)	Share of exports to Russia in total product exports (%)
Petroleum oils, oils from bitumen	18.0	63.7	45.8	0.8
Fertilizers	9.9	14.3	5.7	1.3
Wood simply worked, and railway sleepers of wood	1.5	83.0	5.1	2.8
Iron and steel bars, rods, angles	2.1	47.1	3.9	14.8
Veneers, plywood, particle boards	1.6	44.7	2.9	29.4
Furniture and parts thereof; bedding	1.8	40.1	2.9	47.6
Railway vehicles	1.3	42.3	2.1	47.8
Wood in chips or particles and wood	0.5	99.8	1.9	0.1
Residual petroleum products, n.e.s.	1.0	47.2	1.9	5.0
Wire of iron or steel	0.6	68.8	1.6	24.4
Wood manufactures, n.e.s.	0.6	64.8	1.5	22.8

Source: UN Comtrade

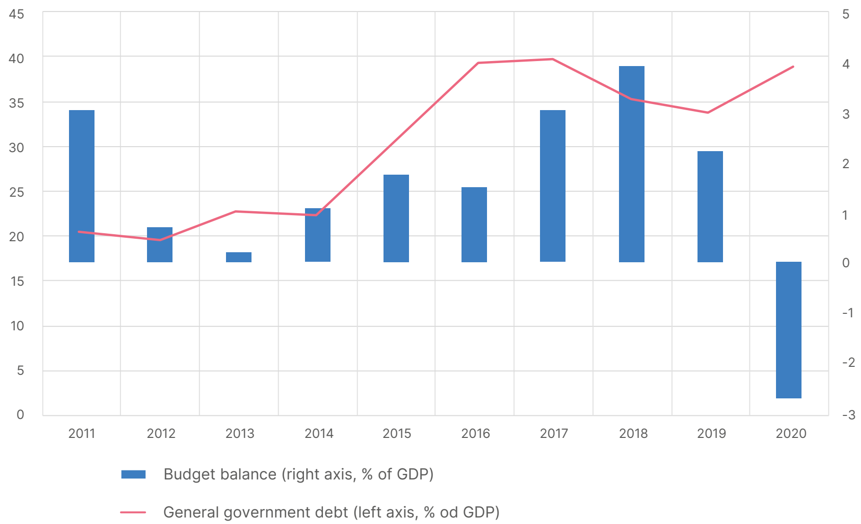
Table 4. Belarusian imports: Main product categories in 2019 (SITC classification)

Product	Share in total exports of Belarus (%)	Share of exports to the EU in total product exports (%)	Share of product in total exports to the EU (%)	Share of exports to Russia in total product exports (%)
Food and live animals	8.4	22.8	10.4	35.0
Beverages and tobacco	0.8	33.6	1.4	21.7
Crude materials, except fuels	4.6	22.4	5.6	41.9
Mineral fuels, lubricants and related products	24.8	0.6	0.9	98.2
Animal and vegetable oils, fats and waxes	0.3	12.0	0.2	65.6
Chemicals and related products, n.e.s.	11.0	35.5	21.3	42.5
Basic manufactures	15.1	17.9	14.7	54.0
Machinery and transport equipment	24.5	27.7	36.8	40.1
Miscellaneous manufactured articles	7.2	22.4	8.8	35.3
Commodities and transactions not classified	3.3			

Source: UN Comtrade

Table 5. Deficit, debt, and payment situation of Belarus (% of GDP)

Product	Q42018	Q42019	Q42020	Q12021
External debt of the general government	29.1	26.6	30.9	30.4
External debt servicing of the general government	4.6	3.6	4.2	1.4
Principal	3.3	2.3	2.9	1.0
Interest	1.3	1.3	1.3	0.5
International reserve assets, US dollars	11.9	14.6	12.4	11.6
Goods and services, balance	-1.0	-5.8	2.9	5.8
Exports of goods and services	69.3	62.0	68.0	73.4
Imports of goods and services	70.3	67.8	65.1	67.6



Source: National Bank of Belarus (top), tradingeconomics.com (bottom) exports, and hence, a source of budget revenues, has been the Russian energy subsidies to Belarus in terms of cheap oil and gas. The likely cost of the Russian "tax maneuver" removing these subsidies is estimated to have a cumulative negative impact on the Belarusian budget of the order of $11 billion in 2019-2024.[31]

At present, Belarus has two concrete economic problems. One is long term. The Belarusian economy has not grown since 2012 because of its systemic problems. Without exaggeration, we may argue that it will not grow until Lukashenka has departed and a normal market economic regime has been introduced. This means that the West should not be afraid of imposing tougher sanctions on Belarus to reduce economic growth. The plain fact is that no significant growth is likely until Lukashenka has lost power, allowing the country to introduce fruitful market economic reforms.

