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Dear friends, colleagues and partners:

I am happy to present the second issue of the quarterly monitoring BISS Trends. The debut issue was largely a description of events, and only now we can begin to show patterns and indicate the trends of political, social and economic development.

Thus, we faced in the first quarter of 2010 a full-scale rollback of a frail political liberalization that was observed in the country in the previous year and a half. It remains to be seen whether this is a usual pre-election cycle, or we deal with long-term repressive trend. However, it is already clear that the political de-liberalization does not prevent a gradual, albeit largely decorative, economic liberalization.

Two events occurred in the first quarter of 2010 that can be regarded as emblematic: firstly, that the approval of the privatization of the Minsk watch factory that may result in massive layoffs at the plant and might be the first instance of the departure from the traditional model of social contract. Secondly, the arrangement for the supply of

Venezuelan oil to Belarus: in spite of the conspicuously politicized nature of this step, opening a corridor for the non-Russian oil in the region – will open up a more interesting and diverse geopolitical game.

Big things are always seen from a distance. Tracing the major trends in the economic and political life, BISS Trends will gradually transform from a set of estimates of recent events to the annals of the country's development. We hope that this chronicle would be useful in your work and your own reflections on the present, as well as for the forecasts about the future of Belarus. As always, we invite representatives of the analytical community to become not only readers and critics, but also co-authors of the BISS Trends.

Sincerely, Vitali Siliitski
Academic director, Belarusian Institute for Strategic Studies.

The Belarusian Institute for Strategic Studies presents the second issue of the comprehensive quarterly monitoring BISS Trends. The monitoring focuses on five major trends: 1) political democratization / political liberalization, 2) economic liberalization, and 3) the quality of governance and the rule of law; 4) geopolitical orientation and 5) cultural policy. The time frame of the report is January-March 2010. The report is based on expert assessments based on analysis of events and process-tracing methodology.

The report consists of two parts.

Part 1:

- a) Executive summary;
- b) Description of each of the five trends. The authors were invited to structure their reports as follows:
 - Assessment of the forecast given in the last issue of BISS Trends;
 - Justification of a new trend (January-March 2010);
 - Description of key events that defined the assessment of the trend;
 - Description of additional events;
 - Description of events that ran contrary to the trend but failed to affect the overall assessment;
 - Brief forecast for the next quarter;
 - Brief forecast for 2010.

Part 2:

- c) The reference catalog of events, facts, changes, based on which the experts assessed the trend (in Russian only).

Symbols used in the report:

- ▲ progress (upward trend)
- status quo
- ▲ minimal progress
- ▼ minimal regress
- ▼ regress (downward trend)

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Executive summary

The basic trends in the political, economic and social life of Belarus in the first quarter of 2010 did not undergo significant changes compared to the previous period. The period under report was characterized not by new trends but rather by accentuation of existing ones, such as the dual-track process of ongoing reversal of political liberalization and the simultaneous continuation of a limited and superficial economic liberalization, which, however, still fails to bring about any systemic changes. Zigzags in foreign and cultural policies indicate that the Belarusian authorities are trying to win for themselves room for maneuver, without committing firmly to a particular scenario of development (liberalization vs. increased repression, pro-Russian vs. Pro-European vector of foreign policy etc.) This tactic will be feasible and will be maintained for as long as it will be possible to continue geopolitical maneuvering and obtain external funding from various sources, separated by fault lines of "civilizational" conflict.

In the political sphere, a paradoxical simultaneous process of political de-liberalization and democratization (as noted in the preceding report), ceded to a simultaneous regression in both areas. De-liberalization was manifested in new restrictions on the freedom of speech (the imposition of government warnings on independent media, searches in the apartments of journalists) and on the freedom of association (the changes in the law "On public associations" and "On political parties"), as well as in repressive actions against street protests. Signs of de-democratization include intensification of pressure on opposition political parties during the local election campaign, including those ready to serve in election commissions. Already in the first quarter of 2010 it became clear that local elections would not bring any noticeable breakthrough in the political life of the country, and will not be a factor in the democratization of Belarus.

In the area of economic policy, we note the continuation of facade liberalization triggered by short-term needs of securing foreign loans and investments, and bringing no fundamental changes to the rules of the game in the economy. Thus, legislative changes the field of taxation, international trade, and credit, have been made with only one purpose: that is, to increase the rating of Belarus in the World Bank report "Doing Business Report". More fundamental changes, such as privatization, were ruled out. At the same time, the Belarusian authorities, in our opinion, have shown signs that they might have reconsidered their approach to privatization of enterprises where the change in ownership and restructuring may involve the dismissal of employees (as shown by the privatization of the Minsk watch factory).

In the field of **quality of governance and the rule of law**, we mark a minimal improvement related, again, to the work of the government to bring Belarus into the top 30 countries of the World Bank rating. Most measures taken by the government and discussed in the report remain being draft laws.

In the geopolitical orientation, we mark a certain crisis in the "multi-vector" policy of the Belarusian authorities: the inability to stop political repression led to a further deterioration of relations with the EU (the conflict around the Union of Poles in Belarus), while relations with Russia have been soured by disagreements over the Customs Union. Attempts to find new vectors of foreign policy through economic cooperation with Venezuela and China may not provide tangible economic results, but will make good PR on the background of a crisis in relations with the "geopolitical monsters." At the same time, attempts by Lukashenka to bring Latin American oil to Europe may have interesting long-term consequences for the entire region.

