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BELARUS-RUSSIA:

FROM A STRATEGIC DEAL TO AN INTEGRATION ULTIMATUM

Arseny Sivitsky



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Author: Arseny Sivitsky

Eurasia Program Leadership

Director: Chris Miller

Deputy Director: Maia Otarashvili

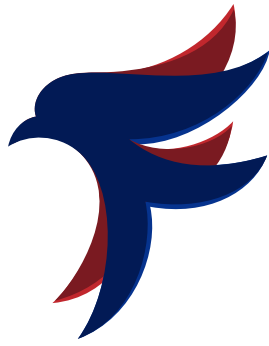
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BELARUS-RUSSIA: FROM A STRATEGIC DEAL TO AN INTEGRATION ULTIMATUM

ABOUT THE AUTHOR

Arseny Sivitsky



Arseny Sivitsky is the director of the Minsk-based Center for Strategic and Foreign Policy Studies, where he focuses on international and regional security, strategic affairs, Russia and Eurasia. He is a military officer in reserve of the Armed Forces of the Republic of Belarus, specialized in use of multiple launch rocket systems (MLRS) and anti-tank guided missile systems (ATGM). He graduated from the Reserve Officer's Training Corps of the Military Department of the Belarusian State University, then from the 72nd Guards Joint Training Center of the Armed Forces of the Republic of Belarus (with honors).

EXECUTIVE SUMMARY

In the mid-1990s, Minsk signed several treaties and agreements with Moscow that prioritized a pro-Russian geopolitical orientation. These treaties culminated in the Treaty on the Creation of a Union State of Russia and Belarus in 1999. This Union is largely symbolic. Based on the principle of equality between the Russian Federation and the Republic of Belarus, it has yet to be realized due to conflicting intentions. However, unlike other post-Soviet states, Belarus would renounce its Euro-Atlantic aspirations and proclaim integration with Russia its main foreign policy priority. In addition, Belarus would provide Russia with security from the West as the European Union and the North Atlantic Treaty Organization expanded Eastward. In return, Moscow would guarantee preferential energy supplies, privileged access of Belarusian goods to the Russian market, and financial resources. Thus, the deal was an exchange of Russian economic assistance, so-called integration subsidies, for Belarus' geopolitical loyalty.

Since 2015, however, the Kremlin consistently has reconsidered the terms and conditions of the strategic deal, cutting the level of integration subsidies and demanding deeper political, military, and economic integration from Belarus. Russia is thus violating the spirit of the deal, while Belarus remains committed. This process also is motivated by shifts in Russia's geostrategic doctrine, demonstrated primarily by the ongoing Russia-Ukraine conflict. This conflict has affected relations between Minsk and Moscow. Belarus' reluctance to support Moscow in its confrontation with Ukraine and the West has exacerbated the Kremlin's phobia of losing geopolitical control over the country, thereby provoking permanent tensions. Turbulence in relations also is determined by various forms of military, political, economic, and even informational pressure on Belarus from the Kremlin. Moscow's final goal is to force Belarusian authorities to make strategic concessions that guarantee Russian interests and undermine the national sovereignty and independence of Belarus.

This is the essence of the so-called integration ultimatum formulated by the Kremlin at the end of 2018. However, its roots date to 2015 when Russia tried pushing several initiatives aimed at deeper political-military integration with Belarus. Although the ultimatum demands deeper economic integration within the Union State framework, the Kremlin has been advancing initiatives to reshape the current model of the Belarus-Russia political and military alliance. These initiatives suggest that the Kremlin is not satisfied with the status quo. Instead, it seeks a relationship in which Belarus, currently enjoying a high level of strategic autonomy, becomes asymmetrically dependent on Russia in economics, politics, and security.

On the one hand, Belarusian President Alexander Lukashenko has opposed such an abuse of Belarus' independence and sovereignty. On the other hand, Minsk is ready to discuss certain economic integration issues with Moscow to form a common market for the free movement of goods, services, labor, and capital. However, the Kremlin considers even economic integration in geopolitical terms as it looks to secure Belarus' presence in the Russian sphere of influence. In addition to its clear geopolitical motivations, the integration ultimatum serves elements of the Russian domestic political agenda. Forming a Union State by 2024, for instance, may present an opportunity for Russian President Vladimir Putin to retain power after his current presidential term ends. It also may demonstrate a new Russian geopolitical success. But above all, it helps to solve a strategic task of keeping Belarus in Russia's geopolitical orbit.

Conflicting views between Minsk and Moscow regarding the Union State may cause a crisis in bilateral relations, particularly as Belarus refuses to make concessions that undermine its sovereignty. Negotiations on economic integration are designed so that Belarus can withdraw if Minsk senses this danger. Because Russia will not make concessions on preserving integration subsidies unless Belarus gives up its independence and



Meeting of Russian President Vladimir Putin and Belarusian President Alexander Lukashenko before the plenary session of the 6th Forum of Russian and Belarusian Regions in July 2019. (kremlin.ru)

sovereignty, an escalation of tension is inevitable.

To withstand a confrontation with the Kremlin, Belarus must reduce its economic dependence on Russia and mobilize political, economic, and diplomatic assistance from the international community. Otherwise, there is a risk that Belarus will be transformed from a supporter of regional security and stability into a source of security threats and challenges.

BELARUS AT THE GEOPOLITICAL CROSSROADS

At the beginning of his rule in 1994, Belarusian President Alexander Lukashenko proclaimed political and economic integration with the Russian Federation as a strategic foreign policy priority. This integration did not occur immediately, however. Rather, the Republic of Belarus' geopolitical pivot to Russia occurred only after changes in Belarusian domestic politics and Western policy toward Minsk. Initially, Belarus was fairly open to cooperation with the West. In the early 1990s, Minsk surrendered its Soviet-legacy nuclear arsenal to Russia, and in December 1994, Lukashenko signed the Budapest Memorandum in exchange for security assurances and guarantees by signatories, the United Kingdom, United States, and Russia, not to use economic and political sanctions. In March 1995, the Belarusian leader visited Brussels, where he signed a Partnership Cooperation Agreement, which he claimed was the first important step on Belarus' path to joining the European Union.¹ The agreement foresaw the formation of a free trade area in 1998 if Belarus met political, economic, and democratic criteria. Then, an Association Agreement between the EU and Belarus would follow, which would provide a basis for potential future membership.