The other economic concern is short term: Belarus has only international reserves for two months of imports, while the rule of thumb is that they should suffice for at least three months of imports. Trade sanctions targeted the two main exports to the EU, i.e., fuels and fertilizers, and are likely to eventually make a significant dent in the current account, which may have a destabilizing impact on the currency and the debt burden and, in turn, on the economic regime. However, these sanctions do not apply for the contracts signed before June 25, 2021 and therefore these effects will take time to materialize.

31 TASS, "Belarus and Russia reached a general agreement on tax maneuver — BelTA," June 1, 2021, available at https://tass.com/economy/1296673.

4. **Belarus Sanctions: How Will Russia Behave?**

A major question for the imposition of sanctions on Belarus is how Russia will react. One idea is that Russia will utilize the opportunity to seize control of Belarus, whereas an opposing view is that the Kremlin will balk at the substantial financial and political costs of taking over Belarus, in particular since it knows that Lukashenka has nowhere else to go. We are inclined to believe that Moscow will be more afraid of the costs than enticed by the potential benefits, but it is likely to make a late decision that might be surprising.

Our analysis is based on several observations: Russia's approach to other similar situations, Belarus's financial needs, the state of Russia's finances, Russia's apparent preference for cheaper forms of warfare, and, finally, the recent evidence of the Kremlin's attitude toward Belarus. They all point in the same direction: the right policy is to impose maximum sanctions on Belarus as early as possible.

Russia has had multiple opportunities to annex former Soviet territories, but it has done so only in one case, Crimea in March 2014. To the Russian mind, the status of Crimea was quite unique, because it was the Soviet holiday paradise lost, and many Russians had nostalgic memories from summers in Crimea. Admittedly, Sevastopol is the dominant naval base in the Black Sea, but Russia already controlled it. They had already secured a long-term lease until 2042, so its annexation did not provide Russia with any significant additional military advantage. Thus, Russia's annexation of Crimea was hardly an act of Russian neo-imperialism, but it seems to have been geared to render Putin more popular in Russia. Putin's annexation of Crimea boosted his popularity rating[32] to a high of 86%, according to the independent Levada Center poll, and the Kremlin pays great attention to opinion polls.

By contrast, in late September 2020, the Levada Center carried out[33] a national poll about Russians' sentiments about Belarus. Their interest was limited. Forty-three percent sympathized with Lukashenka, and 18% with the protesters, while the rest did not take any side. Fifty-one percent approved of Russia granting Belarus unspecified economic assistance, while 45% opposed any aid. No question about annexation was posed, but this poll shows that the Russian nation was divided and not enthusiastic about Russian engagement in Belarus.

Russia has been reticent in its treatment of other disputed territories in Moldova, Georgia, and Ukraine. While it has kept troops in Transnistria in Moldova since the end of the Soviet Union, it has not tried to annex that territory. After its

32 Levada-Center, n.d., available at https://www.levada.ru/en/tag/crimea/.

33 Levada-Center, "Protests in Belarus," October 22, 2020, available at https://www.levada.ru/en/2020/10/22/protests-in-belarus-2/.

war with Georgia in August 2008, Russia recognized Abkhazia and South Ossetia as independent states, and its troops still control one-fifth of Georgia's territory, without having formally annexed them. After the Russian arms buildup around Ukraine in April 2021, worries arose that Putin would either recognize the independence of the so-called Donetsk and Luhansk People's Republic, annex them, or declare Belarus a part of Russia, but so far none of that has happened.