Finally, in the field of **cultural policy**, we note a continuation of the policy of limited Belarusianization, and Europeanization. As we predicted, the authorities have launched a new campaign to strengthen the Belarusian identity, the country observed the day of the Belarusian language, cultural ties with European countries (France, Italy, Lithuania, Greece) have intensified. For the first time, an official who allowed derogatory remarks against the Belarusian language and culture was subject to punishment: such statements were a commonplace among top officials just a few years ago. ■

Trend 1

Political democratization and liberalization —▼

Assessment of the forecast given in the last issue of BISS Trends

The trend of political de-liberalization identified in the preceding period largely continued in the first quarter of 2010. Political liberalization has halted in the field of freedom of speech and of freedom of association, with even liberal rhetoric in these areas having come to naught. Repression against street protesters continued with the same intensity as in the previous period. We view this not as a short-term lapse of liberalization during the local council elections, but rather as a long-term trend that will go on for at least the duration of a "grand political year" (i.e., until the end of the election campaign in early 2011).

In the field of political democratization, the authorities stick to the rhetoric about the "unprecedented democratic" nature of the local election campaign, which takes place on the basis of the modified electoral law. This rhetoric is justified by the window-dressing improvements in the electoral process (a somewhat larger number of opposition representatives allowed to join election commissions, there were no refusals to register initiative groups to collect signatures). These improvements, however, are rather sporadic, as they do not affect the nature of the campaign as a whole. Pre-election apathy is also programmed by the "lethargy" of the opposition, which for a large part plays only a nominal role in the campaign. The repressions against opposition campaign activists had not been milder compared to previous local elections. Furthermore, it even intensified to some extent, and sometimes acquired new forms some (e.g., some opposition members of election commissions have been threatened with dismissal if they do not abandon their work in commissions).

The authorities continued to skillfully manipulate the dialogue with the West, aptly discovering and pressing sensitive points. The made-up and unprovoked escalation of the conflict around the Union of Poles (the stick) was carried out on the background of the "liberal" (by Belarusian standards) electoral campaign (the carrot) is intended to shift the attention of Europe towards an issue that is meaningful for the EU but insignificant for the Belarusian authorities. Once the EU attention is focused on the Union of Poles, it is not paying attention to the repression against opposition activists at local elections.

Justification for a new trend (January-March 2010)

The rollback of political liberalization has been

monitored in all the areas. In the area of political democratization, we observe new window dressing for achieving the desired election result by democratic means: this includes activation of pro-government parties, emergence of new types of informal repression, intensification of the pressure on the opposition members of election commissions.

In the area of freedom of association, we noted no movement towards liberalization (the number of newly registered organizations has not increased, none of the organizations created by government opponents have been registered, several organizations have been refused registration). Amendments to the Law on Public Associations and to the Law "On political parties" that entered into force on February 5, 2010, create conditions for further restrictions on the freedom of association. The authorities failed to fulfill the promise to abolish Article 193-1 of the Penal Code.

Warnings to independent media (including the most widely-read independent newspaper, *Komsomolskaya Pravda v Belorussii*, which was issued a second warning within a year) and to the Belarusian Association of Journalists, were called upon to restrain the press and to encourage self-censorship in the run-up to important political events. This has been achieved to some extent, as the editor of the *Komsomolskaya Pravda v Belorussii* was replaced. A decree on regulation of the national segment of the Internet was adopted. Although most odious and controversial provisions in a draft decree leaked in December 2010 were removed, the degree still means, in the opinion of critics, to stifle dissent in cyberspace.

The number of administrative prosecutions for political reasons in general, and protesters in particular, has increased slightly compared to the first quarter of 2009. According to the database of the Human Rights Center Viasna period, there were 7 cases of administrative arrest recorded (five in the previous period), 84 cases of administrative fines (73 in the previous period). Street protests were brutally suppressed with no exceptions (in contrast to the previous quarter).

At the same time, collection of signatures for candidates for local councils (including in the form of pickets, which now can be done in any non-prohibited areas) has passed without incidents.

Description of key events that defined assessment of the trend

Local elections in Belarus are insignificant in

terms of altering the distribution of power. This campaign, however, clarifies strategies and approaches developed by the authorities with respect to political liberalization and democratization. Hence, these local elections will not be as routine for the authorities as it was in previous local elections in 2007. Rather, they offer an opportunity to work out some new tactics in the conduct of political campaigns that can be applied on a full scale in the future. Some of these new approaches were observed beforehand, and can now be observed in their entirety: a demonstrative but formal consideration of the recommendations by the West in those areas that do not directly affect the result of the campaign; extension of the freedom of action for the opposition in campaigning and information work with the expectation that the internal contradictions and opposition's own weakness will not allow it to take advantage of these opportunities; the application of more subtle forms of repression against opposition activists, especially concealed harassment in the workplace; the manipulation of Western public opinion by artificially creating controlled conflict situations in sensitive areas

such as the Union of Poles.

Description of additional events

The conflict around the Union of Poles; Searches in apartments of journalists' (including offices of BelSAT, Narodnaja Volja, and Charter-97); Denial of registration to the Assembly of Democratic NGOs.

Description of events contrary to the trend and rationale for why they do not change the picture

In January, allegations were made by the administration about the possibility of resuming the work of the Community Advisory Council at the presidential administration. In February, the President gave an oral order to develop a draft law on alternative military service, after which the process was initiated to review criminal cases against persons convicted for evading military service. The politically motivated criminal case against businessman Autukhovich was heard in an open trial. ■



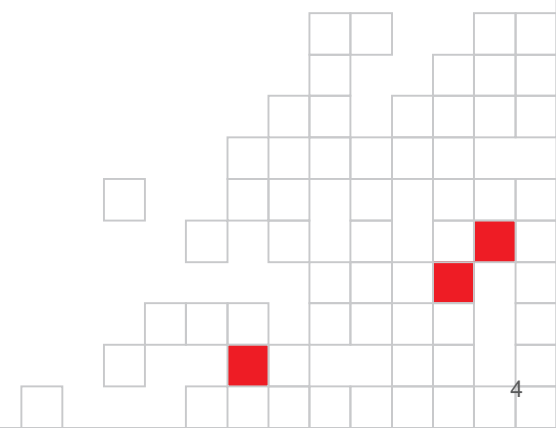
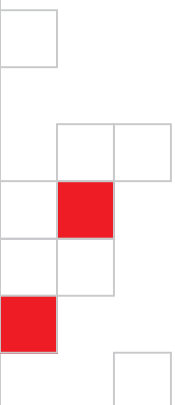
Local elections in Belarus are insignificant in terms of altering the distribution of power

