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Book

Experiences of Finnish firms operating in Belarus : balancing between profits and political peculiarities

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Electronic Publications of Pan-European Institute 4/2014

ISSN 1795 - 5076

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4/2014

Electronic Publications of Pan-European Institute

http://www.utu.fi/pei

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1 Background

The objective of this report is to reveal experiences of the Finnish companies operating in Belarus. This research slightly resembles my study on Soviet-Finnish joint ventures in the summer of 1991. At that time, only a few empirical studies describing the everyday life of the Finnish-owned companies in the USSR existed. Despite the fact that over two decades have passed and foreign entrepreneurship has been allowed all that time in Belarus, the Western research community has conducted only a few scientific surveys or case studies about foreign firms in Belarus.

The country's non-progressive political image has probably kept many Western firms as well as researchers out of the country. Perhaps the winds are changing and this change may cause a renaissance in foreign investment inflows. As a first sign of the renaissance, the total amount of foreign direct investment in Belarus has increased tenfold during this millennium. The future will tell us whether the renaissance will be long-lasting.

A prediction of the future of Belarus is more challenging than in many other post-Soviet republics (Liuhto 2007), since the past 20 years have shown that Belarus is capable of executing its government policies in an unpredictable manner. It is too early to conclude whether the contemporary Western drive is a measure to counterbalance the increasing influence of the Russian corporations or a more profound policy to reform the economic structures with the help of modern Western firms.

This study is neither a business guide[2] nor a part of a promotional campaign for Belarus, but an attempt to describe the views of some Finnish firms in the Belarus business environment. I have kept the report as short as possible. I have used many charts and tables to summarise the main points. I wish that Finnish researchers interested in the internationalisation of Finnish firms in relation to Belarus are better equipped to focus their empirical investigations after this study.

[2] Business guides are freely available on the Internet, such as Investment in Belarus (2011), Belarus Investment Guide (2012), Belarus slide package for a foreign investor (2012), Ernst & Young (2012), and Doing Business in Belarus (2013).

Close to 7,000 companies with foreign capital have been registered in Belarus by the beginning of 2013[3]. Around 30–40 of these foreign firms have been founded by Finnish companies. However, only a few of the Finnish firms have started industrial production in Belarus. The national bank of Belarus suggests that the Finnish firms have invested nearly $ 100 million in Belarus, and with this sum Finland stands as the sixteenth most active foreign investor in the country. On the other hand, Belarus represents less than 0.1% of Finland's outward foreign investment stock. It has been estimated that the investment of Olvi, a Finnish brewery, covers approximately three quarters of the total investment stock of the Finnish firms in Belarus.

Currently, Belarus accounts for a marginal share of the Finnish foreign trade (0.2%), but on the other hand, our bilateral trade is growing and its structure developing. Traditionally, Finland has exported various machines and paper products to Belarus, whereas oil products have covered the lion's share of the Finnish imports from Belarus. In addition to direct trade, a great amount of Finnish goods is exported indirectly to Belarus, mainly through Lithuania. I believe that growth in bilateral trade and Finnish investments in Belarus will take place in the foreseeable future.

I want to express my sincere gratitude to the Embassy of Belarus in Helsinki, the Embassy of Finland in Minsk and the Finnish-Belarusian Chamber of Commerce. Their contribution has been invaluable in determining the Finnish firms operating in Belarus. I am also extremely grateful to company directors, who shared their time with me to discuss the everyday life of a Finnish firm in Belarus. Even if several experts and company directors have contributed to this report, the author is solely responsible for the content of this report, including its possible errors and deficiencies.

Turku, January 11th 2014

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[3] Some 130,000 organisations, including business organisations, i.e. enterprises, have been registered in Belarus.

2 Snapshot to economic development of Belarus

Although Belarus has over nine million citizens[4], its gross domestic product (GDP) is only a quarter of that of Finland with some five million people. If the economic size is measured by using a purchasing power parity method, the difference narrows; nevertheless, the Finnish economy is still considerably larger than the Belarusian economy (CIA 2013; EIU 2013). Faster economic growth in Belarus reduces the gap. The annual increase of the real GDP in Belarus has been 5-10% since the beginning of the millennium up to the global financial crisis in 2008. After the economic standstill of 2009, the Belarus economy has started to recover (Table 1).

Table 1. Main macroeconomic indicators of Belarus, 2004-2011

	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP (change in percent)	11.4	9.4	10	8.6	10.2	0.2	7.7	5.5
CPI, e.o.p. (change in percent)	14.4	8	6.6	12.1	13.3	10.1	9.9	108.7
Terms of Trade (change in percent)	2.2	12.3	3.8	-2.5	11	-11.1	1.9	9.0
Current Account Balance (percent of GDP)	-5.2	1.5	-3.8	-6.7	-8.2	-12.5	-15.0	-9.4
Foreign Exchange Reserves (in months of imports of G&S)	0.5	0.9	0.7	1.6	0.9	2.2	1.6	2.0
Net FDI (USD billions)	0.2	0.3	0.4	1.8	2.1	1.8	1.3	3.9
General Government Balance (percent of GDP)	0	-0.7	1.4	0.4	1.4	-0.7	-1.8	2.8
PPG Debt (percent of GDP), of which:	8.9	8.3	8.8	11.6	13.7	22.3	23.5	31.6
Domestic	5.7	5.7	6.5	6.4	6.8	5.8	5.7	7.1
External	3.2	2.6	2.3	5.2	6.9	16.5	17.8	24.5
Memo:								
Nominal GDP (in billions of USD)	23.1	30.2	37	45.3	60.8	49.2	55.1	54.6
GNI per capita (USD, Atlas method)	2,150	2,780	3,470	4,250	5,430	5,590	5,990	5,830

Source: World Bank (2013a)

In 2011, Belarus experienced its own balance of payment crisis and as a consequence the external value of its currency, the Belarusian rouble, collapsed. At the beginning of 2011, some 4,000 Belarusian roubles equalled one euro, whereas at the end of the year already 11,000 roubles were needed to buy one euro. Thereafter, the rouble-euro exchange rate has become more stable; nevertheless, the exchange rate has not stabilised yet. As a sign of the continuing devaluation of the Belarusian rouble, one euro valued some 13,000 roubles at the beginning of 2014.

[4] The population of Belarus has dropped by more than 500,000 citizens during this millennium, though the life expectancy has increased from 69 to 71 years in the corresponding period. Emigration explains a rather small part of the population decline. The major reason is the drop in the birth rate.

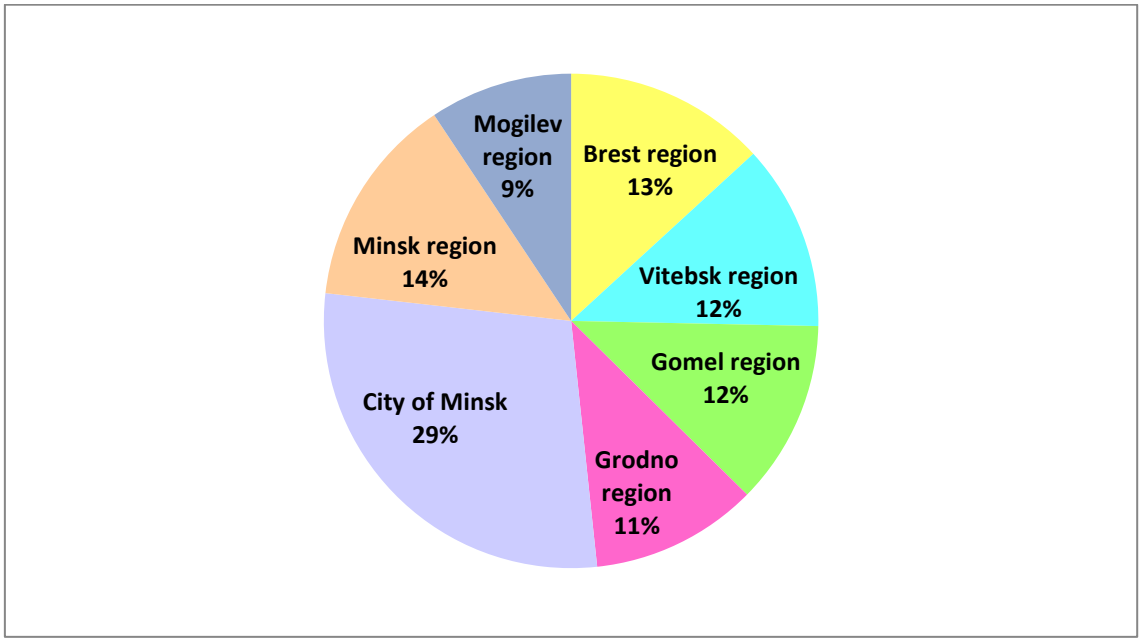
As a consequence of the payment crisis, inflation soared to over 100% in 2011 (World Bank 2013b). Another implication of the crisis was the rapid increase in foreign borrowing. Total external debt of Belarus has grown six fold since the beginning of 2007. In October 2013, foreign debt amounted to $ 37 billion and the gross external debt-GDP ratio in Belarus was some 55% (National Bank of the Republic of Belarus 2013).