One important constraint is that Russia's financial means are limited. Its GDP has stagnated since it attacked Ukraine in 2014. Its expenditures on Crimea are officially $5 billion a year, according to Russian economist Sergei Aleksashenko. The current federal expenditures amount to some $3 billion a year, to which should be added steady infrastructure investments of about $2 billion a year. The population of Crimea is 2.3 million, while the remaining population of occupied Donbas is larger, either 2.5 million, as assessed by the Ukrainian authorities, or 3.5 million as claimed by the Russian authorities. While the Russian government offers far less benefits to the inhabitants of the Donbas than of Crimea, the Russian government costs might be similar to those of Crimea, that is, $5 billion a year. Given that Russia's GDP in 2020 was $1.5 trillion, Crimea and the Donbas cost the Russian federal budget about 0.6% of Russia's GDP each year. That is a lot of money for the relatively poor Russia.

When the Kremlin formally annexed Crimea, it became financially responsible for its confiscations there. Ten groups of Ukrainian companies have sued the Russian Federation in international arbitration courts, primarily at the Permanent Court of Arbitration in The Hague, on the basis the Bilateral Investment Treaty between Russia and Ukraine, which was concluded in 1998. The Russian Federation has lost two initial cases. Although it refuses to pay, it will presumably be forced to pay according to the The Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958, also known as the New York Convention.[34] The total amount is likely to be around $10 billion, most of it – about $7 billion – to Naftogaz. Presumably, this is one reason for the Kremlin not to annex new territory. In the highly industrialized Donbas, the value of the confiscated assets is likely to reach $20 billion, according to the highly respected Vienna Institute for International Economic Studies.[35] So far, Russia has escaped liability because it has not annexed the Donbas.

To provide more financial support to Belarus would be costly to Russia. With nearly ten million inhabitants, Belarus is twice as large as Crimea and occupied Donbas together and its GDP in 2020, according to the IMF, was $60 billion.[36] In

34 New York Arbitration Convention, "The New York Convention," n.d., available at https://www.newyorkconvention.org/.

35 The Vienna Institute for International Economic Studies – Wiener Institut für Internationale Wirtschaftsvergleiche, "Ukraine: reconstruction of Donbas will cost at least USD 21.7 billion or 16% of Ukraine's GDP," June 25, 2020, available at https://wiiw.ac.at/ukraine-reconstruction-of-donbas-will-cost-at-least-usd-21-7-billion-or-16-of-ukraine-s-gdp-n-448.html.

36 Data retrieved from the World Economic Outlook Database, International Monetary Fund, available at https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?c=913,&s=NGDPD,&sy=2012&ey=2020&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1.

the 2000s, Russia subsidized Belarus by about 10% of its GDP, that is, $6 billion a year, but the Russian government has tightened up since 2008. It still offers oil and gas to Belarus with some discount, but far less than previously, and some loans. Putin has accumulated vast international currency reserves of about $600 billion, but he shows no sign of being ready to spend much on Belarus. To judge from its recent policy, Russia is only prepared to cover a maximum of $2-3 billion a year, including both implicit energy subsidies and Russian loans.

But Belarus needs much more. Its public finances are surprisingly transparent. It used to have a steady large current account deficit, but since Belarus introduced a flexible exchange rate, it has been brought down. It was only $1.3 billion in 2019 and just $54 million in 2020.[37] Thus, Belarus only has to refinance its public debt service in 2021, which is about $3 billion in external financing. The additional EU sanctions of June 2021 may add $2 billion a year to Belarus's financial needs, which then may increase to $5 billion a year.

Lukashenka has spoilt his reputation with all donors. In particular, former creditors such as China and Azerbaijan no longer appear interested. That leaves Lukashenka with no other plausible source of financing than Russia and adjacent institutions, such as the Eurasian Fund for Stabilization and Development,[38] which is attached to the Russia-dominated Eurasian Economic Union. Nobody understands this better than Russia's President Vladimir Putin, who also knows that Lukashenka is an unreliable patron.

In the last year, Lukashenka has gone to Russia at least six times to ask Putin for financial support. On September 14, 2020, he went to Putin to beg in his summer residence in Sochi. Putin promised only $1.5 billion of credits, $500 million from Russia in 2020, $500 million from Russia in 2021, and $500 million from the Eurasian Fund for Stabilization and Development. For the rest, he suggested that Lukashenka look for private Russian money, hinting that 2,500 Belarusian enterprises had Russian capital. During Lukashenka's next four visits, Putin did not offer anything more. He only confirmed that Russia would give Belarus the credit of $500 million that Putin had promised in September 2020.