Brief forecast for the next quarter

The opposition will enjoy unparalleled opportunities for campaigning in local elections. This, however, will be offset by the various "technical" difficulties, such as the refusal by the printing houses to print leaflets of opposition candidates, seizures (including "erroneous") of already printed editions, tacit harassment of the campaigners. The number of deputies elected from the opposition in local councils will be minimal (up to two dozen councilpersons elected in the rural, possibly district and small town councils). Informal repression will end one month after the local elections. But at the same time the pressure on the independent media, political parties and other associations will go on via warning, suspension, verification, and especially other forms of harassment (tax penalties, claims for defamation of private individuals, measures to regulate Internet editions). The Advisory and Monitoring Council will be reactivated, but it will be busy discussing the nature and objectives of this body, rather than substantive issues.

Brief forecast for the entire year

By the end of the year we can expect that criminal persecution for "nonpolitical" articles of the Criminal Code against distinct opponents of the authorities will resume. Mass protests will be repressed unceremoniously, and wide-scale administrative harassment of the opposition will resume with the beginning of the presidential election campaign by the end of the year. The number of registered newspapers, political parties and associations will not increase, while the number of registered NGOs in 2010 will be less than a hundred. However, we expect immediately before the presidential election a possible goodwill gesture to the West (it could be done, for example, through some form of legalization of the Union of Poles led by Angelica Borys)



Trend 2

Economic liberalization — ▲

Assessment of the forecast given in the last issue of BISS Trends

The Belarusian authorities continued in the first quarter of 2010 to pursue a limited liberalization of the economy as was noted in the first issues of BISS Trends. Such liberalization does not aspire to change the fundamental rules of the game in the economy, but rather to create a facade of attractiveness for foreign investors in order to solve the short-term goals of acquiring foreign loans and investments. In the first quarter of 2010 there is also a sharp increase in undercover fighting of various power clans, seeking to enhance their influence in the conditions when the amount of available rents is being reduced. Such infighting makes it impossible to pursue serious institutional changes in both the economy and the structure of management, as it merely stimulates the search for new sources of financing loyalty, such as wide-scale nomenklatura privatization. However, the conclusion of the first privatization deal with the possibility of dismissal of labor (privatization of the Minsk Watch Factory) was a landmark event which indicates that the Belarusian authorities may have abandoned some of its postulates of the old social contract.

Justification of a new trend (January-March 2010)

The main trend of the first quarter of 2010 consisted of the changes in privatization policy of the authorities. It should be noted that a pilot privatization program pursued in line with the agreement with the IMF had failed. According to a letter of intent signed by Prime Minister Siarhej Sidorsky and Head of the National Bank of Belarus Petr Prakapovich on September 30, 2009, the government promised to sell controlling stakes in 5 major state-owned enterprises through an open, transparent and competitive international tender before 28 February 2010. At the moment (the end of March 2010), the IMF Executive Board completed the fourth review of the latest stand-by program, and all that was done by the Belarusian side was a list of 5 public companies, whose shares will be sold at an auction in 2010 with the participation of an outside consultant (the list was confirmed by the order of President of Belarus Alexander Lukashenka on March 1, 2010). The list includes the following joint stock companies: "Babrujsk Machine-Building Plant (Mahileu Region). VolMET (Vaukavysk, Hrodna region). "Lida Foundry-Mechanical Plant" (Hrodna region). "Barhim" (PM Baranavichy, Brest region.) and "Rechitsa textiles" (Homel region). Those are relatively small businesses, and only "Barhim" may be of any interest to investors.

Description of the key events that defined assessment of the trend

In spite of the fact that the authorities are trying to prove their interest in privatization (in particular, the head of the State Property Committee of Belarus Georgy Kuznetsov reported at a press conference on February 17 that the Belarusian side intends to prepare orders for the privatization of 20 other Belarusian enterprises in accordance with the recommendation of the IMF), the program had not been implemented both in timing and in substance. The first deputy chairman of the SPC Sergei Pyatkov stated in January 2010 that the privatization of these enterprises should be implemented, backed by the IMF Privatization Agency. Creation of a privatization agency was one of the most important structural criteria set up by the IMF stand-by program. A new trend in the economic liberalization was revealed when preparing the program: solutions to fundamental problems of economic policy are being delayed because of the struggle between various power groups for control of structures and resources. In this case, the Agency was originally planned to be created on the basis of the SPC, the authorities decided later, however, to create a structure that combines the agency for privatization and the investment agency.

The evaluation of three out of five companies from the list is done by the Rothschild group. Its participation is explained by the hope that the consultant evaluating the assets will be more acceptable from a fiscal point of view. However, the widespread belief is that the government delays the privatization process, hoping that the pre-crisis prices is questioned by two scandalous privatization deals.

According to Presidential Decree No. 93 signed on March 1, 2010, the government agreed to sell a plot of land in the center of Minsk of more than 6 hectares to a foreign legal entity from Oman. Land ownership is transferred for 10 million USD without holding an auction, for the purpose of constructing a multi functional complex within 6 years. The sale price is surprisingly low given that the official assessment of the plot value is three times higher than the sale price. The Land Code forbids selling the land at a price lower than the register value "unless otherwise is decided by the President." The only reasonable explanation for this deal is the existence of certain important component that had not been made public.