However, by the end of 1994, hyperinflation and an economic crisis caused Lukashenko's approval rating to fall sharply. The opposition accused him and his close circle of corruption. As domestic political problems accumulated, Lukashenko began pursuing integration with Russia to gain the Kremlin's support.²

In January 1995, Lukashenko signed the Customs Union Agreement with his Russian counterpart, then-President Boris Yeltsin. The two leaders

concluded agreements that allowed Russia to lease two Soviet-era military-technical facilities, the Volga-type radar station in Gantsevichi and the Navy Communication point in Vileyka (neither of which are military bases), for 25 years. In February 1995, they signed the Treaty of Friendship, Neighborhood and Cooperation. These documents marked the beginning of integration between the two countries. Minsk received preferential energy resources and access to the Russian market. At the same time, Lukashenko announced his first referendum on integration with Russia, official status for the Russian language, and swapping the country's then-white-red-white state flag and "Pahonya" national emblem to slightly altered symbols from the Belarusian Soviet Socialistic Republic (BSSR). Lukashenko easily won this referendum in May 1995, having stirred up strong pro-Soviet nostalgia within Belarusian society (just four years prior, 83% of Belarusians voted to preserve the USSR).³

One year later, a new Treaty on the Community of Belarus and Russia was signed. Russia immediately wrote off \$1 billion of debt from Minsk for gas supplies. In 1996, Lukashenko initiated another referendum that proposed transforming Belarus from a parliamentary-presidential republic into a super-presidential state with full concentration of powers in hands of president. His initiative provoked a serious constitutional crisis, with opposition deputies in parliament initiating an impeachment procedure in October 1996. Moscow decided to intervene in the crisis, and on November 22, 1996, it sent a group of high-profile politicians—including then-Prime Minister Viktor Chernomyrdin and chairmen of the lower and upper houses of the Russian Parliament, Gennady

1 Fedorov, Andrey. "Belarus – EU. One step forward, all others – stumbling into a place," *Naviny*, December 3, 2015, https://naviny.by/rubrics/eu/2015/12/03/ic_articles_627_190398.

2 Shraibman, Artyom. "I will not lead my country following the civilized world". How Lukashenko has been changing foreign policy for 25 years," *TUT*, July 12, 2019, <https://news.tut.by/economics/643435.html>.

3 "Voting results at the All-Union referendum on the preservation of the USSR," *RIA Novosti*, March 17, 2011, <https://ria.ru/20110317/344858037.html>.

Seleznev and Yegor Stroyev, respectively—to mediate. As a result of negotiations between Lukashenko and the Belarusian parliament, an agreement on Belarus' socio-political situation and constitutional reform was signed. Lukashenko canceled his decrees declaring the outcome of the referendum legally binding and agreed to the referendum's consultative character, while parliament closed its proceedings against Lukashenko for violating the constitution.

However, the agreement was not adopted by a majority of deputies. On November 23, Lukashenko used this fact to re-declare the referendum's results as legally binding. On November 24, 1996, the controversial referendum took place, and Lukashenko's proposals won. After the referendum, Lukashenko dissolved the old parliament, called the Supreme Council, and a new bicameral one, the National Assembly, consisting of the Council of the Republic (upper house) and the House of Representatives (lower house), was formed from pro-presidential deputies without representation of the opposition.

The West didn't recognize the results of the 1996 referendum and condemned Lukashenko for violating democratic standards and implementing an unconstitutional coup. The EU immediately froze the ratification procedure for the Belarus-EU Partnership and Cooperation Agreement. Then, in 1997, the EU and U.S. imposed restrictions against Belarus for the first time, prohibiting high-level official contacts and canceling technical assistance aside from the Chernobyl Exclusion Zone. These restrictions began almost 20 years of Belarus' isolation from the West. They also prompted a turning point in Belarus' relations with Russia.

In 1996, analysts at the Russian Institute for Strategic Studies (RISI), an analytical center close to the Foreign Intelligence Service (SVR), concluded that Moscow's strategy towards Minsk should be guided by geopolitical interests and not solely economic considerations.⁴ For Moscow, strengthening Russian-Belarusian relations was a

strategic interest, especially in the military sphere. It guaranteed Russia's national security in the West, as it could serve as a land corridor to Russian troops in Kaliningrad in case of a hypothetical crisis scenario. Thus, the Kremlin proposed that Belarus and Russia conclude a strategic deal.

In 1997, a first draft of the Treaty on the Union between Belarus and Russia appeared. The draft agreement envisaged forming a collective decision-making body, the so-called Supreme Council of the Union. The Supreme Council would contain eight officials: the presidents, prime ministers, and heads of both parliamentary houses from Belarus and Russia. It proposed transferring defense, fiscal, and monetary policy to this body, but the Kremlin did not back this proposal.

In 1998, Minsk and Moscow signed treaties guaranteeing equal treatment for the two countries' citizens and economic entities. In 1999, the two parties signed the Treaty on the Creation of a Union State of Russia and Belarus. This document included an ambitious integration agenda, including the creation of a shared constitution, parliament, defense and foreign policy, currency, customs, taxes, symbols and more. In many ways, the treaty remained a symbolic declaration. In the same year, a Regional Group of Forces, composed of the Belarusian army and the Russian 20th Combined Arms Army previously withdrawn from Germany to Russia as a part of former Soviet Western Group of Forces in 1994, emerged.

The essence of this strategic deal was that Belarus, in contrast to other post-Soviet states, renounced its aspirations of integration with the EU and the North Atlantic Treaty Organization (NATO) and agreed to integrate with Russia. In addition, Belarus provided Russia with security on its Western border. In return, Moscow supplied energy at preferential prices and provided privileged access of Belarusian goods to the Russian market as well as financing.

⁴ Alesin, Alexander. "Belarus - Russia: gas collar is more reliable than iron one," *Belrynok*, February 2, 2017, <https://www.belrynok.by/2017/02/02/belarus-rossiya-gazovyj-oshejnik-nadezhnee-zheleznogo/>.

THE 2015 ECONOMIC SHIFT: DROP IN INTEGRATION SUBSIDIES

Although Lukashenko's ambitious plan did not come to fruition, both Belarus and Russia abided by the strategic deal. Minsk successfully exploited Moscow's fear of the West—particularly in light of the EU and NATO's Eastward expansion and the color revolutions in Georgia (2003) and Ukraine (2004)—to secure the resources needed to sustain its socio-economic model. Around the turn of the century, Belarus was the only partner of the Kremlin with a clearly pro-Russian geopolitical orientation and no aspirations of Euro-Atlantic integration.