On July 13, they met again, this time in St. Petersburg. The official report states that "an agreement was reached on the volume of credits," but the amounts were not specified.[39] Putin praised Belarus: "Belarus is a reliable and stable partner in [as a borrower]. Its gold and foreign currency reserves are considerably larger than is necessary for serving foreign trade transactions."[40] Putin follows the Belarusian economy very closely and he sees Lukashenka far more often than any other foreign leader, which does suggest that he might bail him out in the end.

As so often, Lukashenka's financial gambit does not hang together, because he patently wants to spend more than his treasury can collect. The

37 Ibidem.

38 Eurasian Fund for Stabilization and Development official website, available at https://efsd.eabr.org/en/.

39 President of Russia, "Meeting with President of Belarus Alexander Lukashenko," July 13, 2021, available at http://en.kremlin.ru/events/president/news/66185.

40 Ibidem.

last serious crisis occurred in 2011. Lukashenka did two things. He devalued the Belarusian ruble heavily and let inflation skyrocket to 109%, and he begged the Kremlin for more support, which he eventually got, by promising to sell attractive Belarusian companies cheaply to Russian oligarchs. However, in the end, after having received Russian emergency financing, he reneged on several of those promises, though the remaining 50% of the shares of Beltransgas, the key Russian demand, were sold to Gazprom in 2011.

The Putin-Lukashenka drama looks like a film in slow motion. Lukashenka begs, and Putin gives him some crumbles to keep him going. In 2011, the Kremlin attempted to let dubious Russian oligarchs take over the biggest and most valuable companies in Belarus for a pittance with the help of Russian state bank credits. At present, the Kremlin seems to want to complete that strategy.

The four most attractive Belarusian state companies are two fertilizer plants, Belaruskali, which produces one-fifth of all potash in the world, and Hrodno Azot, a nitrate fertilizer company, and two oil refineries, Naftan and Mozyr. These four companies will control 60% of Belarus's exports to the West.

The big Russian potash producer Uralkali wants to take over Belaruskali and the Russian fertilizer company Uralchem has its eyes on Hrodno Azot. Both Uralchem and Uralkali have been taken over by Dmitry Mazepin, a Belarusian with close links to the Kremlin and billions of dollars of debt to Russia's two biggest state banks, VTB and Sberbank. He is also chairman of the Russia-Belarus Business Council. Mazepin has recently released the loyal CEOs of both Uralchem and Uralkali, while receiving even more state bank credits, arousing suspicions that he is preparing to send off his former CEOs to manage the corresponding Belarusian assets.

A similar plot could be prepared for Belarus's two big oil refineries. In 2011, a Russian state oil company, Slavneft, acquired 42.5% of the Naftan oil refinery. Now the Russian state oil companies are circling around the other big Belarusian oil refinery, Mozyr. The main operator here appears to be the Russian multi-billionaire Mikhail Gutseriev, who used to manage Slavneft and whose private company is Safmar. He was included in the fourth EU sanction package of June 2021. The financing for these maneuvers is also likely to come from the two big Russian state banks, Sberbank, whose CEO German Gref is highly active in Belarus and a great friend of Lukashenka, and VTB. At present, Sberbank seems to lead Russia's financial operations in Belarus.

Yet, so far, little has happened. On April 21, Putin made his much-anticipated big annual speech on the state of Russia to the Russian Federal Assembly, but he devoted it almost entirely to domestic issues. None of the feared annexations occurred. Putin just complained[41] about an alleged attempted coup d'état against Aleksandr Lukashenka, of which there is no evidence. He did not say what he wanted to do with Belarus. Putin

41 President of Russia, "Presidential Address to the Federal Assembly," April 21, 2021, available at http://en.kremlin.ru/events/president/news/65418.

met again with Lukashenka on April 22,[42] May 28-29,[43] and July 13.[44] To judge from the many meetings, to which phone calls should be added, they are plotting something, but little has come out as yet.

Another piece in the Russian-Belarusian drama is their union treaty, first concluded in 1999. At the time, Lukashenka appeared to think that he would be able to rule over both Russia and Belarus after President Boris Yeltsin. That option vanished after Vladimir Putin had become the Russian president, and for many years the union treaty seemed moribund. Yet, Belarus has persistently been Russia's closest ally. It loyally participated in the Commonwealth of Independent States (formed in December 1991), the six-state Collective Security Treaty (formed in 1992), and the five-state Eurasian Economic Union (formed in 2015), and it allows two joint Belarusian-Russian military facilities on its territory. Belarus has nowhere else to go, and why should the Kremlin take on more than it can manage?