Another rather scandalous deal is the sale of the Minsk Watch Plant to the Swiss company Franck



the open and competitive privatization process declared by the government has been put on hold, whereas there is a dramatic acceleration of non-competitive non-transparent privatization of the non-market prices to murky investors

Muller International BV confirmed by Presidential Decree № 109, also on March 1, 2010. The price of the transaction was once again rather symbolic, having been about 12.4 million USD for a controlling stake of 52% of the shares. The remaining shares owned by the Belarusian State will be transferred to Franck Muller in trust management. Two years later, the investor will be allocated 23 hectares of land near Minsk to build a new plant. Despite the obvious and understated revenue from this sale, the Belarusian authorities are more transparent in this deal than in the Oman deal. The most valuable asset of a bankrupt plant (according to Presidential Decree No.24, signed on January 10, 2009, the company was nationalized for the debts to the budget and for the failure to sell the stocks of finished products that exceeded the average monthly production volume by 34 times) is the 12-storey building of the engineering corps of the plant. This is over 50 thousand square meters of office space, which may contribute around 10 million dollars a month at standard current rates once the office space is leased. The cost of the building is estimated at 150-200 million dollars, and it will most likely become the property of the Presidential Business Office.

There are questions about the foreign investor involved in the transaction. Franck Muller is in dire financial straits, the company's tax arrears are roughly equivalent to its annual income. All business units are under compulsory audit, but its owner – Armenian businessman and multimillionaire Vartan Sirmakes – recently replaced all auditors. Thus, the deal looks like an attempt by Franck Muller to save part of the assets of the company from bankruptcy.

The only large privatization deal planned for the year, the privatization of Belinvestbank (valued at \$700 million) to a major Western bank is at risk of collapse. Negotiations with the Unicredit bank have virtually been frozen. Germany's Commerzbank opted out of the deal last year.

In sum, the open and competitive privatization process declared by the government has been put on hold, whereas there is a dramatic acceleration of non-competitive non-transparent privatization of the non-market prices to murky investors, a process that can not even be called the "nomenklatura privatization".

Alexander Borovsky, former head of Belneftkhim who was convicted of abuse of power in early 2008 and granted a presidential pardon, was appointed on December 7, 2009, as Director-General of the BelavtoMAZ conglomerate. It was assumed that the valuable experience of crisis management would help the new director to stabilize the situation in one of the most important economic enterprises in the country (employing together with subcontractors about 100 thousand people). It was reported that "the President gave Alexander Borovsky carte blanche to bring order in all spheres of business; however, he was instructed not to lay off cadres but just to get rid of those with dirty hands." In fact, MAZ is a model example, on which the

anti-crisis microeconomic policy was supposed to be tested. It became apparent very soon that layoffs can not be avoided: 27 thousand employees produce about 25 thousand vehicles, and the ratio of engineers per worker is about 8 (the international ratio is up to 1 to 4). An anti-crisis management plan leaked to the press on February 21, 2010, which envisioned the lay-off of about five thousand employees, mostly engineers, reduction of working days at the plant (to 16-17 days per month), restructuring of the wage policy, and the gradual disposal of social provisions. Next day, however, the plant management denied the authenticity to the plan.

Thus, the fear of the political and social consequences of the layoffs continue to dominate the economic authorities in the conduct of anti-crisis policy. The economic logic in this case contradicts with the logic of politics. It is expected that the political will for decisive restructuring of enterprises will not appear in 2010.

Description of additional events

The second structural criterion of the IMF stand-by program for Belarus, the creation of the Agency for financial development, failed to be implemented by the Belarusian government. It was assumed that the development agency would replace the banks in the financing of state programs and to take care of the long-term loans under the implementation of such programs. The IMF believes that the creation of this department will allow the National Bank of Belarus to stop refinancing banks at non-market terms. Chairman of the National Bank of Belarus Petr Prakapovich assured as late as on January 27, 2010, that such agency would be created within days. No documents have been signed until now, however. Creation and full functioning of the financial agency is a key element of the structural transformation of the economy. This is perhaps the only way to untangle the complicated system of cross-subsidization and budget transfers between sectors and enterprises, on the one hand; and to relieve the banks from the unusual non-market distributive functions that only increased troubled assets on their balance sheets, on the other. Strengthening the market orientation of the banking sector would increase the stability of the banking system and make credit more accessible to private businesses.

Without these measures, the vicious practice of government subsidies to loss-making branches will go on uninterrupted. Such practice is fully embedded in the Presidential Decree No. 92 (dated by March 1, 2010, again) "On some issues of agricultural organizations." The decree offers agricultural enterprises a 10 year postponement of payments on debts accumulated by January 1, 2010. The decree envisages to reduce the amount of financial obligations of agricultural organizations by about 1.6 trillion Belarusian rubles (about 600 million USD), that are basically donated to state agricultural cooperations.

Nevertheless, the requirement of the IMF to reduce the funding of state programs is formally executed with a joint decree of the government

and National Bank of N352 / 3 dated by March 17, 2010. The program caps such financing in 2010 at 7.1% of the previous years' level, including no more than 2.5% in the first quarter. On the basis of the approved resolution, lending to state programs in 2010 should not increase by more than BYR 2.2 trillion in 2010.

The banking system became a battle field of the power struggle of various interest groups. While Belarus partially fulfilled its promise of the IMF to provide the National Bank with financial and operational independence by eliminating the Board of Directors of the National Bank of Belarus, the National Bank is pressured by the Head of Presidential Administration of Belarus Vladimir Makey to "rejuvenate" its staff (i.e., fire the "veteran" servicemen and hire younger officials) by about 30%. This campaign looks like an attempt to "tame" the most liberal and market-minded state body.