According to the International Monetary Fund, from 2005-2015, subsidies from Russia to Belarus amounted to \$106 billion, or roughly \$9.7 billion per year. Over the years, the volume of total support via discounts on Russian energy and loans ranged from 11% to 27% of Belarusian gross domestic product (GDP).⁵ However, since 2015, Russia began to restrict its support for Belarus and apply economic pressure by reducing oil supplies, increasing gas and oil prices, and restricting access of Belarusian agricultural and industrial goods to the Russian market. In 2015, total net support from Russia was estimated at 10% of Belarus' GDP. In 2016, it almost halved and has remained around 5% of GDP since. In 2016, the gas subsidy to Belarus fell sharply, from \$2.2 billion to just \$350 million. By the end of March 2017, the Russian authorities calculated that Belarus owed \$700 million for the supplied gas.⁶ In addition, Russia completely suspended liquefied natural gas (LNG) and light and heavy oil product exports to Belarus from November 2018.⁷

Before 2015, Belarus was able to purchase Russian oil at half the market price. Today, it is only 25-30% cheaper. In the future, these subsidies likely will disappear. The Eurasian Economic Union (EAEU), of which both Russia and Belarus are members, looks to create a single market for oil and gas by 2025. Furthermore, Russian authorities are implementing what they call the "tax maneuver" in the oil industry, which will cancel export duties and replace them with a mineral extraction tax. This means Belarus will no longer receive discounts on export duties, and Belarusian prices for Russian oil and gas will converge with market prices, thus effectively ending Russian "integration subsidies" for the Belarusian economy.

According to analysts at the Belarusian IPM Research Center, in the 2000s, the volume of energy subsidies reached 20% of the Belarusian GDP, but now this figure is several times less. For instance, in 2010, when there was serious political tension between Belarus and Russia due to Minsk's reluctance to join the Moscow-led Custom Union, the amount of energy subsidies fell to 4.4% of GDP, and in 2016 to 2.1%, but it recovered to 4.5% of GDP in 2017. So, there is a clear trend towards its reduction in relative terms (as a % of GDP).⁸

Thus, Kremlin is unilaterally reviewing the terms of the strategic deal, undermining the political and economic basis of Belarusian-Russian relations. Meanwhile, Belarus remains committed to the deal and does not demonstrate any intention of joining Euro-Atlantic institutions (EU, NATO) or

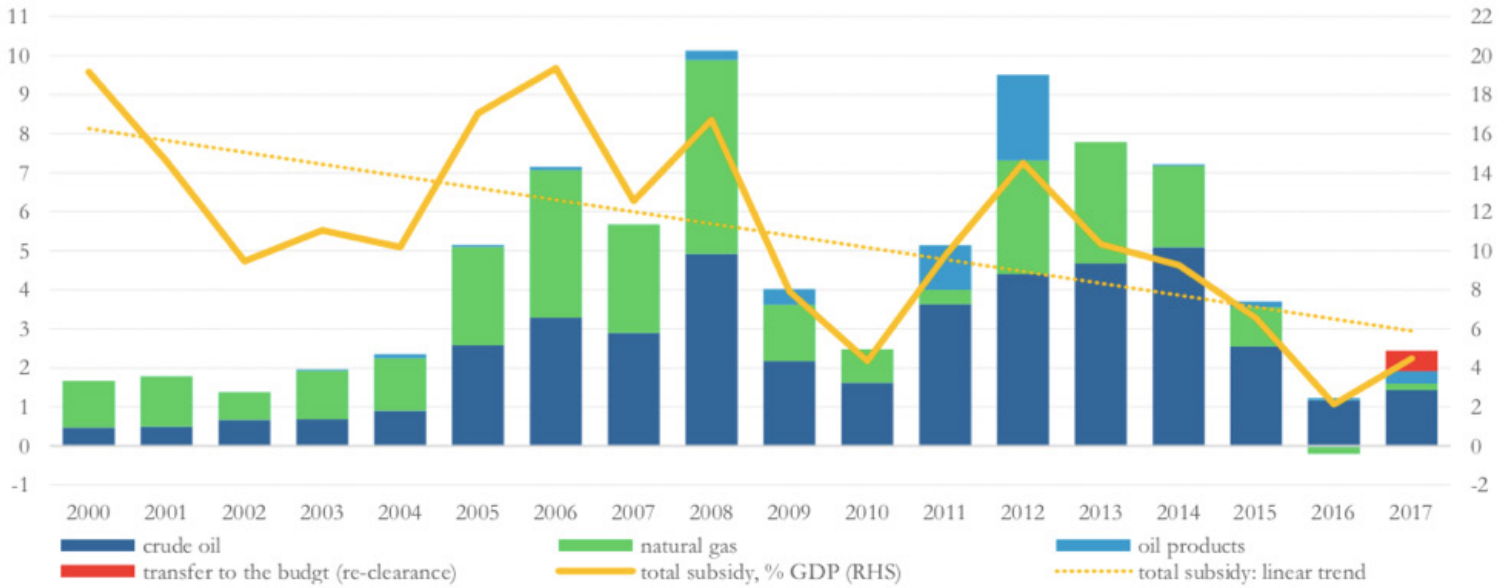
5 "IMF Country Report No. 17/383. Republic of Belarus." International Monetary Fund, December 2017, <https://www.imf.org/~/media/Files/Publications/CR/2017/cr17383.ashx>.

6 Tkachev, Ivan and Anton Feinberg. "\$100 billion bill. How Russia supports the Belarusian economy," *RBC*, April 2, 2017, <https://www.rbc.ru/newspaper/2017/04/03/58e026879a79471d6c8aef30>.

7 Korsunskaya, Darya, Oksana Kobzeva, and Damir Khalmetov. "Exclusive: Russia to suspend light, heavy oil product exports to Belarus from November," *Reuters*, October 11, 2018, <https://www.reuters.com/article/us-russia-belarus-oil-products-exclusive/exclusive-russia-to-suspend-light-heavy-oil-product-exports-to-belarus-from-november-idUSKCN1ML244>.

8 "Macroeconomic Update: How big is the Russian energy subsidy to Belarus," IPM Research Center, March 2018, <http://eng.research.by/webroot/delivery/files/english/BMF/mu2018e1.pdf>.

Figure 1. Size of the Energy Subsidy and its Components



Source: IPM Research Center

normalizing relations with the West at the expense of Russia. Minsk is even uninterested in signing an Association Agreement with the EU, though many of its neighbors have. The change in the Kremlin’s approach toward Belarus, then, is motivated not only by the economic crisis in Russia, but by a new strategic doctrine in the international arena.