Russia's national finances are quite tight, and from a financial point of view, Russia's apparent caution is no surprise. Russia's GDP has been stagnant since 2014, and in current US dollars it has slumped from $2.3 trillion in 2013, before Western sanctions, to $1.5 trillion in 2020, or by more than one-third, according to the IMF.[45] Since Putin has given priority to the military and the security police as well as international currency reserves, the Russian population has suffered. Real disposable incomes have plummeted by 11% from 2013 to 2020, as the country was hit by Western sanctions and the oil price moderated. Russia has to husband its scarce financial resources.

The evidence from recent events is not conclusive, since the Kremlin loves springing surprises, but it does suggest that the Kremlin is not keen on annexing more territory. It wants to dominate over its neighbors, but not cover their costs. Moreover, the more expensive annexation appears, the more reluctant the Kremlin is to pursue annexation. The empirical evidence since 2008 is that the worse the financial situation of Belarus, the stingier Russia is inclined to be. Therefore, any increase in the cost of Belarus to Russia would logically reduce the risk of annexation or other Russian further integration. This is the key observation. Moreover, that is also the dominant observation of the Belarusian democratic movement.

The logic of this reasoning is that the West (the EU, the US, the UK, other European states, and Canada) should maximize the cost of bad behavior for both the Belarusian authorities and the Kremlin. The higher the costs to Russia of somehow taking over Belarus, the more reluctant the Kremlin will be to tighten its hold over Belarus.

42 President of Russia, "Meeting with President of Belarus Alexander Lukashenko," April 22, 2021, available at http://en.kremlin.ru/catalog/persons/119/events/65428.

43 President of Russia, "Meeting with President of Belarus Alexander Lukashenko," May 28, 2021, available at http://en.kremlin.ru/catalog/persons/119/events/65699

44 Prezident Rossii, "Vstreča s Prezidentom Belorussii Aleksandrom Lukašenko" [Президент России, Встреча с Президентом Белоруссии Александром Лукашенко], July 13, 2021, available at http://kremlin.ru/events/president/news/66185.

45 IMF, World Economic Outlook Database, April 2021. https://www.imf.org/en/Publications/WEO/weo-database/2021/April/weo-report?c=922,&s=NGDPD,&sy=2013&ey=2020&ssm=0&scsm=1&scc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1.

Russia's reticence to take over Belarus may be reinforced by sanctions on Russian state companies in Belarus, notably the four Russian state banks, and sanctions on Russian businessme who attempt to take over Belarusian state-owned companies cheaply.

5. **Choice of Sanctions**

The West has mainly applied three kinds of sanctions on Belarus, personal sanctions because of human rights violations, enterprise sanctions, and sectoral sanctions.

As discussed above, Western sanctions against human rights violators in Belarus have described a regular pattern. Before elections, Lukashenka has aggravated human rights violations. The West has reacted primarily with personal sanctions. As a response, Lukashenka has liberated political prisoners after about two years, proving that they had had some effects, and then the West has eased its sanctions. In a similar fashion, Lukashenka has run low on official international reserves once a term. He has turned to the West or Russia to acquire additional financing and he has made sufficient economic concessions.

As of July 18, Lukashenka holds more than 560 political prisoners and he faces massive popular resistance. Therefore, he can hardly do anything in the short term to ease Western sanctions, which have been imposed because of his human rights violations. This is a reason to impose stricter human rights sanctions.

For the next two years, Belarus's foreign payments appear the critical issue. Fortunately, both the National Bank of Belarus and the Ministry of Finance of Belarus maintain impressive transparency. Belarus's external public debt is not very large. It amounts to only $18 billion or 30% of GDP, according to the Ministry of Finance (see Table 5). The problem is not solidity but liquidity, and currently nobody but Putin is ready to lend anything to Belarus. Amazingly, in late June 2020, Belarus raised $1.25 billion in Eurobonds on international financial markets at a historically low interest rate, but that is not likely to be repeated. The EU sectoral sanctions should block such an option. At present, Belarus is locked out from the international financial market by the market forces and the EU sanctions.