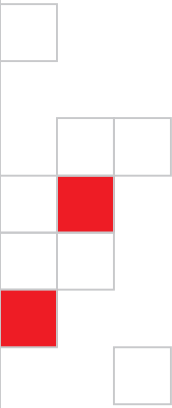
The program of economic liberalization for 2010 has not yet been adopted. The main obstacle is a draft decree on the reduction of licensed activities. Plans to abolish the licensing for 16 kinds of economic activity out of the currently licensed 53 kinds (and for 121 sub-kinds of activities out of 331) have been announced on February 19, 2010. The decree may be signed on July 1, 2010, however, there is a high probability that the draft will be sent for revision again, due to a large remaining number of licensed activities.

A half-hearted and cautious approach to price liberalization is demonstrated by the Presidential Decree № 127 signed on March 1 2010 (again). The abolished state regulation of prices in restaurants, cafes and bars price of the "first" and "luxe" categories, which accounted for only 13% of the total number of catering establishments, and did not tackle the second category that accounts for the remainder of the market.

Description of events contrary to the trend

A Presidential Decree № 143 "On Certain Tax Matters" on March 9, 2010 repealed the limits on the expenditure on advertising, marketing, consulting and information services that can be attributed to the cost of production.

The same decree established that local councils of deputies, in order to ensure sufficient funds in local budgets, have "the right to increase (decrease) the rates of land tax, property taxes for certain categories of taxpayers by no more than two times" in 2010. The desire to replenish the budget at all costs obviously contradicts the stated goal of reducing the tax burden. Interestingly, the working group on simplification of the tax system led by Vice-Premier Andrei Kobyakov already suggested banning local councils from increasing land tax and property tax. ■



The banking system became a battle field of the power struggle of various interest groups

Brief forecast for the next quarter

The need for external financing from the IMF, which became particularly evident after the deterioration of the conditions of supply of Russian oil to Belarus, and the need to improve indicators of investment climate (such as Doing Business rating) will help to fulfill the requirements and recommendations of international financial institutions without any significant changes to existing practice of economic management and decision-making.

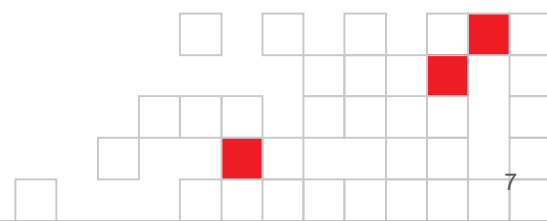
Brief forecast for the year

Structural changes in the economy and governance, except for simulative measures, are unlikely during the election year and under the mounting competition for administrative rents within the elite. The Belarusian economy is bound to be stuck in a pendulum between a more a "monetarist" policy and the pressure for the "controlled emission of money". We predict that the pressure on the National Bank to reduce interest rates on loans to enterprises and to increase the financing of the real sector of the banking system will intensify (especially taking into account the exorbitant GDP growth of 11-13% that is officially projected for 2010).

As the government will fail to meet the main structural requirements of the IMF stand-by program, the prospects of a new program of assistance from the IMF seem to be elusive.

The privatization process will be more "polarized" during the year: a more or less authentic privatization with the participation of international consultants will be restricted to insignificant deals with medium-sized enterprises, whereas a "strange" *nomenklatura* privatization of large objects of state property will go on.

The liberalization of tax law will proceed depending on the state budget on the one hand, and the need to improve the position of Belarus in the ranking of Doing Business on the other. Apparently, these two trends will lead together to a superficial reform driven by the rationale to achieve a better position in the ranking, with effective preservation of the fiscal character of the tax system.



Trend 3

The quality of governance and the rule of law —

Assessment of the forecast given in the last issue of BISS Trends

Taking into account that there were no major changes in the internal and external economic situation in the first quarter of 2010, in particular the need for investment, the state continues to actively develop new elements of the reform package announced in 2009. No new important documents were signed, however, in the period under review. The only exception is Decree № 60 on the regulation of the Internet and Decree № 4, which made some changes to the current economic decrees. Laws on the support of small and medium enterprises, the reform of procedural law and others remain in draft form only.

Justification of a new trend (January-March 2010)

A limited liberalization continued in general in the first quarter of 2010. While centralized management and decision making continues to persist, proposals from interest groups, such as the views of business associations, are accommodated, though indirectly, in the decision making process. The structure of the institutions has not changed; however, the goal that was publicly announced by the president was to optimize it by the end of the year. The first quarter was marked by the demonstration of an active pursuit of further liberalization in the sphere of market regulation, infrastructure investment, and law enforcement. The structure of the judicial and law enforcement system has remained unchanged.

Description of key events that defined assessment of the trend

An illustrative event, highlighting the trend in the first quarter, was a speech by Deputy Minister of Economy Andrei Tur at the XI Assembly of business

circles of Belarus, where a high official informed the business community and the media about the finalization of the draft plan of measures to liberalize the conditions for economic activities in 2010. We observe that the government listens carefully, actively develops and presents liberalization bills, but currently only a small number of them came into force.

Description of additional events

Activities of the Ministry of Justice, the Supreme Court and the Supreme Economic Court of Belarus, such as the development of projects to improve legislation and joint efforts to develop measures to improve law enforcement, may be indicative for future changes in the law enforcement environment.

Government efforts to introduce an "electronic government" also testify about the drive to increase the investment attractiveness of the country. The electronic government will speed up and simplify the interaction of citizens and organizations with the State.