The current GDP growth rate is substantially lower compared to the growth prior to the crisis. GDP growth in January-November 2013 was just 0.9% compared to the corresponding period a year earlier (Statistical Committee of Belarus 2013). As foreign trade plays an important role in the Belarus economy and Russia is the dominant trade partner, Russia's low GDP growth rate is one of the main reasons for modest economic growth in Belarus.

Although current economic growth is relatively modest, the long-term development of the retail trade in Belarus has been impressive (Chart 1). The value of the retail trade has increased 50-fold during this millennium[5]. The development has been fastest in the City of Minsk and the Minsk region (over 60 times) and the lowest in the Gomel and the Mogilev regions ('only' 40 times). Such a development is not a surprise as the eastern parts of the transition economies usually grow slower, since they do not have as strong an external consumption source as the western regions. Retail trade in the Brest region has obviously benefited from the vicinity to Poland. In a similar manner, the Grodno region has probably received an extra consumption boost from Lithuania, and correspondingly, the Vitebsk region from Latvia. The capital and the region surrounding it cover over 40% of the retail trade in Belarus. Such a consumption concentration is not unheard of in other transition countries either (Statistical Committee of Belarus 2013).

[5] When analysing the development of the retail trade, one should not forget that inflation and the devaluation explain a significant part of the retail trade growth.

Chart 1. Division of retail trade in Belarus by region in 2012

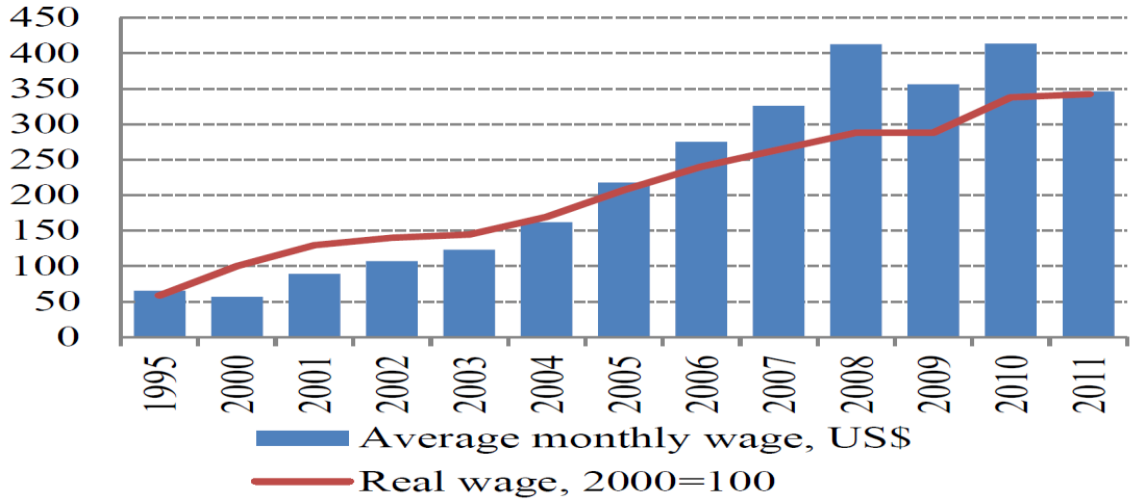


Source: Statistical Committee of Belarus (2013)

In 1995, some 60% of the retail trade consisted of food and beverages. At the moment, the share is slightly less than 50%. An increase in non-food trade indicates the improvement in material wellbeing of Belarusians. However, the average salary is still rather low. In October 2013, the average salary was some 5,500 roubles per month or $ 600 (Statistical Committee of Belarus 2013). Average salary is a somewhat misleading indicator for a foreign investor, as the salary of a competitive expert is several times higher.

Average salary in Belarus is clearly lower than that of Russia ($ 800). In Finland, average salary is over five times that of Belarus. When assessing the purchasing power of a Belarusian, one should not forget that Belarus has a low individual income tax compared to that of Finland. Belarus has a flat rate of 12% income tax on individuals. Chart 2 indicates that the average salary in Belarus has increased rapidly after 2011. Such a rapid increase may boost private consumption; on the other hand, it is less encouraging to a foreign investor aiming at starting labour intensive production in the country. EBRD (2013) has already warned that increasing lending and lifting salaries on an administrative basis may lead to macroeconomic instability in the future.

Chart 2. Development of wages in Belarus



Source: Chubrik & Kaslou (2012)

The Belarus economy is the most state-run economy in Europe; some 70% of the country's GDP is generated in the public sector (Belarus Investment Guide 2012). In the Baltic States, the public sector accounts for less than 30% of the economy. The difference between Belarus and the Baltic States is tremendous, since the starting point for the economic reform, i.e. for privatisation, was rather similar a quarter of a century ago. In this decade, however, Belarus has put more effort on selling state companies. For instance, the National Agency of Investment and Privatisation was founded in 2010. The agency has created an online investment proposal database as part of its duties. At the beginning of 2014, close to 100 companies under privatisation could be found in the agency's database (National Agency of Investment and Privatisation 2013).

Despite the foundation of the investment and privatisation agency, a major imbalance between published goals and achieved results exists. Perhaps, privatisation will gain some speed when the financial 'donations' from Russia end and Belarus is truly forced to reform the structures of its economy.

Earlier experience in privatisation in Eastern Europe suggests that the most efficient way to build a competitive private sector is to create a liberal business environment so that new private enterprises can easily be founded and they are able to flourish. The results of privatisation of state-owned companies in Eastern Europe are rather

disappointing for numerous reasons, such as time-consuming procedures, corruption, an increase in unemployment and a lack of interest of potential buyers to develop the privatised company further (Liuhto 1999; 2001).

Most probably Belarus will not be an exception, though in theory it may learn from the errors of other post-socialist countries and it has successfully privatised a few strategic corporations, such as Velcom. Even if the golden share of the state in the privatised companies has been abolished, the state may introduce new restrictive requirements, such as the appointment of a state representative in the privatised companies, who could delay the decisions of the shareholders' meeting if these decisions conflict with public safety and/or welfare. Should such a bill introducing new requirements be approved, the interest of foreign investors in privatising Belarus assets diminishes. All in all, it can be argued with a good reason that the privatisation of state companies plays a less significant role in the creation of the functioning private sector than a solid legislative basis, allowing the fast foundation and predictable operation of new private enterprises. To put it differently, building a new house is often cheaper and faster than renovating an old one. Moreover, the new house will obviously better serve the needs of the future generations than the old one.

The representative office of the German business in Belarus conducted a poll among its members in Belarus in the spring of 2013. Approximately 50 firms participated in the survey assessing the business environment in Belarus. The research indicates that three main weaknesses of the business milieu can be found in: (1) the predictability of the economic policy, (2) the transparency of tenders and (3) the quality of financial services. Correspondingly, the best ratings were received by the infrastructure, the quality of workers, and payment discipline. It is worth mentioning that nearly a half of the companies participating in the survey improved their profits, a third managed to retain their profit level, whereas slightly less than a fifth experienced declining revenues in 2012 (RDWB 2013).

The World Bank (2013c) ranks Belarus fifty-eighth among 185 countries in ease of doing business. It is encouraging to note that Poland is only three positions higher than Belarus on this list. Finland holds the 11th, Estonia the 21st and Russia the 112th place in this ranking. The World Bank suggests that Belarus ranks the third best in the world among those countries, which has improved its business environment since 2005.

Table 2. Assessment of the Belarus business environment

✔ Reform making it easier to do business ✘ Reform making it more difficult to do business

BELARUS		Eastern Europe & Central Asia		GNI per capita (US$)	5,830
Ease of doing business (rank)	58	Upper middle income		Population (m)	9.5
✘ **Starting a business** (rank)	9	**Registering property** (rank)	3	**Trading across borders** (rank)	151
Procedures (number)	5	Procedures (number)	2	Documents to export (number)	9
Time (days)	5	Time (days)	10	Time to export (days)	15
Cost (% of income per capita)	2.3	Cost (% of property value)	0.0	Cost to export (US$ per container)	1,510
Minimum capital (% of income per capita)	0.0			Documents to import (number)	10
		Getting credit (rank)	104	Time to import (days)	30
Dealing with construction permits (rank)	30	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	2,315
Procedures (number)	12	Depth of credit information index (0-6)	5		
Time (days)	130	Public registry coverage (% of adults)	56.2	**Enforcing contracts** (rank)	13
Cost (% of income per capita)	24.8	Private bureau coverage (% of adults)	0.0	Procedures (number)	29
				Time (days)	275
Getting electricity (rank)	171	**Protecting investors** (rank)	82	Cost (% of claim)	23.4
Procedures (number)	7	Extent of disclosure index (0-10)	7		
Time (days)	179	Extent of director liability index (0-10)	1	✔ **Resolving insolvency** (rank)	56
Cost (% of income per capita)	838.8	Ease of shareholder suits index (0-10)	8	Time (years)	3.0
		Strength of investor protection index (0-10)	5.3	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	43.0
		✔ **Paying taxes** (rank)	129		
		Payments (number per year)	10		
		Time (hours per year)	338		
		Total tax rate (% of profit)	60.7		

