

# NEWSLETTER

## BELARUS

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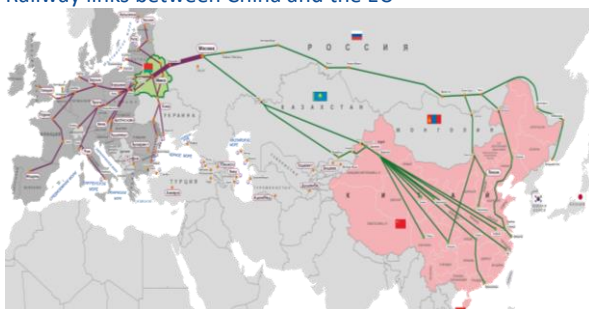
## The unequal “iron brotherhood” between Belarus and China

Despite the long-lasting formal diplomatic relations between Belarus and China, their economic cooperation did not take off until 2013. The election of Xi Jinping as the Secretary General of the Communist Party and consequently as President of China proved to be an important turning point in the Belarusian-Chinese relations. The current bilateral cooperation is based on the inclusion of Belarus in China’s Belt and Road Initiative (BRI) and the provision of financial and technological support by China for the development of industrial and infrastructural projects in Belarus. Despite the Belarusian attempts to broaden their bilateral cooperation through intensifying trade relations, especially exports, and attracting more Chinese foreign direct investment (FDI), China successfully dominates the cooperation terms, focusing mainly on long-term developmental financing (DF) which is less favourable for Belarus. As a result of the predominately asymmetric nature of their economic relations and the current signs of strengthening Russian-Chinese links, the prospects for economic gains for Belarus from its “iron brotherhood” with China are limited.

### Belarus as a part of the BRI

The launch of the Chinese global infrastructure development strategy BRI and its land component the Silk Road Economic Belt in 2013 can be considered as the essential background for the current Belarusian-Chinese cooperation. Within the BRI framework China seeks developing modern physical infrastructure including railways, highways and pipelines in order to access the most attractive global markets while at the same time increasing the spread of its economic and political influence. Because of its geographic proximity to the EU, well developed railway network and membership in the Eurasian Economic Union, Belarus is considered being one of the crucial partners for China within this initiative.

### Railway links between China and the EU



Source: Belarusian Railways

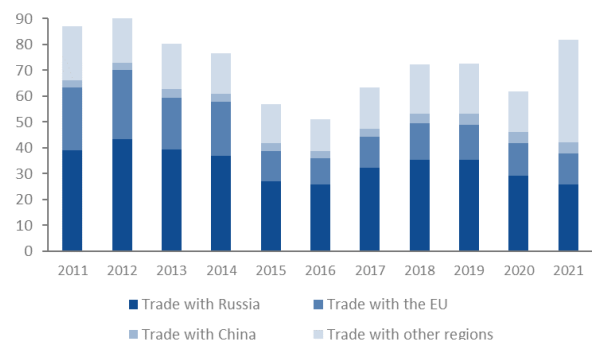
China uses its overseas lending programme for infrastructural development as an active instrument to implement the BRI initiative. Within this programme, several agreements between the China Development Bank and the Export-Import Bank of China on the one side and the Development Bank of Belarus and the Belarusian government on the other side have been signed with the aim to modernise Belarusian railway infrastructure and develop new industrial projects along the BRI route.

A key FDI project in this respect has been the Great Stone Industrial Park near Minsk that was opened in 2015. This joint Chinese-Belarusian special economic zone was supposed to become a modern hub producing and supplying high-tech and innovative products with high export potential to the Eurasian Economic Union and neighbouring European countries. However, political instability following the rigged presidential elections of 2020 and the ongoing Russia’s war of aggression against Ukraine have become important obstacles for achieving these goals.

### Bilateral trade between Belarus and China

Beside infrastructural cooperation, one of the main goals of Belarus in its relations with China has been the intensification of their trade relations with the focus on expanding its goods exports to China. However, despite some minor growth trend, China’s share in the foreign trade structure of Belarus remains rather small (it grew from 3.2% in 2010 to 5.0% in 2021).