THE 2015 STRATEGIC SHIFT: COERCION TO A DEEPER POLITICAL-MILITARY INTEGRATION

The 2014 Russia-Ukraine conflict and resulting confrontation between Russia and the West marked the Kremlin's shift to a new geostrategic doctrine.⁹ Before 2014, Moscow tried to increase its influence in the post-Soviet space via Eurasian economic integration and soft power. However, the Kremlin's inability to prevent Ukraine's Euro-Atlantic integration at the end of 2013 led Russia to interfere openly in Ukraine's domestic affairs, annexing Crimea and destabilizing the Donbas. From 2009-13, the Kremlin focused on forming the Custom Union and the EAEU—an EU-like integration institution—as an independent integration center. Moscow expected that the EAEU would place post-Soviet countries in its geopolitical orbit and help build equal relations between Moscow, Brussels, and Beijing. However, by the end of 2013, the deadlock in the economic modernization efforts of the Russian government became obvious. Even before the Russia-Ukraine conflict started, Russia's ministries and expert community predicted stagnation or minimal economic growth in 2014, even with high oil prices around \$100 per barrel.

In February 2013, the Chief of the General Staff of Armed Forces of Russia General Colonel Valery Gerasimov, usually associated in the West with the invention of the non-linear asymmetric warfare concept for the Russian army, gave Russia's new international modus operandi its strategic and theoretical justifications. According to Gerasimov, the global military-political balance was becoming unstable. In the medium term, Russia should expect a wider range of global challenges and threats as a multipolar world order develops. The scale of international terrorist activities was also

growing, Gerasimov continued, and these realities would lead to an increase in armed conflicts with Russia's involvement. Gerasimov saw the level of existing and potential military threats to Russia increasing significantly through 2030 as states struggle for fuel, energy, and labor resources.¹⁰

Since Russia is no longer able to expand or preserve its influence in the international scene and, in particular, in the post-Soviet region with the help of economic and soft power, the only tool available to the Kremlin is hard and sharp power—military force combined with active measures. In economic terms, Russia's share of global GDP is only 2-3%, and for this reason, Russia struggles to compete with the United States (25%), People's Republic of China (16%), or the EU (23%). In hard power, however, Russia remains among the top three military powers, alongside the U.S. and China. Russia is therefore interested in transforming military power into a leading factor in international relations.¹¹ With the use of its hard and sharp power toolbox, the Kremlin still is able to define and impose the rules of the game and promote its national interests through, e.g., military interventions in Ukraine, Syria, Libya, and Venezuela. In the post-Soviet space, Russia is promoting deeper political-military integration with the Collective Security Treaty Organization (CSTO) member-states and deploying military bases in the region in order to plant its flag on these territories. When Russia is unable to keep CSTO countries in its sphere of influence, the Kremlin exploits grey zone tactics, provoking political-military instability and armed conflicts, such as in Georgia in 2008 and Ukraine in 2014.

⁹ Tsarik, Yuri and Arseny Sivitsky. "Russia's New Geostrategy: Implications and Challenges for Architecture of International Security," Center for Strategic and Foreign Policy Studies, September 10, 2015, <http://csfps.by/en/posts/20150910>.

¹⁰ "Transcript of the scientific-practical conference Military Security of Russia: XXI Century," Council of the Federation Committee on Defense and Security, February 14, 2013, <http://defence.council.gov.ru/media/files/41d453c287fc69f911a1.doc>.

¹¹ Podberezkin, A. and M. Alexandrov. *Strategic Forecasting of International Relations* (Moscow: MGIMO-University, 2016), <https://mgimo.ru/upload/2016/04/strategicheskoe-prognozirovanie-mezhdunarodnykh-otnosheniy.pdf>.



Russia's Lipetsk Air Base. (Vitaly Kuzmin/Wikimedia Commons)

In September 2015, the Kremlin unilaterally announced it would deploy a Russian military airbase in Belarus without Minsk's prior consent.¹² Belarus' leadership refused to accommodate the Kremlin, recognizing that a Russian military base would undermine the security guarantees Lukashenko gave neighboring countries at the start of the Russia-Ukraine conflict. According to these security assurances, Belarus will not provide its territory to Russia to commit aggression against Ukraine and other neighbors. Belarus also learned from the Ukraine conflict, seeing how the Kremlin used the pre-existing military bases of Black Sea Fleet in Crimea to undermine Ukraine's sovereignty and territorial integrity. Nevertheless, Moscow's plans demonstrate a desire to avoid losing geopolitical influence. Belarus and Russia are formally strategic military allies, united by a

defensive pact within the Union State and CSTO. However, there are no Russian military bases in Belarus (there are two military-technical facilities), and Russia is not allowed to use Belarusian territory without an official invitation from Belarusian authorities. Without this invitation, Russian military activities in Belarus would be considered acts of aggression. If Belarus had agreed to a Russian airbase in 2015, the base easily would have been transformed into the Kremlin's outpost in the center of Europe following a deployment model subsequently tested in Syria.¹³ Recently, Russian Foreign Minister Sergei Lavrov said that Belarus' refusal to host a military air base an "unpleasant episode," publicly putting the issue on the agenda once again and displaying disagreements between the allies.¹⁴

¹² "The Agreement between the Russian Federation and the Republic of Belarus about the Russian air base on the territory of the Republic of Belarus," State system legal information of the Russian Federation.

¹³ In August 2015, the Kremlin signed an agreement with Syrian government on the deployment of an Air Force group of the Russian army, but Russia's military build-up did not stop there. Soon, under the umbrella of the Air Force group, Russian ground forces, special operations forces, and military police began to deploy together with newest combat systems and military equipment, including air defense/missile defense systems, electronic warfare means, artillery, and rocket weapons. In 2017, Moscow cemented a deal with Damascus for a 49-year lease at Syrian naval and air bases Tartus and Khmeimim, respectively.

¹⁴ Lavrov, Sergei. "We won't start the war, I promise you that," interview by Vladimir Soloviev, Elena Chernenko, *Kommersant*, September 26, 2019, <https://www.kommersant.ru/doc/4103946>.