Source: World Bank (2013c)

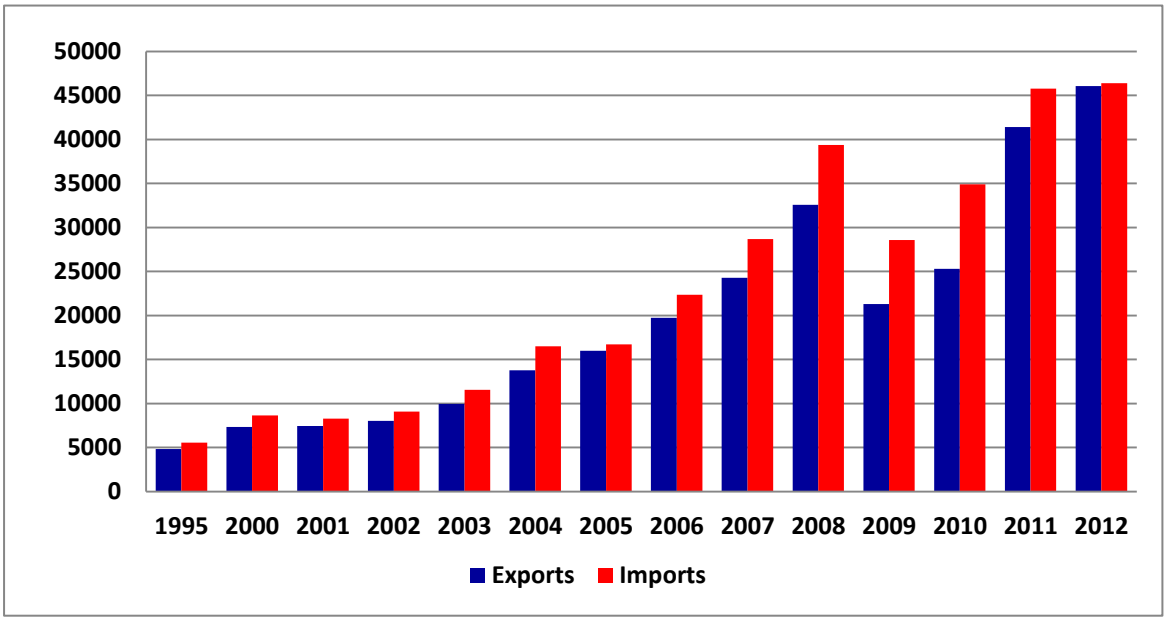
The political system of Belarus is far from a European ideal democracy and the state plays a patronising role in the Belarus economy; nevertheless, the World Bank assessment indicates that the Belarus business environment is more normal than the Western media reports would lead us to think. This paradox encouraged me to conduct an empirical study among the Finnish firms, since a foreign businessman can provide a more reliable source of information than foreign journalists or foreign analysts, who usually spend a very limited amount of time in the countries they are reporting on. Therefore, I consider that it would be best to ask from a patient how he/she feels instead of listening to the doctors' opinions on a patient's state of affairs. But before diving into the reality of Finnish firms operating in Belarus, an overview on the external economic relations of Belarus might enlighten a reader on his/her journey to Belarus.

3 External economic relations of Belarus

3.1. Foreign trade[6]

The foreign trade of Belarus has multiplied almost tenfold since 1995. The Belarus foreign trade increased steadily until the global financial crisis of 2008. In 2009, Belarus exports in particular slumped. As Chart 3 indicates, the foreign trade of Belarus has recovered from this global crisis. On the other hand, the Belarus foreign trade probably faces another drop in 2013, as the foreign trade turnover decreased by some 15% in January-October 2013. Trade with Russia has declined by approximately 10%, whereas trade with the EU has plummeted as much as 25%.

Chart 3. Development of the foreign trade of Belarus ($ million)



Source: Statistical Committee of Belarus (2013)

[6] Belarus is not a WTO member state. Belarus together with Kazakhstan and Russia belongs to their own Customs Union. The EU-Belarus relations are complicated; therefore, the EU has not ratified the bilateral Partnership and Cooperation Agreement. Moreover, the EU withdrew trade privileges related to the General System of Preferences from Belarus in mid-2007. This hinders textile sales from Belarus to the EU in particular. Furthermore, there were 243 citizens and 32 enterprises of Belarus on the black list of the EU in March 2012 (Melyantsou 2013). In 2013, the relations of Belarus with the EU and the USA have been improving (Belarus Institute for Strategic Studies 2013). Since August 2013, the foreigners can also obtain visas at the Minsk National Airport. However, visa support documents must be submitted to the Belarus Ministry of Foreign Affairs in advance (Shraibman 2013). Despite the unilateral visa facilitation of Belarus, it needs to be noted that "*Belarus is the only country in the world, I am aware of, that has not reacted to our [the EU's] offer to negotiate visa facilitation agreement*" (Füle 2013).

Despite the significant trade growth since the middle of the 1990's, the foreign trade of Belarus is still small taking into account its population size. For instance, Finland's foreign trade is larger than that of Belarus.

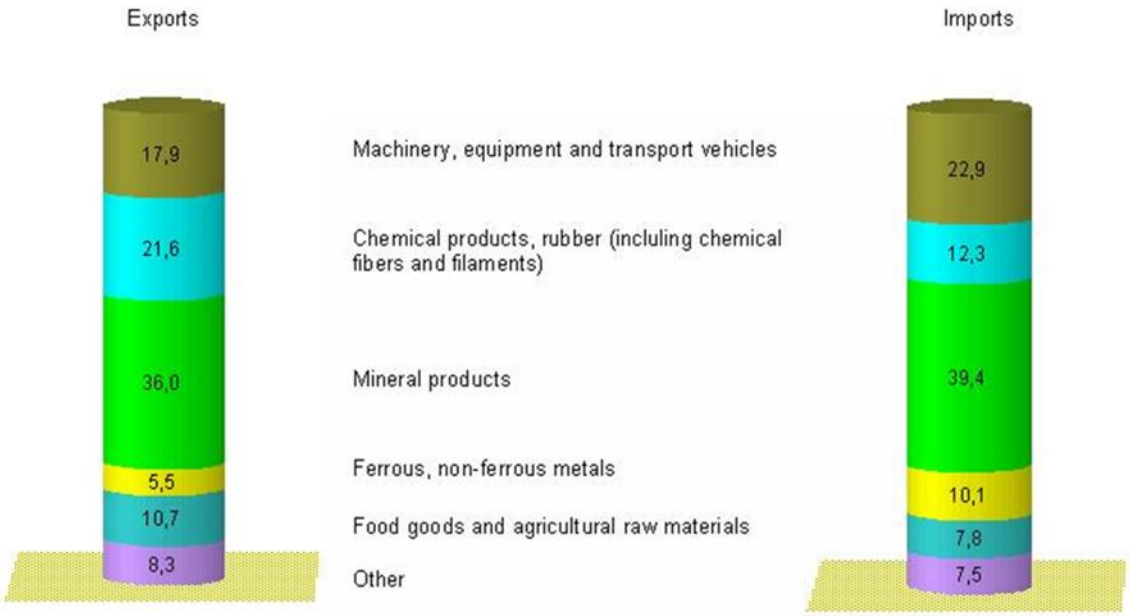
Belarus has had a constant trade deficit for two decades. However, the trade deficit is not an unusual feature for the majority of the countries in the Commonwealth of Independent States (CIS). On the other hand, the trade deficit is once again growing. During January-October 2013, the trade deficit was slightly more than $ 4,000 million (Statistical Committee of Belarus 2013).

The trade structure causes even more serious concerns than the trade deficit per se (Chart 4). Mineral products and chemicals together represent over 50% of Belarus imports and exports. As Russia is the main supplier of their raw materials, the future of Belarus exports does not seem bright if Russia starts to increase the processing level of its crude oil in Russia or use oil deliveries as a political bargaining chip[7]. Even if the Russian companies have acquired large stakes in the Belarus oil and chemical firms, thus strengthening the link between the supplier and the buyer, the Belarus trade is vulnerable to external shocks from Russia. The Belarus Investment Guide (2012) suggests that Belarus benefits annually $ 2,000-3,000 million from lower oil and gas deliveries from Russia. Jonavicius (2012) argues that Russian energy subsidies constituted around $ 10,000 million in 2012.

Besides oil products, Belarus also exports goods, such as household appliances, transport equipment and agricultural machines, which are not dependent on the supply of Russian raw materials (Appendix 2 and Appendix 3). In some goods, Belarus is a market leader in the CIS market. For example, the market share of the Belarus tractors in the CIS was over 80% a few years ago (Hautala 2009). Despite significant exports of some manufactured goods, these exports are not sufficient to maintain the current export revenue level, should Russia radically diminish its raw material supplies to Belarus.

[7] Russia cut oil pipeline supplies to Belarus by over 40% in the fourth quarter of 2013 amid a spat over the arrest of a Russian potash industry businessman in August 2013 (Moscow Times 2013).