Belarus's international reserves amount[46] to $7.4 billion (as of July 1), but out of this only $3.5 billion is actual cash and $0.5 billion is IMF's Special Drawing Rights. Another $2.8 billion consists of gold, while the rest is of dubious value. The usual standard is that a country should have sufficient reserves to cover three months of imports plus being able to manage its foreign debt service, that is $8 billion for three months of imports and a debt service in foreign currency of $3 billion in 2021. Without major changes, the amounts will be similar for 2022. Belarus has benefited greatly from improved terms of trade in 2021 as commodity prices have risen, roughly saving $2 billion a year in improved current account balances. Yet, even so, Belarus needs about $4 billion in international financing for each of 2021 and 2022,

46 Data retrieved from the National Bank of the Republic of Belarus, "International Reserves and Foreign Currency Liquidity of the Republic of Belarus as of 01/08/2021," available at https://www.nbrb.by/engl/statistics/sdds/report.asp.

though the IMF contributed almost $1 billion in August 2021 (due to the global SDR allocation[47] of the IMF), and nobody but Russia will be willing to cover the balance.

The efficacy of sanctions varies greatly, Gary Hufbauer with co-authors carried out[48] a thorough empirical study of 2004 cases of modern Western sanctions. Their conclusion was that sanctions were "at least partially successful in 34 percent of the cases" documented, so that "the bald statement 'sanctions never work' is demonstrably wrong." Thus, most sanctions are not very effective, but often the reason is more or less irrational politics. Substantial knowledge has been gathered about what works. They should be narrowly targeted and clearly defined to be effective.

The more countries that participate, the more effective sanctions tend to be. In the case of Belarus, we can only hope for Western sanctions, but it is important that the four main Western partners in sanctions against Belarus act together, that is, the EU, the US, the UK, and Canada. Other Western countries have joined in solidarity, notably Norway and Switzerland, but also Ukraine, Northern Macedonia, Montenegro, Albania, Iceland, Liechtenstein, and Serbia. Fortunately, all these countries already coordinate their sanctions as desired.

The EU June sanctions on Belarus are doing all the right things. They are likely to deter, punish, and hopefully reverse bad behavior. The personal sanctions punish the culprits of human rights violations and election fraud that are not punished in Belarus because they are obeying illegal orders. This is the Nuremberg principle: it is illegal to carry out illegal orders. Since the Belarusian courts are not punishing them, Western sanctions should. Belarusian activists want many hundreds of ruthless special policemen to be sanctioned. The question is often raised: Are they really harmed if they are sanctioned? Yes, it means that they cannot travel in the EU, which is a major attraction to the Belarusian middle class. Many of these culprits would probably have liked to spend their holidays in Jurmala in Latvia or in Palanga in Lithuania. The EU should apply the principle that anybody who can be clearly identified as a criminal should be sanctioned.

A second group of sanctions focuses on the criminal financial activities of the Lukashenka family and his cronies. Rumors circulate that it holds its money in Dubai, a black hole in global finance. If reliable information exists on where these funds are being held and who manages them, all these people and entities should be subject to sanctions.

A third, and the most important, group of sanctions on Belarus should be to increase the economic cost of repression to the regime. This implies sectoral sanctions, that is, both financial and trade sanctions. The Western sanctions on Russia serve as a good example. Since 2014, the EU, the US, and other allies have imposed substantial financial sanctions on Russia. Although these sanctions have not been very severe, they have

47 International Monetary Fund, "Special Drawing Rights (SDRS)," n.d., available at https://www.imf.org/en/Topics/special-drawing-right.

48 Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, Barbara Oegg, "Economic Sanctions Reconsidered," 3rd edition, Peterson Institute for International Economics, 2009, available at https://www.piie.com/bookstore/economic-sanctions-reconsidered-3rd-edition-paper.

been quite effective. In 2015, the IMF argued that they would reduce Russia's economic growth by 1-1.5% of GDP each year. A recent paper argues that the actual effect has probably been a reduction of Russia's economic growth by 2.5-3% of GDP each year.[49] In any case, Russia's economy has not grown since 2014, while the Central European economies have expanded by about 4% a year. Belarus received its last financial support from the IMF in 2009-2010, and the Belarusian economy has not grown since 2012. Authoritarian kleptocracy is costly.