Moreover, in September 2015, the commander of Russia's Western Military District, Anatoly Sidorov, urged including the Regional Group of Forces (RGF) of the Republic of Belarus and the Russian Federation in the structure of the Group of Forces in the Western strategic direction.¹⁵ Today, it includes all ground and special operation forces units of Belarusian Armed Forces and the 1st Guards Tank Army of the Western Military District of Russia. In accordance with the Concept of the Joint Defense Policy of Belarus and Russia of 1998, the deployment of the RGF is carried out in a period of danger by the consensus decision of the Supreme Council of the Union of Belarus and Russia (that is, by the joint decision of the heads of state of Belarus and Russia). The position of RGF commander is permanent (non-rotational and non-transferable to Russia), and it is occupied by a head of the General Staff of Belarusian Armed Forces. In turn, a RGF commander is directly subordinated and reports to the Supreme State Council of the Union State. From this perspective, Belarus preserves a considerable degree of strategic autonomy within the military and political alliance with Russia that allows it to block any of the Kremlin's initiatives inconsistent with Belarus' national interests. This is why Belarus has never engaged in Russia's military adventures either in case of aggression against Georgia (2008) or Ukraine (2014).

In practical terms, Sidorov proposed reassigning the armed forces of Belarus, which are the part of the RGF, to the command of the Western Military District of Russia. Thus, the proposal to reassign the RGF indicates that the Kremlin no longer considers Belarus as an equal partner from a formal institutional point of view and is trying

to reshape military-political relations with Minsk according to the so-called "Armenian model."¹⁶ Simply speaking, Russia intends to transform Belarus into an extension of its Western Military District.

Finally, at the end of 2015, Russian Minister of Defense Sergey Shoigu proposed completing the formation of a joint military organization within the Union State.¹⁷ This means in-depth integration of the military and security apparatus of Belarus and Russia with a joint decision-making center in the Kremlin. Such a model has been implemented already with the self-proclaimed republics of Abkhazia and South Ossetia.¹⁸

In 2016, Moscow began to deploy mechanized units to the Belarusian border, including a motorized rifle brigade in Klinty, Bryansk region, and a motorized rifle brigade in Yelnya, Smolensk region.¹⁹ The Kremlin has not given a clear explanation for these deployments, except for the need to respond to an allegedly significant military build-up of NATO at the borders of the Union State. Meanwhile, the Kremlin decided to deploy new permanent mechanized formations in the Western Military District on Russia's border with Ukraine and Belarus immediately after the beginning of the Russia-Ukraine conflict in 2014. This occurred almost two years before the 2016 NATO Summit in Warsaw, where the Alliance decided to deploy four multinational battalion tactical groups in the Baltic states and Poland to contain Russia and almost 5 years before recent discussions about building a permanent U.S. military facility in Poland. The Kremlin is thereby developing a contingency plan and preparing to project military power in Belarus in the near future

15 "ZVO: the Union Shield exercises showed the need for contacts between Russian Federation and Belarus," *RIA Novosti*, October 21, 2015, https://ria.ru/defense_safety/20151021/1305697600.html.

16 In 2016, Moscow and Erevan signed an agreement between the Russian Federation and the Republic of Armenia on a Joint Group of force. According to the deal, the Russian-Armenian Joint Group of Forces (JGF) is included and assigned to the Southern Military District/South Joint Strategic Command of Russia, and a commander of the Southern Military District can exercise command-and-control over the JGF in the period of growing military threat of wartime, i.e. the JGF is subordinated to the Southern Military District.

17 "Moscow is interested in, Minsk is not," Belarus Security Blog, October 26, 2015, <https://bsblog.info/oskva-zainteresovana-minsk-net/>.

18 Russia signed a treaty with Abkhazia on Alliance and Strategic Partnership in 2014 and a treaty with South Ossetia on Alliance and Integration in 2015. Both envisage in-depth level of economic, political, and military integration between Russian and two self-proclaimed territories. In security sphere, the Kremlin has the power to exercise command-and-control over their military apparatus.

19 Baev, Anton and Polina Khimshiashvili. "Motor riflemen from Yekaterinburg were transferred to the western border of Russia," *RBC*, June 2, 2016, <https://www.rbc.ru/politics/02/06/2016/5750035d9a7947a4b3b8a2c0>.



Russian-Belarusian border near Krasnoe village (Adobe Stock)

in case of a crisis situation.

In 2016, border units of the Russia’s Federal Security Service (FSB) and Federal Customs Service were installed at the Russian-Belarusian border.²⁰ This move was significant, as there is officially no border and customs control, according to the agreements signed by Moscow and Minsk in the 1990s. Russia says that these steps are aimed at protecting Russia from illegal migration and banned Western food products that pass through Belarus and other EAEU member-states. However, these measures can easily transform into a full blockade, and Russia already has tested its new border infrastructure, blocking some food export flows from Belarus. These steps clearly violate both the spirit of the strategic deal and formal agreements between two countries.

Taken together, these steps suggest that Moscow relies less on Belarus to ensure security on the Western front and is gradually moving to unilaterally ensuring Russia’s national security at the expense of Belarus. The Kremlin’s strategy consists of three elements. First, pushing for deployment of Russian permanent military bases in Belarus. Second, undermining Belarus’ strategic autonomy by expending command-and-control over Belarusian Armed Forces. Third, creating a combat capability gap by not supplying Belarus with modern military equipment on preferential terms. Moscow advocates deployment of Russian military bases to close this capability gap, presented as a major security vulnerability of the Union State and of Russia’s western flank.

²⁰ Khimshiashvili, Polina, Ilya Rozhdestvensky, and Georgy Makarenko. “How Russia and Belarus reached the restoration of the border,” *RBC* February 2, 2017, <https://www.rbc.ru/politics/02/02/2017/589300f49a79471d0bc4add9>.

THE 2018 INTEGRATION ULTIMATUM AND THE REDUCTION OF SUBSIDIES

The reduction of integration subsidies has become an ongoing source of tension between Minsk and Moscow. One of main reasons is that the oil subsidy for the Belarusian economy is being exhausted is due to the so-called tax maneuver in the Russian oil industry. In accordance with existing agreements, Belarus imports 18 million tons of crude oil from Russia duty-free, and Belarus exports refined petroleum products abroad, collecting duties, which go towards the Belarusian budget. The mineral extraction tax, however, increases the cost of Russian oil for Belarus.