Chart 4. Foreign trade structure of Belarus in 2012

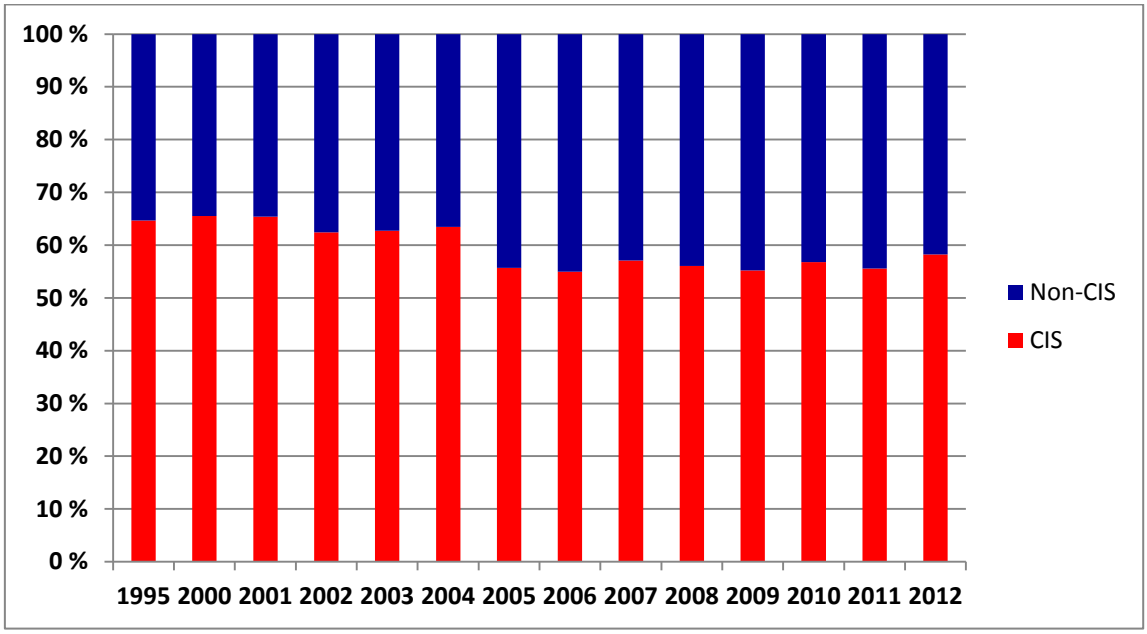


Source: Statistical Committee of Belarus (2013)

Industrial subcontracting with Western corporations could be a feasible shortcut to develop the competitiveness of Belarus firms and Belarus exports as a whole. The attraction of Western corporations to Belarus could be another step in developing the Belarusian exports. Estonia is a good example of the positive impact of foreign-owned firms on export growth (Varblane & Ziacik 2000).

Nearly 60% of the Belarus foreign trade is conducted with the CIS states (Chart 5). This share has decreased during the past two decades but not dramatically. Russia is clearly the dominant partner. Nearly half of Belarus foreign trade is carried out with Russia. The role of Russia becomes emphasised in imports, where it holds a 60% stake. Ukraine is another important CIS partner representing a tenth of the Belarus foreign trade (Appendix 4).

Chart 5. Division of the Belarus foreign trade between the CIS and non-CIS countries



Source: Statistical Committee of Belarus (2013)

The major export partners outside the CIS are the Netherlands, Latvia, Germany and Lithuania. Extensive sales of oil products explain the geographical division of the Belarus exports. From the standpoint of imports, the role of Germany, China and Poland is particularly strong. Germany is an important provider of investment goods and China a significant supplier of consumer goods to Belarus.

The EU accounts for some 30% of the total foreign trade of Belarus. Reciprocally, the overall importance of Belarus in the external economic relations of the EU is miniscule; only about 0.4%. A half of the Belarus exports to the EU consist of oil products. Belarus is also an important transit country of Russian natural gas to Europe, covering over a fifth of Russia's total gas flows to Europe[8]. The role of Belarus may increase from the current level, as Russia aims at reducing its gas transit via Ukraine (Ratner et al. 2013). Machinery and transport equipment form half of the EU exports to Belarus.

[8] In September 2013, the Belarus Government proposed Transneft, a Russian company controlling pipeline transportation of crude oil, to participate in the privatisation of the oil pipeline going through the territory of Belarus. Transneft did not show an immediate interest in this proposal.

Finland's trade with Belarus is growing, particularly Finnish imports. In 2011, Finnish imports were three times higher than four years earlier. Our bilateral trade continued its growth by over 10% in the first half of 2013. Despite growth, bilateral trade relations are far below the potential. Belarus represents just about 0.2% of Finland's foreign trade. To illustrate the underrepresentation of Belarus in the Finnish foreign trade, the share of Lithuania in Finnish foreign trade is some three times higher, though its population is only a third of that of Belarus.

In 2011, the Finnish imports from Belarus amounted to some € 170 million, whereas the exports were only less than € 70 million (Table 3 and Table 4). Petroleum products account for over 80% of Finland's imports from Belarus, whereas Finland exports various kinds of machinery and paper products to Belarus. Finnish firms also sell a significant amount of their goods to Belarus via Lithuania and to a lesser extent through Russia and Poland. Naturally, these indirect trade flows are not included in the Finnish-Belarusian trade statistics.

Table 3. Finland's top 10 import products from Belarus in 2011

Product	**Value of imports (€ million)**
Petroleum products	141.7
Fertilisers	7.1
Iron and steel	5.7
Hides, skins, and furs	3.0
Metals	1.6
Articles of apparel and clothing accessories	1.8
Cork and wood	1.6
General industrial machinery	0.9
Gas, natural and manufactured	0.6
Feeding stuff for animals	0.4
Finland's total imports from Belarus	**166.9**

Source: Finpro (2013)

Table 4. Finland's top 10 export products to Belarus in 2011

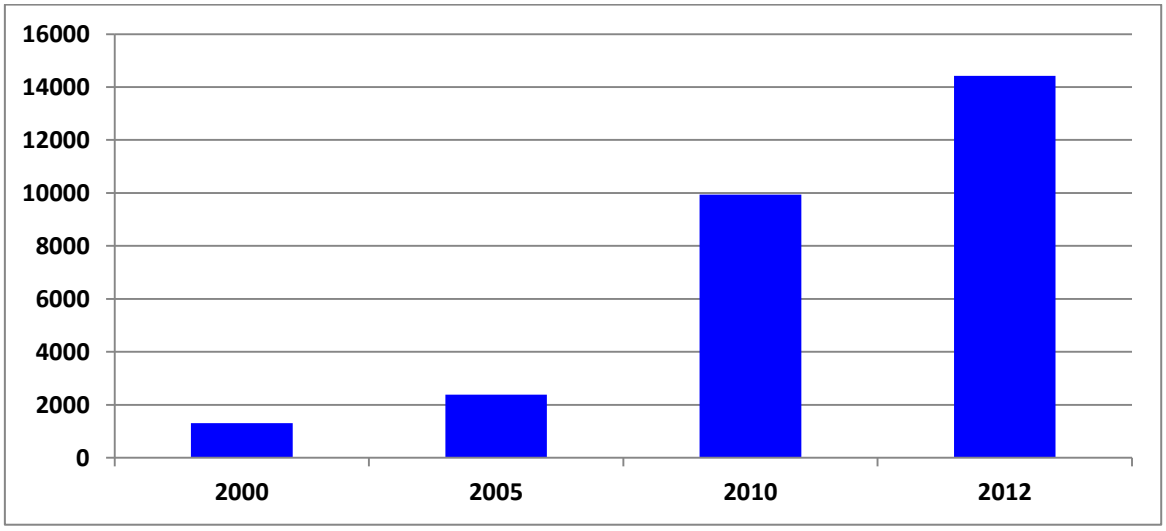
Product	Value of exports (€ million)
Machinery for specialised industries	9.1
Paper, paperboard and articles thereof	6.7
Plastics in primary forms	5.6
General industrial machinery	5.1
Petroleum products	5.1
Metals	3.4
Iron and steel	3.4
Chemical materials and products	2.7
Metal working machinery	2.4
Medicinal and pharmaceutical products	2.1
Finland's total exports to Belarus	**66.3**

Source: Finpro (2013)

3.2. Foreign investment

The development of the inward foreign investment stock[9] has been remarkable in Belarus. It has increased tenfold during this millennium to over $ 14,000 million (Chart 6). Despite the rapid increase, Belarus' stock is still small. The inward FDI stock of Finland, for instance, is over $ 100,000 million.

Chart 6. Development of the foreign investment stock in Belarus ($ million)



Sources: UNCTAD (2006); UNCTAD (2011); UNCTAD (2013b)

[9] Stock refers to the total amount of foreign investment in a country.

In 2012, the inward FDI flow represented some 7-10% of the gross fixed capital formation in Belarus. The respective share in the CIS was on average nearly twice higher than in Belarus (UNCTAD 2013a).