Description of events contrary to the trend and rationale for why they do not change the picture

From the perspective of this trend Decree № 60 on the regulation of the Internet can be viewed in two ways. On the one hand, it imposes on government agencies an obligation to publish information about their activities on-line, and seeks to protect the property rights of authors and holders of the rights on intellectual property, which indicates an improvement in governance. On the other hand, the decree limits the ability to conduct commerce with foreign information systems and resources, as well as provides for a compulsory registration of all on-line systems and resources in Belarus. ■

Brief forecast for the next quarter

In the second quarter of 2010 the development of liberalization initiatives, some of which will be implemented, will continue. By the end of the spring session, Parliament is expected to adopt specific legislation, in particular, the law on supporting small and medium businesses. The regulation of electronic documents will be improved, and rules for registration of Internet resources will be introduced.

Brief forecast for the entire year

On the eve of the presidential elections, the power vertical will be strengthened. Assuming the unchanged internal and external economic situation, the government will implement a "plan of liberalization", which stipulates, inter alia, the adoption of a new edition of the Investment Code and simplification of the tax payment procedures. Electronic documents will be used more actively alongside with the tightening of state control over means of communication and its contents.

Trend 4

Geopolitical orientation —

Assessment of the forecast given in the last issue of BISS Trends

The trend of a continuing geopolitical maneuvering between East and West described in the previous issue of BISS Trends largely continued in the first quarter of 2010, with the exception that Belarus' position vis-a-vis both "poles" worsened considerably.

Justification of a new trend (January-March 2010)

The deterioration of relations with the EU is manifested in the condemnation by the EU of actions of the Belarusian authorities against the unrecognized Union of Poles, as well as in the adoption of a highly critical resolution on Belarus by the European Parliament. The negative trend on the "Eastern Front" is reflected in the conflict with Russia concerning the conditions of supply of oil and petroleum products to Belarus.

Description of key events that defined assessment of the trend

The resumption of pressure on the authorities on the Union of Poles in Belarus (UPB) nearly disrupted the planned visit of the Minister of Foreign Affairs Siarhej Martynau to Warsaw and prompted Poland to seek the support of the European Union. The unprovoked attack on the unofficial Union of Poles was likely meant to precipitate another split in the European Union on the Belarusian issue (in particular, by pushing Warsaw to advocate harsh sanctions, which would not be met with sympathy in the "old Europe"). However, the EU Council has reminded the official Minsk to adhere to its international obligations and to the resolutions of the European Parliament. A harsh resolution prompted the Belarusian Foreign Ministry to make a rather harsh statement in return. At the same time, the restrained reaction by President Lukashenka and the subsequent agreement to establish a bilateral commission for settling the situation around the Union of Poles have confirmed that the official Minsk left itself the possibility of maneuver in this matter. Perhaps the recognition of the independent union will be used by the end of the year to show further "progress" in meeting EU political conditions.

The Belarus-EU relations were further worsened by fundamental differences over the representation of Belarus in the Euronest Parliamentary Assembly. The offer by the European parliament to split the country's representation between members of the National Assembly and representatives of democratic forces was sharply

rejected by the Belarusian authorities. A compromise could not be reached during a visit of the delegation of the European Parliament to Minsk.

Tensions heightened in relations with Russia in spite of the completion of certain formalities connected with the formation of the Customs Union. Final Belarusian-Russian agreement on the conditions of supply of oil was clearly in favor of Moscow, which, despite the stubborn resistance of the Belarusian representatives, got almost everything that was originally set as its goal. Russia also managed to bring the issue of export duties out of consideration of the Customs Union, postponing the decision for two years that would presumably be spent for the creation of a single economic space. Belarus lost 0.3% of revenues from imports in the process of the allocation of duties as compared to the plans at the beginning of the year. Alexander Lukashenka failed to meet with Vladimir Putin, when he arrived in Belarus to attend the meeting of the Council of Ministers of the Union State. Finally, Minsk brought the oil dispute with Moscow to court, having sued Russia, on March 25, 2010, in the Supreme Economic Court of the CIS. This action by itself is rather a demonstrative step, given the insignificance of the institution: it is highly unlikely that "the case of the Russian oil" will be actually heard in the court, or, moreover, that the court would dare to pass a verdict against Russia. The action should rather be considered as a demonstration by the Belarusian leadership of its independent status vis-a-vis Russia, which generally fits into the trend of sovereignization of the Belarus-Russia relations defined by BISS analysts long ago.

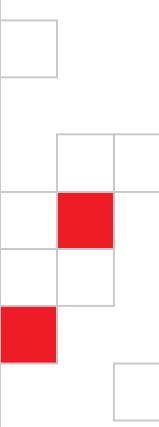
Description of additional events

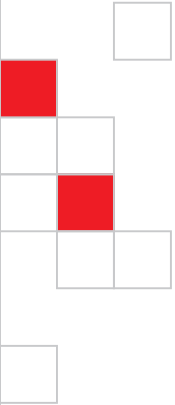
In spite of the seemingly cordial relationship between Lukashenka and the new Ukrainian President Viktor Yanukovich, his election may actually complicate the ongoing dialogue with Kiev. It is hard to imagine that the new Ukrainian president will be as actively promoting the interests of Belarus in the international arena, as did his predecessor, which earned some kudos from the Belarusians. Moreover, it is possible that official Kiev will compete, from now on, with Minsk in the struggle for the favors of Moscow. At the same time, it is quite possible that the Belarusian authorities together with the Yanukovich administration will be able to solve some of the "long-lasting" issues hindering bilateral cooperation, in particular, the issue of delimitation of the border.