According to analysts from Vygon Consulting, Belarus' losses will amount about \$10 billion, or one-sixth of Belarus' 2018 GDP in 2019-2025, when the tax measure will be gradually implemented.²¹ Belarusian officials believe losses will amount to about \$8-12 billion given an oil price of about \$70 per barrel within six years. Belarus also received the equivalent of the export duty on 6 million tons of crude oil as a budget transfer (around \$400-500 million per year) according to the agreement signed by Lukashenko and Putin in April 2017.²² However, these inflows will be affected by Russia's introduction of a mineral extraction tax. In addition, under the terms of the bilateral agreement with Russia, Belarus would have to reduce its own

oil export duty rate. Absent of a new agreement preserving preferential oil prices, the annual direct impact on the current account and fiscal balance is estimated by the International Monetary Fund at 3.9% and 1.3% of GDP, respectively.²³

Belarus is thus asking to be compensated for losses due to the tax maneuver in the Russian oil industry and requests that Moscow reduce gas prices.²⁴ In December 2018, the Kremlin suddenly raised the stakes, formulating an "integration ultimatum" of "cheap energy resources in exchange for sovereignty." On December 6, 2018, during the meeting of the Supreme Eurasian Economic Council in St. Petersburg, Lukashenko claimed that the Union State could not function in the context of unequal business conditions between partners and economic players. "No equal conditions, no Union," he said. Vladimir Putin responded that "this takes time and a different level of integration between our countries."²⁵ Russian Vice Premier Dmitry Kozak took Putin's line when he voiced the Kremlin's ultimatum in a harsher form on December 11. He refused to discuss discounts for gas and compensation for Minsk's losses in oil with Belarus' Vice Premier Igor Liashenko "until principled decisions on further integration of Russia and Belarus within the Union State" are reached.²⁶ When the Union State Council of Ministers met in Brest on December 13,

21 "Completion of the tax maneuver," Vygon Consulting, November 2018, http://vygon.consulting/upload/iblock/7e7/vygon_consulting_end_of_tax_manueur_ep1.pdf.

22 This scheme will end in 2020 to put additional pressure upon Belarus.

23 IMF Country Report No. 19/9. Republic of Belarus, International Monetary Fund, January 2019, <https://www.imf.org/~media/Files/Publications/CR/2019/cr1909.ashx>.

24 Today, Belarus pays \$127 per 1000 cubic meters of Russia natural gas. This is much higher than what the Belarusian leadership considers to be an acceptable price (\$100) for the Belarusian economy. Meanwhile, the Belarusian side believes that a fair price is \$70-80 (price for Smolensk Region of Russia plus logistic costs) according to the spirit of agreements signed in 1998 (equal conditions for economic and business entities). The Russian Ministry of Economic Development predicts that Belarus will be paying on average \$132.2 per 1000 cubic meters of Russian natural gas in 2018–2021. This price might go down to \$126.4 in 2022, \$125.1 in 2023, and \$122.2 in 2024.

25 Soloviev, Vladimir. "Alexander Lukashenko says between the lines. What the president of Belarus fears more than gas prices," *Kommersant*, December 15, 2018, <https://www.kommersant.ru/doc/3833073>.

26 "Kozak did not discuss gas discounts with Belarusian delegation," *Interfax*, December 11, 2018, <https://www.interfax.ru/russia/641836>.



Meeting of the Supreme Eurasian Economic Council in Yerevan, October 2019. (kremlin.ru)

Russian Prime Minister Dmitry Medvedev stated that Russia was ready for further integration with Belarus within the framework of the Union State Treaty.²⁷

Lukashenko responded to this ultimatum by saying that sovereignty was sacred to Belarus, and he would not surrender it for a barrel of oil.²⁸ Moscow's response to this statement was immediate as Anton Siluanov, Russia's First Vice Premier and Minister of Finance, said several hours later that Minsk should not count on compensation for losses from the oil tax maneuver. The talks in December 2018 failed to resolve the disputes between the two states. The only visible result of the negotiations was a decision to establish a working group with government officials tasked with developing proposals on the deeper economic integration. However, Moscow continued to increase the level of pressure upon

Minsk. In June 2019, Kremlin blocked new loans for Minsk, and Anton Siluanov also made Russia's further financial assistance to Belarus conditional to deeper integration.²⁹

Finally, after several months, in early September 2019, the two countries' prime ministers developed an action plan on deeper economic integration between two countries. Lukashenko and Putin are expected to discuss this plan during the next Higher State Council of the Union State meeting in Moscow in December 2019. Few details are publicly available because Belarus opted against publication. However, Belarusian officials suggest that the action plan contains the principle of "two states-one market" and does not include any political provisions.³⁰ It also envisages drafting 31 road maps on integrating different sectors of the economy by the end of 2019.

27 "The meeting of the Council of Ministers of the Union State," Government of Russia, December 13, 2018, <http://government.ru/news/35083/>.

28 "So that it wouldn't be that Belarus was given up for a barrel of oil". Lukashenko told about what he had talked with Putin," *Tut*, December 14, 2018, <https://news.tut.by/economics/619217.html>.

29 "Siluanov: financial issues of the Russian Federation with Belarus will be resolved after coordination of integration," *Tut*, June 8, 2019, <https://news.tut.by/economics/640868.html>.

30 "Rumas on integration program with Russia," *Tut*, August 24, 2019, <https://news.tut.by/economics/650811.html>.

A STRATEGIC DEADLOCK. WHAT'S NEXT?

Russian officials are trying to avoid speculation about political-military integration and instead promote the idea of economic integration. However, recent leaks about the Russia-Belarus action plan suggest that Moscow's intentions are not limited to economic integration. According to insiders, the program envisages a partial unification of the two economic systems starting in January 2021. The action plan foresees a unified tax code, foreign trade regime, civil code, and property accounting. It will create joint banking supervision (but will retain two currencies and two central banks), a single regulator of oil, gas and electricity markets, and harmonized state regulation of industries. By the end of 2020, both states should prepare to implement the program at the legislative levels, and begin working on most items jointly from January 1, 2021. This degree of integration is allegedly higher than in the EU, and is tantamount to establishing a federate or confederate state starting in 2022. Moreover, it is unlikely to be equal for the parties: the Russian economy is 29 times larger than the Belarusian one.³¹

Although officials in Minsk strongly disagree with such interpretations, some points have been confirmed by Belarus.³² The Ministry of Finance of Belarus is going to create a special group that is supposed to prepare a draft Tax Code of the Union State.³³ Introduction of a single currency is not currently part of integration talks. Nevertheless, the chief negotiator from the

Russian side, Minister of Economic Development Maxim Oreshkin, believes that this issue will appear on the negotiation table in the future.³⁴ He notes that the introduction of a single currency is mentioned by the Union State Treaty of 1999. Meanwhile, Belarusian Minister of Foreign Affairs Vladimir Makey recently confirmed that Russia had proposed provisions unacceptable for Belarus during the negotiations, in particular establishing new supranational bodies and introducing a single currency.³⁵

The main problem of the action plan on deeper integration is that its adoption will not solve the fundamental conflict in Russia-Belarus relations: the problem of extending discounts for Russian oil and gas supplies to Belarus. According to the Ministry of Finance of Belarus, there are no provisions on compensating Minsk for the Russian oil industry tax maneuver (\$10-12 billion).³⁶ The action plan also does not assume discounts on Russian gas for Belarus: the negotiations on a new gas contract, to take place at the end of December, are separate from the deeper integration talks.