Russia is the dominant investor in Belarus, representing over 60% of the inward foreign investment stock in Belarus. Russia's largest investor in Belarus is Gazprom, which has acquired 100% of Beltransgaz with some $ 5,000 million. The Russians also own a significant stake in the Mozyr oil refinery (Yeremeyeva 2009). Also Russian banks are active in Belarus (EB 2013).

Russia is followed by another rus-linked country, Cyp**rus**. One assumes that a great deal of the investment flow from Cyprus to Belarus is Russian by origin. If the investments of Cyprus are, nevertheless, included in the EU basket, around a quarter of the foreign investment stock of Belarus arrives from the European Union. On the other hand, if the Cyprus' investments are added to the Russian basket, Russia's total share in the Belarus foreign investment stock would be close to three quarters.

It is interesting to note that all the neighbouring countries of Belarus, even including Ukraine, can be found among the top 20 foreign investor countries. This suggests that the investment opportunities of Belarus are not globally recognised yet. On the other hand, one may find some rather unusual investor countries in Eastern Europe on the Belarusian list of major investors, such as Iran and Lebanon (Table 5).

Table 5. Twenty largest foreign investor countries in Belarus by the beginning of 2013

Rank	Country	Total foreign investment ($ million)	Share (%)
1.	Russia	9037	62
2.	Cyprus	1638	11
3.	Turkey	527	4
4.	Austria	474	3
5.	Netherlands	355	2
6.	Germany	263	2
7.	United Kingdom	218	1
8.	Iran	217	1
9.	Italy	178	1
10.	USA	168	1
11.	Estonia	135	1
12.	Latvia	131	1
13.	Lithuania	108	1
14.	China	93	1
15.	Lebanon	92	1
16.	Finland	86	1
17.	Switzerland	85	1
18.	Poland	68	0
19.	Ukraine	61	0
20.	Sweden	48	0
…			
Over 100	**Total**	**14586**	**100**

Source: National Bank of the Republic of Belarus (2013)

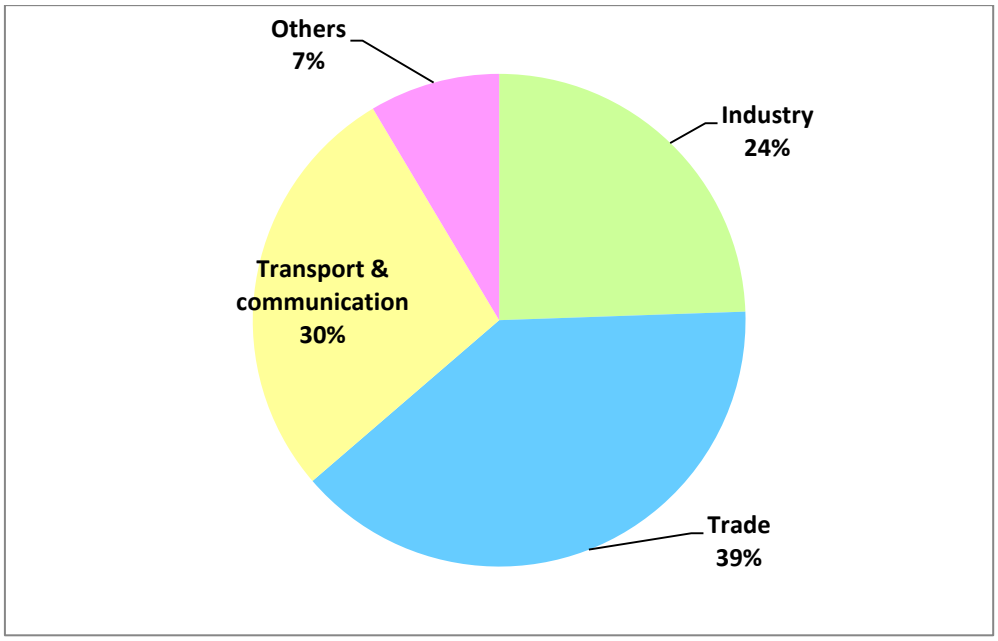
Finland occupies the sixteenth position with investments of approximately $ 90 million. With the aforementioned sum, Finland accounts for approximately one percent of the inward foreign investment stock of Belarus[10]. On the other hand, Belarus represents just less than 0.1% of Finland's outward foreign investment stock.

Trade activities have attracted foreign investors the most. Trade covers some 40% of the Belarus inward foreign investment stock. Concentration on trade has been a common feature in the majority of the transition countries in the early steps of their transformation. When the investment climate matures, the share of industry usually

[10] The investment protection agreement between Belarus and Finland came into force in April 2008 (Hautala 2009).

grows. The share of transport and communication, 30%, is unusually high. This is probably due to the heavy investment by Gazprom to Beltransgaz, a company responsible for the transportation of natural gas through Belarus.

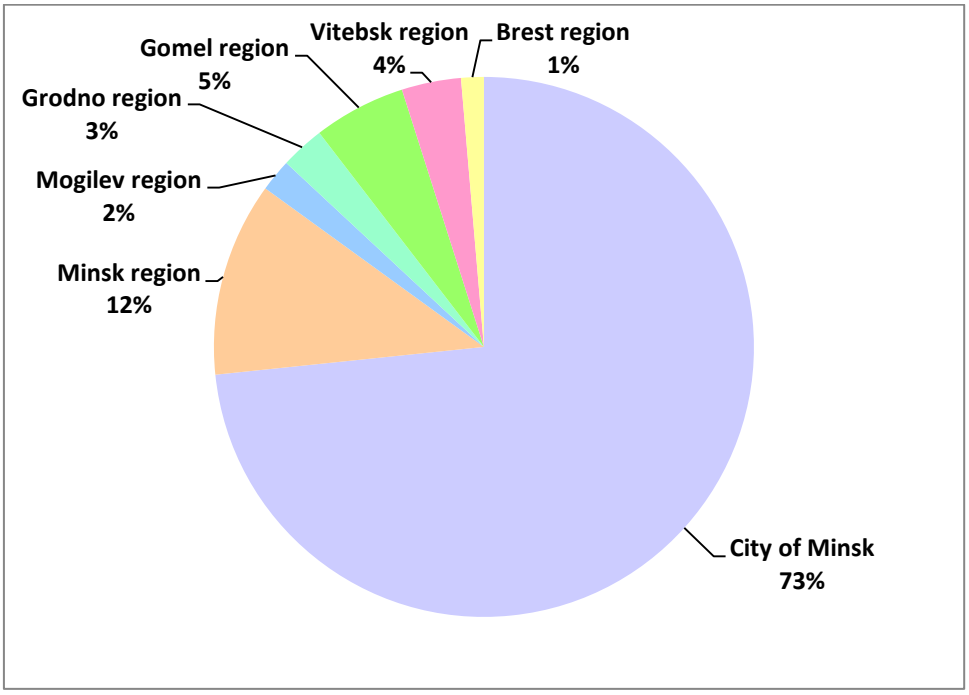
Chart 7. Distribution of the foreign investment stock by sector by the end of 2012



Source: Statistical Committee of Belarus (2013)

Three quarters of foreign investment has landed in the City of Minsk despite the fact that it represents only a quarter of the Belarusian GDP. The Minsk region surrounding the capital has attracted slightly more than a tenth of all foreign investment. The remaining five regions, namely the Brest, the Gomel, the Grodno, the Mogilev, and the Vitebsk regions, together have attracted only 15% of all the foreign capital in the country. The massive concentration of foreign investment in the capital and the region surrounding it is another indicator suggesting that the foreign investment development is still at its infant stage in Belarus, i.e. also other transition economies have encountered similar over-concentration earlier.

Chart 8. Division of the foreign investment stock by region by the end of 2012



Source: Statistical Committee of Belarus (2013)

There are six free economic zones (FEZs) in the country. Each of the six Belarus regions has its own FEZ. These FEZs provide taxation-related privileges to both domestic and foreign investors. In addition to the FEZs, Belarus has established High Technology Park with similar tax benefits, and the China-Belarus Industrial Park is under construction. Evidence from other ex-Soviet republics shows that such privileged areas do not have a major impact on attracting foreign investments. However, the Belarus FEZs and industrial parks seem to have succeeded better in this task than its eastern neighbour, for instance.

To conclude, the foreign trade and the foreign investment stock has multiplied by tenfold during this millennium. Russia covers more than a half of the external economic relations of Belarus, and its energy deliveries to Belarus increase its strategic significance further. However, it seems that Western companies have recently woken up to the business possibilities offered by the Belarusian market. This is also the case with Finnish firms. Before reviewing larger Finnish companies in Belarus, an overview of foreign tourism to/from Belarus might be illustrative.

3.3. Foreign tourism

Foreign tourism in Belarus is still minimal. Only some 120,000 foreign tourists visited the country in 2012. As a comparison, some 1.8 million tourists visited the northern neighbour of Belarus, Lithuania, in the given year (Table 6).