Trade sanctions cause quite a bit of economic hardship to society through the reduction of economic activity. Evidence points to significant drops in trade[50] due to both import and export sanctions as well as a significant reduction of GDP and an increase in poverty. However, we believe that in the case of Belarus, the economic structure warrants targeted export sanctions in the SOE-dominated sectors that support the regime. The bulk of the private sector operates independently of SOEs and therefore will remain largely unaffected by trade sanctions, though import sanctions can lead to shortages and may allow the regime to take advantage of the situation through unfair trade practices. Yet, the EU decision to target mostly dual-use goods and eavesdropping equipment seem to be the right choice. Belarus is involved in the production and exports of arms to dubious countries. The EU has sanctioned these activities as should be done.

The EU and the US should repeat their successful financial sanctions against Russia also against Belarus. The basic ideas are to hit the state sector and not the private sector, the big state companies, and not private small and medium-sized enterprises. The focus should be on the main state-owned financial institutions. The West should also sanction the four big Belarusian state banks. As of January 1, 2021, they accounted for almost two-thirds of Belarusian banking assets. Their key function is to bail out the big Belarusian state-owned enterprises, functioning as a non-transparent channel of state subsidies, and they do nothing for the Belarusian citizens or for small and medium-sized enterprises. These banks are Belagroprombank, which works for the state-owned farms, Belarusbank, Belinvestbank, and Dabrabyt Bank. The EU June 2021 sanctions appear to have done most of this.

Absurdly, in late June 2020, just before the flawed elections, Belarus sold a Eurobond issue of $1.25 billion at a good price. The West should not allow a repetition but sanction the primary issue of Belarusian sovereign bonds in any currency, as the US has just done on Russia, and contemplate taking a second step to also sanction secondary trade of the about $3 billion of Belarusian Eurobonds that are outstanding. The EU did sanction Belarusian sovereign bonds in June 2021 and the UK did so in August 2021, but the US has not sanctioned Belarusian bonds. The market prices of the Belarusian bonds have held up surprisingly

49 Anders Åslund, Maria Snegovaya, "The impact of Western sanctions on Russia and how they can be made even more effective," The Atlantic Council, 2021, available at https://www.atlanticcouncil.org/wp-content/uploads/2021/05/The-impact-of-Western-sanctions-on-Russia-and-how-they-can-be-made-even-more-effective-5.2.pdf.

50 Gabriel Felbermayr, Constantinos Syropoulos, Erdal Yalcin, Yoto V. Yotov, "On the effects of sanctions on trade and welfare: New evidence based on structural gravity and a new database," Kiel Working Paper, No. 2131, Kiel Institute for the World Economy (IfW), Kiel, 2019, available at https://www.econstor.eu/bitstream/10419/200098/1/1668033704.pdf.

well, and it appears that they have been sold by Western financial institutions to Russians, who do not fear Western sanctions. Belarus has hardly attracted any foreign direct investment, so this is a category not worth discussing.

The international financial institutions need to line up in Western sanctions on Belarus, as they have done on Russia. The IMF has not provided Belarus with any funding since 2010, but its SDR allocation of $1 billion to Belarus should be stopped. The EBRD and the EIB have limited their interaction with Belarus to the private sector after the stolen elections in 2020, which is just right. However, the World Bank continues to operate directly with the Belarusian state, which makes no sense. In June 2021, the EU asked its members to stop such support to the Belarusian state.

Fourth, Western sanctions should deter Russian entities from taking over Belarusian enterprises. To begin with, the united West should sanction the Russian state banks that are trying to take over as much as possible of the Belarusian economy. Four of the five Russian banks in Belarus are owned by the Russian state, namely BPS-Sberbank, VTB Bank (Belarus), Belvnesheconombank, and Begazprombank. Together, they hold almost one-fifth of the Belarusian banking assets (as of January 1, 2021). These are the spearheads of the Russian state into the Belarusian economy, through which Moscow tries to take over Belarusian companies. These banks should be designated, that is, be prohibited from dealing in dollars or euros. Sanctions on these banks will increase the cost to the Kremlin to try to take over Belarus.

A few big Russian businessmen have taken a particular interest in Belarus and appear to try to take over big Belarusian companies for a song. Western sanctions should be designed so that they deter dubious, privileged Russian purchasers of Belarusian assets, because the prices are bound to be far too low. These transactions have not occurred as yet, but the potential culprits should be sanctioned if they actually go ahead. The most obvious candidate is Dmitry Mazepin. Rosneft, headed by Igor Sechin, and its subsidiary Slavneft, formerly headed by Mikhail Gutseriev, appear interested in the two big Belarusian oil refineries Naftan and Mozyr. The financing would come from the two Russian state banks, Sberbank (CEO Herman Gref), VTB (Andrei Kostin), or Belvnesheconombank (Igor Shuvalov). If these companies and managers act, they should be sanctioned. In June 2020, the EU sanctioned the Russian citizen Gutseriev, while the US has not sanctioned him.