Thus, there is no rational reason for Lukashenko to sign the action plan on deeper integration since it does not solve the urgent issues in Belarus' relations with Russia. Makey hinted that Lukashenko would reject the plan if the issue of oil and gas prices are not solved before his upcoming meeting with Putin. In addition to the tax maneuver and high oil and gas prices, the list

31 Butrin, Dmitry. "Taxes Friendship. Russia and Belarus intend to move to a single tax code in 2021, and not only," *Kommersant*, September 16, 2019, <https://www.kommersant.ru/doc/4094365>.

32 "Press-secretary of Lukashenko denied the findings of the Kommersant journalist on integration," *Reform*, September 16, 2019, <https://reform.by/press-sekretar-lukashenko-oprovergla-vyvody-zhurnalista-kommersanta-ob-integracii/>.

33 "Ministry of Finance of Belarus begins work on a unified Tax Code with Russia," *Tut*, September 18, 2019, <https://news.tut.by/economics/653957.html>.

34 "Oreshkin: Russia and Belarus are discussing a single currency," *RIA Novosti*, June 8, 2019, <https://ria.ru/20190608/1555401827.html>.

35 "Makei – RBC: There is no sense in suspecting Belarus of trying to leave for the West," interview by Alexander Atasuntsev, *RBC*, October 1, 2019, <https://www.rbc.ru/politics/01/10/2019/5d91ee289a79471f9a2390f1>.

36 "Ministry of Finance: Minsk insists on compensation for losses from tax maneuver, no solution in integration program," *Tut*, September 12, 2019, <https://news.tut.by/economics/653292.html>.

of complaints from Belarusian officials include barriers for Belarusian agricultural and industrial products to the Russian market. Meanwhile, the Kremlin proposes to approve the program first and then to solve problems in step-by-step manner. The Russian side has claimed that December 2019 is the deadline for the deeper integration talks, adding that Belarus-Russia relations would not remain at the status quo after the current stage of negotiations.³⁷ That is, they will either deepen or degrade.³⁸ Konstantin Zatulin, Deputy Chairman of the Russian State Duma Committee on Commonwealth of Independent States Affairs, Eurasian Integration and Relations with Compatriots, also hinted that refusal to accept the deeper integration deal may lead to significant economic destabilization in Belarus.³⁹

Lukashenko, meanwhile, threatened to pull out of an integration deal if Moscow fails to resolve their dispute over energy subsidies, adding that he would not sign documents that contradict the Constitution of Belarus and undermine national sovereignty and independence.

The only plausible reason Lukashenko has agreed to launch these deeper integration debates is that he doesn't want to escalate tensions with the Kremlin before his presidential campaign next year. Even if Lukashenko signs the action plan in December, there are no immediate legally binding implications: the Russian and Belarusian parliaments do not need to adopt the appropriate legislation until 2021. Minsk seeks to prolong

the negotiation process while refusing to make additional commitments because Moscow will not make any concessions. If the Kremlin doesn't meet its obligations, then Minsk always has the option to withdraw from the process and place the blame on Moscow.

Meanwhile, Russian Vice-Prime Minister Dmitry Kozak claims that the issue of compensation to Belarus for the tax maneuver could be solved only after adopting a joint tax code by the two countries.⁴⁰ The Russian side insists that it should be the Tax Code of the Russian Federation supplemented with some additional provisions.⁴¹ Even in this scenario, Belarus will not receive full compensation (\$10-12 billion) since compensation will be expanded only to two Belarusian refineries to refund some of their operational expenses. Thus, this solution also does not meet Belarus' expectations. Although the Belarusian and Russian sides have already agreed on more than 20 roadmaps by the end of November, parties are still in deadlock on five road maps on topics, such as electricity, gas, oil and oil products, and nuclear energy. One more problematic sphere is the unification of tax legislation since Minsk considers this a violation of national sovereignty.⁴²

However, it is naive to believe that the Kremlin's strategists do not understand Lukashenko's tactics, especially as Belarus' begins normalizing relations with the West and strengthening its strategic partnership with China.⁴³ Lukashenko, meanwhile, has been speaking about changes to

37 "Negotiations with President of Russia Vladimir Putin," Portal of the President of Republic of Belarus, July 18, 2019, http://president.gov.by/ru/news_ru/view/peregovory-s-prezidentom-rossii-vladimirom-putinyim-21570/.

38 "Oreshkin does not exclude a reversal in the construction of the Union State," *Reform*, July 18, 2019, <https://reform.by/oreshkin-ne-iskljuchaet-razvorota-v-stroitelstve-sojuznogo-gosudarstva/>.

39 "State Duma threatens Belarus with economic crisis for refusing to integrate," *Finanz*, November 18, 2019, <https://www.finanz.ru/novosti/aktsii/gosduma-prigrozila-belorussii-ekonomicheskim-krizisom-za-otkaz-integrirovatsya-1028695699>.

40 "Kozak: Common tax rules of the Russian Federation and Belarus will remove the issue of compensation for maneuver," *Prime*, November 20, 2019, https://1prime.ru/state_regulation/20191120/830578447.html.

41 "Moscow claims Minsk violates its right to domestic tax policy," *Interfax*, October 8, 2019, <https://interfax.by/news/policy/raznoe/1266366/>.

42 Soloviev, Vladimir. "Presidents of Russia and Belarus will play road maps," *Kommersant*, November 28, 2019, <https://www.kommersant.ru/doc/4173154>.

43 Intensification of Belarus-China relations since 2014 – one more geopolitical implication of the Russia-Ukraine conflict. China increased strategic attention to Belarus, reconsidering its initial plans for promoting the Belt and Road Initiative in Eastern Europe, where Ukraine initially had been given the leading role. Already few years later, with the ongoing Russia-Ukraine conflict, Belarus and China achieved a special and high level of bilateral relations in the political and military spheres: a trustful comprehensive strategic partnership and mutually beneficial cooperation (2016) and iron brotherhood (2018). Today, Beijing is actively helping Minsk to rebalance the Kremlin's growing pressure providing Belarus with financial assistance to refinance debts to Moscow, opening Chinese markets for Belarusian agriculture goods, and even transferring military technologies (joint missile and satellite programs).