Foreign tourism to Belarus has doubled since the year 2000, but the growth is mainly due to the increase in tourism from the CIS countries. Assumingly, the Russian tourists are behind the majority of this growth. Tourism from the non-CIS countries has dropped. It is less than 50% of the level of the year 2000. This is a clear sign that the national image of Belarus has deteriorated in the West during this millennium. The World Ice Hockey Championship in Minsk in May 2014 will probably improve the image of Belarus.

In 2012, foreign tourists outside the CIS area arrived mainly from the UK (13%), Turkey (12%), Germany (9%), Poland (9%) and Lithuania (7%). It is not surprising to find Germany, Poland and Lithuania on this list, since the Germans are perhaps Europe's most active travelling nation while Poland and Lithuania are the neighbours of Belarus. However, it is rather surprising to observe that the UK and Turkey top this list. Obviously, this is a temporary phenomenon, since the total amount of foreign tourists in Belarus arriving from outside the CIS is very small, only some 22,000. The tourist flow from Finland to Belarus is still marginal (around 350 tourists in 2012), though the rather recent opening of the Belarusian Embassy in Helsinki and the Finnish Embassy in Minsk will obviously aid in increasing the tourist flows in both directions.

The departures of the Belarusian tourists abroad have dramatically dropped since the beginning of this millennium. In fact, tourist flows from Belarus abroad are less than 50% of what they used to be in the year 2000. Obviously, the collapse of foreign travelling by Belarusians particularly to the West is due to the devaluation of the Belarusian currency, i.e. travelling abroad has become much more expensive for a Belarusian traveller.

The favourite foreign travel destinations of the Belarusians outside the CIS area are Turkey (20%), Bulgaria (16%), Egypt (14%), Poland (13%) and Lithuania (8%). It is quite surprising that Belarusians are not travelling more to Poland, since the Polish language is relatively close to the Belarusian language.

Table 6. Foreign tourism to/from Belarus

Arrivals of foreign tourists in Belarus

	Total	Non-CIS	CIS
2000	60 224	48 050	12 174
2005	90 811	61 980	28 831
2010	120 073	36 641	83 432
2012	118 749	22 703	96 046

Departures of Belarusian tourists abroad

	Total	Non-CIS	CIS
2000	1 289 034	1 181 570	107 464
2005	572 398	268 037	304 361
2010	414 735	256 558	158 177
2012	492 846	335 823	157 023

Source: Statistical Committee of Belarus (2013)

4 Experiences of Finnish firms in Belarus

4.1. A desk research on some larger Finnish firms operating in Belarus

The information for this section has been gathered from a great variety of Internet sources and the press, and hence the accuracy of the information cannot be guaranteed. This section aims at providing a brief summary of Finnish firms operating in Belarus. Firms, such as Rautaruukki and Teknos, which have established only a representative office or operate on a project basis, such as the John Nurminen Foundation, have not been included in the analysis. The companies are presented in a chronological order, i.e. on the basis of the assumed date of opening a unit in Belarus. The Finnish companies, which have terminated their activities in Belarus or have sold their majority ownership to foreign firms, have been highlighted in black.

Bang & Bonsomer
The majority of Bang & Bonsomer is owned by the Hertell family. Bang & Bonsomer sells industrial chemicals. It opened a sales office in Belarus in the middle of the 1990's. The company has leased a warehouse in the country. Fifteen out of approximately 200 staff members of the Bang & Bonsomer Group work in Belarus.

Hartwall
In 2001, the Baltic Beverage Holding, BBH (a 50-50 joint venture by Hartwall and Carlsberg), entered into an agreement to privatise a majority shareholding of the Krinitsa brewery in Minsk. At that time the Krinitsa brewery was the market leader in Belarus, covering 20-30% of the Belarus beer market. On the basis of the preliminary agreement, the BBH invested some $ 10 million in the Krinitsa unit in the form of loans and material deliveries. Despite the agreement, the acquisitions of the Krinitsa brewery was not realised as the terms of the privatisation seem to have changed. Currently, the BBH belongs to the Carlsberg Group.

Schetelig
In 2006, Schetelig established a subsidiary called ChUP Schetelig Bel in Belarus. In addition to the companys's traditional business with seeds, plants and growing accessories, Schetelig builds greenhouses and heating stations, cold storages and open-field irrigation systems. Schetelig's Belarusian subsidiary has some 40 employees.

Rautakesko (a part of the Kesko Group)
In 2007, Rautakesko became Finland's first major corporation to enter the Belarus market, when its Lithuanian subsidiary Senukai acquired Lithuanian UAB Romas Holdingas, which owned OMA stores selling construction materials in Belarus. In the middle of 2013, around 10 OMA stores operated in Belarus. In the first half of 2013, the net sales of OMA were € 50 million, an increase of 30% compared to the corresponding period a year earlier.

Tieto (former Tietoenator)
In the autumn of 2007, Tietoenator established a research and development centre in Belarus. In November 2012, Tieto sold its ownership in the research and development centre to ScienceSoft. ScienceSoft offers IT-related outsourcing services. ScienceSoft has its headquarters in Minsk and a subsidiary in Helsinki, i.e. the internationalisation experienced a 180-degree turnaround five years after the foundation of the subsidiary in Belarus.

Nokia Siemens Networks (NSN)
Nokia Siemens Networks is a telecommunications solutions supplier, which was created as a result of a merger between Siemens and Nokia's Network Business Group. NSN opened its office in Belarus in December 2007. In 2011, NSN acquired IRIS Telekom, a Turkish company, which had a subsidiary in Belarus, and as a consequence of this deal, NSN has another subsidiary, called IRIS Telekom, in Belarus.

Law Firm Sorainen
At the beginning of 2008, Law Firm Sorainen opened an office in Minsk. The office started from scratch, i.e. from "*a kitchen of the Belarus partner*", as the company website indicates. Nowadays, the Belarus office employs approximately 30 people.

Containerships
The company provides container shipping services. Containerships established its office in Minsk to develop the Belarus market through the Port of Klaipeda in Lithuania in 2008.

Olvi
At the end of 2008, Olvi acquired with approximately $ 16 million a 51% stake of Lidskoe Pivo, a Belarusian brewery operating in the town of Lida in the Grodno region. Olvi has afterwards increased its stake to over 90%. The company produces beer and non-alcoholic beverages. Some 800 employees work at the factory. In January-June 2013, the net sales of Lidskoe Pivo were some € 35 million, a growth of 30% compared to the corresponding period a year earlier. The company produced approximately 50 million litres of beverages, out of which approximately 15% went to exports. The main export markets are Russia, Ukraine and Lithuania.

Tikkurila
Tikkurila has exported decorative paints and industrial coatings to Belarus since the beginning of 2000. In August 2008, the company opened a sales office in Minsk. In addition to the sales office, Tikkurila has a warehouse in Belarus. Tikkurila has approximately 20-30 people working in Belarus.

Ingman
In April 2009, Ingman Morozhenoe was established as a joint venture between the Finnish company Ingman Ice Cream and the Belarusian counterpart Rumyantzevskoye. The joint venture was located in Gomel. In 2011, Ingman increased its share in the venture to over 70%. A year later Ingman sold its ice cream business to Unilever. The Belarus unit fell under this deal.

Kiilto
Kiilto is a Finnish family-owned company manufacturing chemical products. Kiilto produces adhesives and related products. Kiilto founded a sales office called Kiilto Klei in Belarus in 2009. Kiilto has a handful of people working in Belarus. In addition to the sales office, Kiilto possesses a warehouse in the country.

Algol Chemicals
In February 2010, Algol Chemicals established a subsidiary in Minsk. The company markets chemicals primarily to the local paint and coatings industry. Besides the sales office, Algol Chemicals has a warehouse in Belarus.

Nokian Tyres (Nokian renkaat)
After exporting goods to Belarus for several years, Nokian Tyres decided to found a marketing company of automobile tyres in Belarus in 2010. A handful of people are working in this marketing company. Besides the marketing unit, Nokian Tyres has around 10 Vianor sales outlets operating on a franchising basis in Belarus.

Telko
Telko belongs to the ASPO Group. The company is a distributor of industrial chemicals and plastics. Telko opened its office in Belarus in 2010.

Klinkmann
Klinkmann has specialised in industrial communication solutions. The company delivers products for various electrification and industrial applications. Klinkmann has a sales office in Belarus. The sales office employs a handful of people.

MW Power (the Metso Group)
MW Power founded a subsidiary called Noviterbel in Belarus. Noviterbel produces gas boilers. It has some 50 employees.

Peikko BelRus
The Peikko Group is a family-owned company specialising in construction materials. Since the year 2009, the company has exported to Belarus. In 2011, the group opened its sales office in the country. A handful of local employees work in the office. The company plans to start industrial production in Belarus in the future.

Metalliset
The Metalliset Group is a Finnish systems supplier in the metal industry. In 2008, it opened its representative office in Belarus. Three years later the company registered its unit in the Grodno Free Economic Zone.

Makron
Makron is a supplier of industrial machinery. Makron's subsidiary was founded in the Grodno Free Economic Zone in 2011. Makron Grodno provides machine work services as a subcontractor.

Lindström
The company opened its subsidiary in Belarus in 2012. The company started in Belarus with its workwear services. The company had at the time of the interview less than 10 employees.