The residue of the Belarusian banking sector consists of 15 banks with surprisingly mixed ownership, holding over one-tenth of Belarusian banking assets. The only non-Russian foreign bank with a substantial and reputable owner is Priorbank, which is majority owned by Austrian Raiffeisen Bank. These banks serve the private sector and should be protected unless they help Lukashenka and his cronies to move money illegally. The participants in such operations should be identified and sanctioned by the West.

Sanctions must be enforced to be effective. The Fifth EU Anti-Money-Laundering Directive of June 2018 orders all EU members to establish public registries of all ultimate beneficial owners of companies in the EU. At present, this should have been done. This should make it possible for all EU countries to implement the EU sanctions on Belarus in full.

Conclusion: Deploy Maximum Pressure on Belarus

The situation of Belarus is currently quite clear. Lukashenka is hanging on to power because of his continued grasp on the security forces and Putin's support. Russia controls as much as it wants to control. So far, no significant cracks have appeared in Lukashenka's hold on the security forces. While the popular protests of 2020 were far stronger than any previous popular Belarusian protests, Lukashenka is a survivor. He has persisted during several political and financial crises. He hopes to also survive this time and he is playing for time.

The Belarusian democratic movement understands, and it fears that its time is running out, so it calls for maximum pressure on Lukashenka. The EU should follow its lead. This runs contrary to the standard procedure of ratcheting sanctions up step by step. The aim of Western sanctions should be to maximize the cost to not only Belarus but also to Russia to ease Russian interest in controlling Belarus as early as possible.

The targets of the sanctions should be multiple: Lukashenka, his family and cronies; culprits of human rights violations; Belarusian state financial institutions; the big Belarusian state companies; Russian state banks in Belarus; big Kremlin-related companies in Belarus; Russian businessmen assisting the Kremlin in Belarus; and the Belarusian arms trade. International financial institutions should not be allowed to assist the Belarusian state. Bona fide Belarusian private enterprises and their trade should not be sanctioned.

This reasoning leads to the following overall recommendations, which are in line with current EU policy on Belarus, but proceed a bit further:

I. The West should ratchet up its sanctions on Belarus fast to deploy maximum pressure.

II. The EU should maintain its close coordination of sanctions on Belarus with the US, the UK, Canada, and other Western countries, such as Norway, Switzerland, Ukraine, and the Western Balkan countries.

III. The EU should deploy maximum financial pressure on the Belarusian government, sanctioning any financing of the Belarusian state or state-owned entities. All Belarusian state-owned banks and Russian state banks in Belarus should be sanctioned. The primary and secondary trade in Belarusian sovereign bonds should be prohibited.

IV. For the same reason, the EU is right to sanction Belarusian exports of its two main commodity groups, fertilizers and petroleum products.

V. The beneficiaries of corrupt operations in Belarus related to Lukashenka and their entities should be sanctioned. The EU should restore its prior sanctions on Lukashenka's cronies and their companies.

VI. The culprits of human rights violations should be sanctioned, both the persons and their entities.

VII. All supplies of arms or electronics that can facilitate repression or assist agencies of repression in Belarus as well as Belarusian exports of arms should be sanctioned.

VIII. Russian state executives and businessmen who assist Lukashenka in his repression of the Belarusian people or try to take advantage of Belarus's difficult financial situation should be sanctioned.

IX. The EU and its Member States should prohibit the IMF, the World Bank, the European Investment Bank, and the EBRD from providing financial or technical support to state-controlled entities in Belarus.

X. By and large, EU sanctions should exclude private enterprises, as long as they are not acting as cutouts for the Lukashenka sphere.

XI. The EU needs to make sure that the Fifth EU Anti-Money-Laundering Directive of June 2018 is fully implemented and that all inappropriate transactions are being unearthed and penalized.

XII. All sanctions have loopholes. The EU should carefully follow up its June 2021 sanctions and add sanctions on any loophole detected.