### Foreign Trade of Belarus, 2011-2021, USD bn

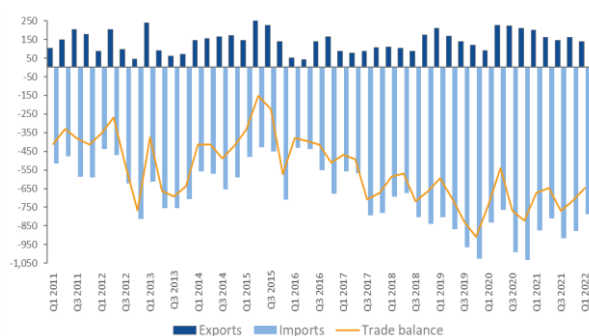


Source: GET based on Comtrade data

In addition to that, trade relations between Belarus and China are highly asymmetrical with imports from China dominating over Belarusian exports and creating a persistent and growing trade deficit. Thus, although there was a slight increase in the bilateral trade volumes, this was mainly due to the growing imports from China (from 4.7% in 2010 to 8.3% in 2021) with Belarusian exports stagnating (China accounted for 1.52% in 2010 and 1.68% in 2021).

There are several reasons for this trade asymmetry. On the one hand, the export structure is in favour of China as it mainly exports manufactured industrial products to Belarus. Belarusian companies for their part export mainly commodities, or low value-added goods, and thus have difficulties in entering the highly competitive Chinese market. On the other hand, in the area of joint infrastructural development China sticks to the formal requirement for its participation with no less than a 50% share. As a result of this requirement, at least a half of products, goods, and services needed for the implementation of such joint projects must originate in (and thus be imported from) China.

#### Trade between Belarus and China, 2011-2022, USD m

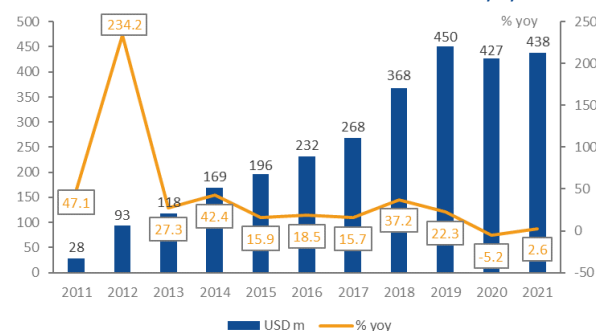


Source: GET based on Comtrade data

#### FDI and developmental financing (DF)

Investment is yet another important area of Belarusian-Chinese economic cooperation, as the figure below shows.

#### FDI inflows from China 2011-2021: USD m and % yoy



Source: GET based on data of the National Bank of Belarus

The year 2012 was a special case as the car manufacturer Geely opened its production plant in Belarus. Between 2013 and 2021 China's annual gross FDI inflow into the Belarusian economy grew by 19.7% on average. Despite this outstanding growth, FDI has not been the main instrument of investment cooperation between the countries. The DF including loans, grants and technical assistance from the Chinese government to its Belarusian counterpart has been playing a much bigger role, outperforming the FDI inflows.

It is estimated that the total amount of DF that China has provided to Belarus between 2000-2019 was at least USD 25.7 bn. It is hard to estimate how much of these funds were disbursed and for what projects exactly they were used, as the data are not transparent. However, according to the available information it can be claimed that in addition to the financing provided for development of the Great Stone Industrial Park, China provided DF for projects in the energy sector, transportation, industrial and civil construction, and for setting up the security/surveillance systems on transportation infrastructure.

With its debt burden growing significantly, Belarus made some attempts to intensify the investment cooperation with China on the basis of FDI instead of DF. In 2017, the Belarusian government offered 25 state-owned enterprises for privatisation exclusively to Chinese businesses. However, none of these enterprises attracted Chinese interest.

#### Outlook

The future outlook for the Belarusian-Chinese economic relations is rather pessimistic. In addition to the growing trade deficit that dominates Belarusian trade relations with China, the war against Ukraine and sanctions imposed are creating additional pressures on Belarus. Currently Minsk can offer neither stable transit routes nor a good investment climate to its Chinese counterpart. This negatively affects the further development of the BRI route going through Belarus, which is one of the most important areas of the Belarusian-Chinese economic cooperation. At the same time China's limited interest in accelerating its FDI in Belarus limits the prospects for more balanced economic relations between the two countries even further.

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

\*Advisory activities in Belarus are currently suspended.

#### Editors

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