One can conclude that the early birds arrived in Belarus from Finland as early as the 1990's, but the first major wave of Finnish firms took place in 2006. The entry intensified towards 2008. The global financial crisis decelerated the internationalisation

of the Finnish firms to Belarus, but already at the beginning of this decade the entry has re-gained its speed.

It is interesting to note that many of the Finnish companies in Belarus have also activities in the Baltic States and the CIS, in Russia and Ukraine in particular.

Although a few dozen Finnish companies have registered their unit in Belarus, it has to be underlined that only one Finnish company, namely Olvi, has started significant industrial production in the country.

It is worth noting that also smaller Finnish firms have discovered the business opportunities of Belarus. Another noteworthy point is the activities of several Finnish firms in the field of industrial chemicals. Thirdly, several family-owned firms have opened a subsidiary in Belarus.

Besides the units already registered, around a dozen Finnish organisations, which have not registered their business in Belarus yet, conducted negotiations with their Belarusian counterparts in the autumn of 2013[11]. Even if public information on the Finnish firms in Belarus was extremely scarce, it gave a sufficient basis to focus the empirical part of the study, presented in the next section.

4.2. Political environment (P)

The author interviewed a director of 10 Finnish firms, namely Bang & Bonsomer, Kiilto, Lindström, Nokian Tyres, Olvi, Peikko Group, Rautakesko, Schetelig, Sorainen and Tikkurila. Despite two reminders, Makron, Metalliset and NW Power (Metso) did not respond to my interview request. The Managing Director of Algol Chemicals informed me that their responsible person for Belarus was not available for the interview due to his tight business schedule. The author uses the PEST model to describe the Belarusian business milieu. The opinions of the Finnish directors on the Belarus business environment are summarised in the following boxes.

[11] In addition to the companies mentioned in the text, the following companies are believed to have a Finnish owner: Belfin, Belimo, Evro-BelUnion Ltd., Filter, Nordic Arbiter and Normark. The author was not able to find reliable information on the aforementioned firms from public sources.

* Finnish directors were not extremely enthusiastic in expressing their views on the political environment of Belarus. The reluctance to comment on the political system could be due to risk avoidance, i.e. the Finnish firms may wish to avoid risks caused by criticising the political elite, which is directly able to influence the working conditions of the foreign firms.
* The non-progressive public image of the Belarus political system causes some Finnish firms not to actively advertise their Belarus operations abroad in order not to weaken the company's image in the West.
* Finnish firms considered that the political environment of Belarus is stable due to the authoritarian rule, but at the same time they acknowledged that highly-centralised political power creates unpredictability since regulations can change fast without a proper political debate. Some of the directors did not rule out even a major political shift. One Finnish director assumed that the political shift and a possible societal movement following the shift may not be the most obvious risk, but he believed that the most likely consequence of the political shift would be a temporary turbulence in the economy, for instance a temporary collapse of private consumption.
* Belarus does not possess a foreign investor-friendly image yet, though the Belarus Government systematically aims at improving its image in the West. Some Finnish directors indicated that attitudes of the top leadership are generally more favourable towards the foreign firms than those of the bureaucrats and local companies. The reason for the difference in opinion may stem from the fact that foreign firms are seen as a source of economic reform at the top of the society, whereas they are seen as competitors by the local businesses. The local business community sometimes uses bureaucrats to slow down the business development of foreign firms.
* Some Finnish experts foresee that the country's overwhelming dependence on Russia, energy deliveries in particular, may destabilise the Belarus economy, i.e. the Belarus-Russia relations can become a political risk for foreign firms operating in Belarus. The aforementioned conclusion applies to the EU-Belarus relations as well.
* The regulatory environment is clear, though regulations change rapidly and sometimes in an unpredictable manner. However, it is widely considered among the Finnish businessmen that the Belarus administration works more effectively, more reliably and more predictably than that of its eastern neighbours.
* Some import duties are rather high compared to the countries inside the Customs Union. The operation of the Belarus Customs does not differ considerably from that of Russia, i.e. it works but delays are possible. Some Finnish firms have encountered time-consuming procedures at the Belarus borders. Therefore, it is logical that Finnish firms are eager to become a part of the system, which allows them to declare the goods at their own warehouse. Customs clearance at one's own warehouse is considered a feasible practice, but it requires a good reputation from the foreign company involved.
* Some of the respondents considered that Belarus was an optimal base for their hub within the Customs Union, since Belarus offers a logistically ideal location between Western Europe and Moscow. Several Finnish directors saw that the Customs Union may open additional business opportunities for Finnish firms. For instance, it had already brought new clients for one Finnish firm in Kazakhstan. On the other hand, the Customs Union does not seem to function as well in practice as on paper. For instance, common certification does not always work properly.
* None of the Finnish firms has encountered violations of immaterial property rights in Belarus, though such a malpractice is not unusual in the eastern neighbours of Belarus.
* The Finnish firms have not faced explicit restrictions directed at them. However, some Finnish companies have faced indirect restrictions, as some Belarus state corporations have been blacklisted by the USA, and some European banks follow the US sanctions by not handling foreign payments of the blacklisted Belarus state corporations. As some of these Belarus companies are clients of the Finnish firms, also the Finnish business community has indirectly been affected by the US sanctions against Belarus.

4.3. Economic environment (E)

* The size of the Belarus market was considered optimal for the Finnish firms, as the market due to its smaller size is easier to manage and does not have large competitors with a privileged position.
* Competition is considered to be normal, although it is much less fierce than in several other post-Soviet countries, which have put more emphasis on privatisation and the attraction of foreign firms.
* The majority of the Finnish firms thought that bureaucrats in Belarus do not favour local firms or Russian corporations. Quite the opposite, the current government policy seems to favour Western firms, since the Belarus Government aims at limiting the growing influence of the Russian corporations in the Belarus market. On the other hand, the Customs Union has strengthened the competitive position of the Russian firms, as some of the Finnish firms have already experienced.
* A number of Finnish firms have found it extremely difficult to provide their goods to the state-owned enterprises, which tend to favour domestically-produced goods on the request of the Belarus administration.
* The Baltic States and Russia have acted as a springboard for several Finnish companies to the Belarus market.
* Finnish firms regard the growth opportunities in Belarus as good. The purchasing power of the middle class in particular is expected to strengthen, though the purchasing power has temporarily deteriorated as a consequence of the 2011 financial crisis.
* Finnish firms fund their investments in Belarus mainly with their own revenues or through financial contributions from the Finnish parent company. Belarus banks are seldom used as a source of finance due to their higher interest rates and obscure ownership structures. Some of the Finnish companies have managed to negotiate funding schemes with international financial organisations.
* The exchange rate risk of the Belarusian currency is acknowledged by Finnish firms. Some Finnish directors underlined the need to be alert all the time due to the considerable exchange rate risk of the Belarusian currency. Some of the companies have used their parent company, i.e. the hard currency-nominated deals, to avoid the exchange rate risk. Despite the obvious currency risk, some of the Finnish firms have not prepared in any way for a possible future devaluation of the Belarusian currency. Two Finnish directors predicted that the Belarusian currency will be linked with the Russian rouble.
* The payment system of Belarus works well and payment discipline is high. Payments are frequently received in advance in Belarus. For instance, Russia is considered to be more risky in terms of non-receipt of payments. On the other hand, some Finnish managers consider that payment discipline is worsening in Belarus due to increasing competition, i.e. a Belarusian customer has more negotiating power to demand longer payment times due to a greater number of suppliers, and thus payment discipline has started to deteriorate.
* Repatriation of profits from Belarus to Finland works properly but prepayments from Belarus to abroad do not always function adequately, which reduces trade volumes. In addition, firms are forced to sell a part (30%) of their export revenues at the Belarusian banks, which is considered to slow down business development.
* The taxation burden is low and the taxation system of Belarus has not caused a major headache to Finnish firms, though the taxation procedures are time consuming. Misuse related to taxation inspections was not considered a problem.
* Transportation in Belarus is not regarded as a special problem, although the logistical system is less developed compared to the Western system. The goods move slower on the Belarus roads than in the Nordic countries, but on the other hand, the road network is clearly better in Belarus than in its eastern neighbours. Finnish firms have been satisfied with small private transport companies, whose services are more flexible than those of the large state companies.
* The retail distribution network of Belarus is clearly behind the Western countries, i.e. only few nation-wide retail chains operate in the country. The role of small shops and marketplace trading is still significant.
* Offices are easily available in Minsk and larger Belarusian cities. It is more difficult to find appropriate premises for industrial production. Finnish firms tend to prefer greenfield sites over brownfield ones, since the premises and the machinery of Soviet-era factories are outdated and their renovation and replacement costly. The warehouses are few and their prices are high.
* Subcontracting and outsourcing have developed rapidly during the past few years.
* Finnish firms have positive experiences in the operation of the Belarus courts, as Finnish companies have won their main cases.
* Only a little market information is available and public information is not always useful, and hence marketing is mainly based on the experience of its own marketing staff.