A more fundamental question is why Moscow is not satisfied with the current status quo. Why does Moscow demand deeper integration now? Joint monetary, fiscal, and customs policies would mean the loss of Belarus' independence. Russia would like to reshape political-military relations with Belarus, deepening integration here, too.

the constitution, which might signal his preparation for a power transfer in Belarus. On the other hand, Putin has instructed federal executive bodies to synchronize the legislation of Russia and Belarus in various fields.⁴⁴ So, the Kremlin has its own agenda, even without taking into consideration a position of its counterpart.

A more fundamental question is why Moscow is not satisfied with the current status quo. Why does Moscow demand deeper integration now? Joint monetary, fiscal, and customs policies would mean the loss of Belarus' independence. Russia would like to reshape political-military relations with Belarus, deepening integration here, too. If Minsk agrees to deeper economic integration, then the Kremlin may demand political-military integration as the next stage of the process—especially as the 1999 Union State Treaty includes provisions for in-depth political and military integration.⁴⁵ Russian officials often refer to this document as a strategic roadmap.

The Kremlin has several internal and geopolitical reasons for this ambitious plan. Putin's approval rating has dropped significantly and is now lower than it was before the conflict with Ukraine.⁴⁶ The rally-around-the-flag "Crimean consensus" and "Syrian success" have been exhausted, and Russians are expressing their dissatisfaction with the country's poor economic situation and political leadership. Protest sentiment is growing within Russian society, and the Russian government lacks any positive social and economic development agenda.⁴⁷ The Russian leadership is planning to tackle these problems by demonstrating a new

geopolitical success—the Union State of Russia and Belarus. This should distract Russian society from the socio-economic crisis, providing new legitimacy for the Kremlin.

In particular, the Kremlin feels threatened by Belarus' efforts to preserve its independence and strategic autonomy in foreign and security policy. It also feels threatened by the ongoing normalization of Belarus' relations with the West and the strengthening of its strategic partnership with China. These fears are reflected in strategic assessments of the Russian military intelligence (GRU), as well as in official political discourse in Russia.⁴⁸ While Russian officials advocate deeper integration between Belarus and Russia within the so-called Union State as a way to prevent such a scenario, the Russian military and intelligence community have continued to emphasize the risk that the West could separate Belarus from Russia and incorporate it into the Western geopolitical orbit. The Foreign Intelligence Service (SVR) expresses almost the same concerns as the GRU. According to the SVR, Western intelligence services have been working to turn Russia and Belarus against one another, exacerbating the contradictions in the economic sphere between Minsk and Moscow, and exploiting the fact that the Union State has not yet been fully established.⁴⁹

Together, these assessments demonstrate the Kremlin's growing concerns about Russia's ability to retain Belarus within its geopolitical zone of influence. Not only does the Kremlin fear losing its influence in Belarus, but it also sees Belarus as a potential hot spot. Russian intelligence has likely

44 Tkachev, Ivan, Natalya Galimova, Peter Kanaev, and Olga Ageeva. "Putin instructed to work out the issue of approximation of laws of Russia and Belarus," *RBC*, October 8, 2019, <https://www.rbc.ru/economics/08/10/2019/5d9c742f9a7947adf67bb889>.

45 "The Union State Treaty," Union State Information Analysis Portal, <http://www.soyuz.by/about/docs/dogovor5/>.

46 "Ratings of trust in politicians, approval of the work of state institutions, party ratings," *WCIOM*, https://wciom.ru/news/ratings/doverie_politikam/.

47 "How Russians do protest. Results of monitoring protest activity in the second quarter of 2019," Center for Social and Labor Rights, November 2019, http://trudprava.ru/images/content/Monitoring_2_Quart_2019.pdf.

48 Sivitsky, Arseny. "Belarus's Relations With the West Receive Growing Scrutiny From Russian Military Intelligence," The Jamestown Foundation February 22, 2019, <https://jamestown.org/program/belarus-relations-with-the-west-receive-growing-scrutiny-from-russian-military-intelligence/>.

49 Sivitsky, Arseny. "Russian Foreign Intelligence Service Is Alarmed by Belarusian-Western Normalization," The Jamestown Foundation, July 31, 2019, <https://jamestown.org/program/russian-foreign-intelligence-service-is-alarmed-by-belarusian-western-normalization/>.



Closing ceremony of the 2nd European Games, JUNE 2019. (president.gov.by)

already been tasked with developing contingency plans for Belarus, justifying Russia's potential "preventive interference" in the country's domestic affairs. The options developed by several Russian think tanks close to the Kremlin range from deeper integration under Russian coercion, to the deployment of Russian military bases, to regime change and even a Crimea-like intervention in Belarus after 2024.⁵⁰ These scenarios might be triggered if Kremlin strategists believe Russia is irreversibly losing Belarus. But these suggestions also show dramatic shifts in Russia's strategic thinking toward Belarus, a hostage of Moscow's zero-sum game geopolitical thinking.

Whether Minsk deepens integration with Russia or faces Kremlin's interference in domestic affairs, it will lose sovereignty to the Kremlin in the medium term. Prevention of worst-case scenarios will depend on Belarus' abilities to reduce economic dependence on Russia in areas that can be used as leverage. This includes Belarusian dependence on Russian oil and gas supplies, consumer and industrial markets, and financial assistance. Belarus should also strengthen the

resilience of its state and society to internal and external challenges, in case the Kremlin initiates coercive activities. Finally, Belarus needs economic and political assistance from the international community, especially the West and China, to tackle economic structural imbalances successfully while maintaining political stability. This assistance may help lay the ground for a stable transfer of power from Lukashenko to his successor, which will probably take place in 5-10 years. In this optimistic scenario, Belarus can expand strategic autonomy vis-à-vis Russia and limit Russian coercion with the help of the international community, while maintaining formally positive relations with Moscow. The alternative is that Russia will transform Belarus into a military stronghold and host of Russian bases, generating security challenges to the EU and NATO, and in particular its neighboring Baltic states, Poland, and Ukraine. 🦅

⁵⁰ Sivitsky, Arseny. "Russian Think Tanks Propose Contingency Plans for Sustaining Russian Influence in Belarus," The Jamestown Foundation, March 4, 2019, <https://jamestown.org/program/russian-think-tanks-propose-contingency-plans-for-sustaining-russian-influence-in-belarus/>.

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