Travels by Lukashenka to Venezuela and Brazil, by



Tensions heightened in relations with Russia in spite of the completion of certain formalities connected with the formation of the Customs Union





Martynau to Iran, and a visit of the Vice-President of the People's Republic of China Xi Jinping to Minsk confirm the commitment of the Belarusian authorities to increase the number of solid economic partners and to find alternative sources of energy and credit. These politics are reasonable in principle, but can hardly make a big difference in the foreseeable future. In particular, it is unlikely that multi-billion investments promised by China to Belarus will materialize any time soon, as even the credit lines that are already open have not yet been exploited due to the banal lack of promising projects in which China would be interested to invest their money (for example, a three billion swap between Belarus and China endorsed more than two years ago, remains frozen). The agreement for the supply of Venezuelan oil to Belarus largely belongs to the category of PR. However, its implementation deserves serious attention. The purpose of Venezuelan oil supplies to Belarus is to "hack" a transit corridor for non-Russian crude oil to Belarusian refineries. If this happens, one can seriously talk about other than Russian investors for the privatization of these refineries. This, in turn, changes the picture in the whole region: in particular, completely new perspectives emerge from the pipeline Odessa-Brody.

Description of events that ran contrary to the trend but failed to affect the overall assessment

Martynau visited Poland after all and signed a long-awaited agreement on cross-border traffic. Another hint at detente of Belarusian-Polish relations was made at the meeting of Alexander Lukashenka with Minister of Foreign Affairs of Poland Radoslaw Sikorski in Kiev, where an agreement was reached to establish a joint expert group on the Polish minority. But the Belarusian side has delayed its implementation, so that by the end of the period under review, the situation remained in limbo.

The Belarusian side agreed to interrogate General of the Belarusian army Valery Ushopchik over his role in the January 1991 massacre as a commander of the Soviet garrison in Vilnius. This marked a positive shift in relations with Vilnius. Alexander Lukashenka was invited to take part in celebrating the 20th anniversary of Lithuanian independence, but abstained from visiting and sent an invitation to President Dalia Grybauskaite to visit Belarus instead. ■

Brief forecast for the next quarter

Local elections will not be recognized as free and fair in the West. The National Assembly will not be present at the Euronest. This will not lead, however, to a break with the EU, although the Belarusian side will engage in tough talk over the unfriendly acts by the Union. So, there is no reason to talk about a radical turn for the worse in the relation with the EU, or, for that reason, of any change in the current relations.

As Russia abstained from any exuberant reaction to the demarches of the Belarusian government, it is likely that the status quo in relations with the Eastern neighbor will be preserved as well. Minsk will apparently have to settle with the new customs duties on oil, but will use every opportunity to recover some of the lost cash: either by trying to export duty-free gasoline from Russia in order to re-sell it abroad, or exclude from the customs union certain categories of goods (or example, foreign cars), where hikes in customs duties are extremely unpopular in Belarus.

Brief forecast for the entire year

The vast majority of foreign policy problems that exist between Belarus and the West are a consequence of the internal policies of the Belarusian leadership. If the Belarusian leadership perceives a threat to its power position before and especially during the presidential campaign, it will do everything to keep the situation under control, regardless of the consequences. If this is not the case, it will try not to exacerbate the problems for no reason. Brussels, on its side, does not consider radically changing its policy towards Belarus either. In our view, the stock of "trump cards" that was accumulated in the hands of the Belarusian authorities (new political prisoners, the Union of Poles, the question of the death penalty), will be gradually disposed of by the end of the year in an apparent show of continuing liberalization and in attempt to avoid new sanctions in the aftermath of the elections.

The relationship is with Russia is being increasingly defined by the economic antagonism between Minsk and Moscow. However, there remains an enormous dependence of Belarus on Russia, due to which Minsk is unable to take any drastic steps. Therefore, maneuvering between Russia and Europe, with periodic but not irreversible deterioration of relations with both partners will remain the core of the foreign policy of the Belarusian authorities throughout the electoral period. New markets and credit lines will be actively sought in Third World countries, but Belarusian products exported to third countries. However, new foreign policy vectors will rather be complementary, and will not alter the overall geopolitical trend.



The purpose of Venezuelan oil supplies to Belarus is to "hack" a transit corridor for non-Russian crude oil to Belarusian refineries

Trend 5

Cultural Policy: the ambivalence of trends in Belarusianization and Europeanization ▲

Assessment of the forecast given in the last issue of BISS Trends

The first quarter of 2010 largely confirms the prediction in the previous issue of the BISS Trends, except for the assumption of a possible intensification of anti-Western and anti-European motifs in the cultural politics of official discourse, which, of course, does not negate the possibility of reverting to these motifs in the second and third quarters of 2010. The period under review is characterized in the field of cultural policy by the continuation of the trend of "relative" Belarusianization and enhancing cultural contacts with the European states, which are dictated by the desire to minimize the potential social and cultural tensions in the Belarusian society as well as by the need to find a new cultural recipe to legitimize the expanding contacts with Western states and cultures, which were considered alien to the values of the local cultural space in the pre-crisis period.

Justification of a new trend (January-March 2010)

The period of January - March 2010 has witnessed intensification of cultural relations with European countries, which contribute to a rather distinct strengthening of the trend of Europeanization in the cultural policy. During this period, the Minister of Culture Pavel Latushka had a number of meetings with the Ministers of Culture of Lithuania, Poland, representatives of diplomatic services of France, Italy, Czech Republic, and Slovakia. In January, he signed an intergovernmental agreement on cooperation in culture, science and education between Belarus and France. It is expected that in the coming weeks a cooperation program will be signed between the Ministries of Culture of Belarus and Ukraine. Soon an intergovernmental agreement in the field of culture will be signed between Belarus and Italy. The Belarusian government started negotiations on signing an agreement in the cultural sphere with Greece. The program of cultural cooperation between the Ministry of Culture of the Republic of Belarus and the Ministry of Culture of the Republic of Lithuania was approved for 2010-2011. It foresees translation of modern Belarusian literature to the Lithuanian language and the organization of culture days of Belarus in Lithuania. Belarus also intends to participate in the "Kiev Initiative" program, organized by the Council of Europe. All this indicates an increase in pro-European tendencies in the formal cultural discourse, but it seems premature to conclude that a radical reassessment of values is taking place. It should be rather be considered as a compensation for

the stalled political liberalization: shifts in the cultural policy do not cause serious perturbations that could pose a threat to the power balance in the country, yet they allow to launch speculations about liberalization, democratization and the European orientation of Belarus. This tactics also helps, to a certain extent, to eliminate the growing social tensions and potential conflicts between the government and civil society.

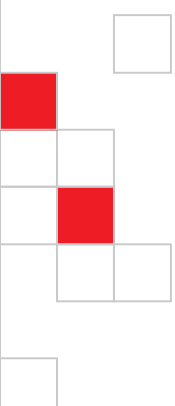
Thus, the first quarter of 2010 is characterized by positive dynamics in the two major trends of "partial" Belarusianization and "cautious" Europeanization, which are at the forefront of the cultural policy of the Belarusian authorities seeking to obtain new political mileage by exploiting the incorporation of national and European elements in the cultural space of Belarus. Meanwhile, both of the trends are far from being commanding and irreversible, as there is no talk about the complete rejection of traditional myths about the Soviet past imbuing social consciousness through the media and other channels of communication. It should be noted as well that civil society had a rather weak response to these trends.

Description of the key events that defined assessment of the trend

The trend of a relative rehabilitation of the Belarusian language was best illustrated by the celebration of International Mother Language Day initiated by the first national television channel. The Belarusian Language Society also conducts events for the Mother Language Day in a concerted action for civil society and the officialdom (BISS trends, actually observed such actions already happening in the previous period). Recognizing the positive fact of the popularization of the Belarusian language in this campaign, one should not overlook that it was carried out at a very limited extent: the campaign in the state media was rather sporadic and inconsequential. In a similar fashion, the initiative of the Mahileu Regional Executive Committee to declare 2010 as year of the native language was not supported, and forfeited for a largely empty concept of "the year of quality".

Description of additional events

The campaign "Belarus R'US" launched by the Ministry of Culture should be seen in the context of restrained Belarusianization. This campaign implies a degree of correction of the cultural image of Belarus by incorporating elements of national culture, with the target audience defined as widely as possible, and the activities planned in and outside Belarus. Moreover, the campaign will



The campaign "Belarus R'US" implies a degree of correction of the cultural image of Belarus by incorporating elements of national culture, with the target audience defined as widely as possible

strive to increase loyalty to the official discourse among immigrants through the opportunity to take part in various events. However, there is reason to believe that this campaign will effectively be a "shadow" campaign to support an official candidate in the upcoming presidential elections.

The trend of "rooting" the national identity in the remote historical past continued in the first quarter of 2010 and was expressed, for example, by official preparations for a joint celebration with Lithuania and Poland of the 600th anniversary of the Battle of Grunwald. This trend is also complemented by the efforts to legitimize poets and writers who were previous undesirable for the regime, as was the case with the exhibition that is organized by the Ministry of Culture to honor Vasil Bykov. However, the name and the work of the writer were to some extent devalued as the exhibition was only limited to the "Soviet" period of the writer's work. The exhibition itself is part of the large array of activities to commemorate the 65th anniversary of the victory in World War II, as the government constantly updates traditional mythology of the Great Victory and the liberation.

The appeal to the legacy of Uladzimir Karatkevich, whose works return from oblivion in the year of the 80-year anniversary of the birth of the classic of Belarusian literature, also demonstrates an increasingly complex official discourse on culture and identity. The Ministry of Culture is planning various activities to commemorate the writer.

A trend of partial liberalization and the cultural "truce" between the government and civil society is demonstrated by the adequate reaction of the

Ministry of Culture, to the complaints from the Belarusian Pullic Council on Morality and its head Mikalaj Charhinets who wanted to ban the concert of the German rock band Rammstein in Minsk. The Ministry of Culture declined to honor the request even though the Council is widely seen as a mouthpiece of the official propaganda.

Description of events that ran contrary to the trend but failed to affect the overall assessment

Cultural products and strategies emphasizing the "Soviet" origins of the cultural space of Belarus have been largely latent in the reporting period; however, one can not talk about their extinction, as the official ideology still postulates the paramount importance of civil patriotic education of the Belarusian youth. This education results in a sacralization of the military liberation themes through a series of different campaigns titled like "A sacred fire of the great victory unites young people of Belarus". In another development, Andrew Gerashchenko (Head of the Department of Youth Authority of the October district of Vitebsk) made a public statement about the artificial nature of the Belarusian language and its redundancy for the Belarusian society, and even about the "harassment" of the Russians in Belarus, thereby implicitly criticizing the new trends in the official discourse. The Gerashchenko affair exposes a certain degree of overlap and distance in the field of cultural policy center (Minsk) and periphery (in this case, Vitebsk), and also suggests that Russia may enhance its pressure on Belarus through various channels if Belarusianization continues to progress. ■



Brief forecast for the next quarter

We expect in the short run that the current trend of cautious Belarusianization and Europeanization will be maintained by the Belarusian authorities, though two official holidays (May 9 and July 3) will definitely enhance the "Soviet" tunes in the public discourse for the season.

Brief forecast for the entire year

Exploitation of the national symbols may have a distinctly instrumentalist character afterwards, as it may be used to acquire political dividends by opposition actors who traditionally defined their political stances according to national value schemes. This tactics will once again weaken the opposition in the elections. At the same time, we expect in the long-run the same degree of initiative for the official discourse in the local space of the Belarusian culture, as it will be directed to maintain the loyalty of civil society under conditions of increased censorship and the roll-back of liberalization in the political sphere. We also predict new instances of Russian "cultural resistance" to the changing identity politics in Belarus, especially in the context of the presidential elections.