4.4. Sociocultural environment (S)[12]

* Finding key personnel takes time, but the good reputation of a foreign firm aids in the recruitment process. Even if some headhunting firms operate in Belarus, the management of the Belarus subsidiary often has to use hands-on methods to recruit personnel in the country.
* The technological skills of the Belarusian personnel are generally very high, but managerial skills are considered to be deficient. Finnish businessmen considered that there is a lack of local directors with international experience and foreign language skills, excluding the Russian language.
* Usually, the Finnish firms conduct their own in-house training programmes, though some of the firms have involved local universities in their personnel training.
* Staff turnover is much higher in Belarus than in Finland, but it is not considered a specific problem. Local workers' commitment to a Finnish firm is better outside Minsk, where less work opportunities are available.
* The full employment model of the country slows down the entrepreneurial development in the country. Some Finnish firms have abstained from a major de-staffing in order to maintain good relations with the authorities.
* The salary gap between ordinary workers and directors is much wider in Belarus than in the Nordic countries. The salaries of the local key personnel may sometimes reach the same level of their Finnish colleagues, whereas the salaries of blue collar workers are still very low. Foreign firms usually pay slightly better salaries than their local counterparts. Some Finnish directors considered the salaries to be rising faster than productivity, decreasing the future profitability of the company. None of the companies confessed that they would be using shadow schemes in paying salaries. Salaries are checked several times a year due to the devaluation of the local currency.
* Trade unions are not considered to be a problem, though there are still some old-fashioned union regulations in place. In fact, the operations of the trade unions are clearly more restrictive in Finland than in Belarus. For instance, the de-staffing of inadequate workforce is much easier in Belarus than in Finland.
* Public opinion towards Finland, the Finnish firms and goods is generally favourable in Belarus. Finnish ice hockey players earning their income in Belarus have supported the positive image. On the other hand, it was considered that the Finnish firms do not receive any major competitive advantage from being from Finland per se. Perhaps the main advantage is the fact that Finland is considered to be a reliable partner with high-quality products. Some Finnish directors thought that the Lithuanian and German enterprises are better off than the Finnish firms due to closer political relations between Belarus and Lithuania/Germany.
* Finnish companies do not consider corruption to be a general problem in conventional business, though they acknowledged the fact that it may exist in the strategic sectors of the economy and in public tenders.
* Some Finnish companies have created an effective system to minimise losses due to poaching of their staff. Surprisingly, it was considered that losses due to staff poaching are lower in Belarus than in Finland.
* Finnish companies seem to use standardised methods for internal control, i.e. the normal business control methods in the West seemed to suffice in Belarus.
* Crime has not been a problem for Finnish firms in Belarus, though grey imports may in some fields distort competition.

[12] Even if the Finnish directors consider that they have not faced corruption in Belarus, Transparency International (2013) ranks Belarus as the 123rd most corrupt country among the 176 countries studied. As I wish to believe in the sincere answers of the Finnish directors, the contradiction could be explained by the fact that corruption is not widespread in Belarus but rather concentrated in certain sectors and segments of the society.

4.5. Technological environment (T)

* As only one of the Finnish firms registered in Belarus has started significant industrial production in the country, the Finnish firms had less experience on the technological environment of Belarus.

* Technology transfer from Finland to Belarus seems to work as the core of the technological base of the Finnish subsidiary in the Belarus.

* Also the ICT systems are frequently imported from Finland, though the Belarusian and Russian systems are in place as well. Internet works pretty well in Belarus.

* Globally-recognised technological breakthrough innovations in Belarus are rare.

* Belarus does not have an image of a high-tech country, which has prevented some Finnish firms from building research and development activities in the country.

* Customs fees of imported technology are not regarded as a problem.

* Even if the infrastructure of Belarus is not comparable to Western countries, it is much more sophisticated than that of Russia or Ukraine.

* Some Finnish directors considered that the Belarus business environment is not developed enough to digest all the most modern management techniques of the Western companies. Therefore, some Finnish corporations have chosen a gradual strategy to import modern Western management techniques into the country.

* Those Finnish companies that have conducted R&D cooperation with a Belarusian client considered that collaboration had deepened their business relationships and given an additional competitive advantage to them.

4.6. SWOT analysis on Finnish firms in Belarus by Finnish businessmen

Strengths	Weaknesses
* Technological know-how of Finnish firms is competitive in Belarus. * The sales of extended product (product + training related to its use) strengthen the competitiveness of Finnish industrial goods in the Belarus market. * Respectful attitude of Finnish businessmen towards the Belarusian society is considered as an advantage. * Earlier experience in Russia aids conducting business in Belarus. * Good reputation of Finland as a reliable partner. * Local production is seen as a major advantage, as long-term presence increases visibility and reliability. * Finnish efficiency combined with the Belarus cost level is regarded as a success formula. * Better financial position is considered as an advantage for Finnish firms. * Western work ethics with a zero tolerance to corruption is seen as a benefit. Some of the Finnish enterprises have created written instructions to avoid corruption and other sorts of inappropriate behaviour. * Close R&D cooperation with the Belarus client strengthens the business relation and gives a competitive advantage to a Finnish firm.	* Difficulties to combine open market-oriented business culture of Nordic countries with the authoritarian planned economy of Belarus. * Knowledge of Finnish firms on the Belarus market is generally very deficient. * The Belarus Government has not put a lot of emphasis on attracting foreign investors yet. * Finnish firms are too slow in a rapidly changing market, such as Belarus. * Capacity bottlenecks of Finnish firms set limits for future growth. * Management skills of local personnel are often deficient, marketing skills in particular. In many cases, local managers' inability to speak English was considered a bottleneck to develop international operations.
Opportunities	**Threats**
* High growth potential of the Belarus market. * The Belarus market has not saturated yet, and hence the introduction of new products and services into the Belarus market may significantly boost sales. * The purchasing power of the middle class is expected to strengthen in the longer run, though it has temporarily suffered from the 2011 crisis. * The subcontracting cooperation has been executed in the Baltic States since the 1990's and this cooperation mode will be brought into Belarus in the future. * Opportunities related to construction, logistical services, ICT sector, environmental technology and energy-saving technology are considered particularly promising. *The Customs Union/the EurAsian Union may provide additional business opportunities, i.e. Belarus can act as a gateway to the Russian and Kazakh markets.	* The Sword of Damocles: political stability may suddenly turn into societal turbulence. * The Belarus economy is considered to be too dependent on Russia (Russian energy), which may cause problems to macroeconomic governance, and ultimately, it may create turbulence in the market. * Should Belarus abandon the European path and opt for deeper integration with Russia, the influence of the Russian corporation would grow, and at the same time, the position of the Western companies, including Finnish ones, may seriously weaken. * The exchange rate of the Belarusian rouble may drop in a similar manner it did in 2011 in the foreseeable future. * Competition becomes fiercer particularly from foreign firms. * Cost level may increase faster than productivity, which may deteriorate future profitability.

4.7. Messages of Finnish firms to the Belarus Government and the Finnish business community

Messages to the Belarus Government

* Maintaining and improving the predictability of the business environment is extremely important for foreign firms to flourish in Belarus.

* The Belarus Government should do everything possible to minimise bureaucratic burden and abolish unnecessary regulations, since filling in meaningless documents consumes valuable time and lowers motivation to invest more in the country.

* The Belarus Government should speed up the liberalisation of the economy, privatisation in particular.

* The Belarusian state enterprises (SOEs) should not favour local products and technology, since the use of more advanced Western solutions would make the Belarusian SOEs more competitive.

* The Belarus Government should do more to abolish the sanctions imposed by the US cabinet. These sanctions have an indirect impact on Finnish firms as well.

* If the Belarus Government deepens its integration with the EurAsian Union, the competitive position of Russian corporations obviously increases vis-à-vis Western firms, causing the Western firms to reconsider their investment plans in Belarus.

* Two Finnish directors made an extraordinary suggestion when they considered that Belarus should adopt the Russian rouble in order to stabilise its currency, and correspondingly, another businessman proposed a free trade agreement with the EU.

Messages to the Finnish business community

* Belarus is just as any other market on the globe, though its public image is somewhat peculiar in the West.

* A window of opportunity with cheaper entry is open at the moment.

* Business in Belarus should not grow too large in the overall revenues of a Finnish group.

* Country risk should carefully be taken into account when assessing the amount of investment placed in the country.

* One should develop good relations with the authorities.

* One should carefully observe weak signals of the market, since changes occur rapidly and the local currency is still fragile despite the temporary stabilisation.

* The potential of importing goods from Belarus has not been used to full scale by Finnish corporations.

* The turnover growth rate should at the moment exceed 10% annually in order to maintain a market position in Belarus.

* The Finnish authorities and financial institutions should not only support exports from Finland (support production within Finland) but also target more aid on the overall internationalisation of Finnish firms (support investments from Finland abroad).

* Finnish businessmen should travel to Belarus and see with their own eyes the possibilities the country can offer.

5 Conclusion

Experiences of the Finnish companies in Belarus are to a large extent similar to the perceptions of the German businessmen operating in Belarus (Lashuk 2013). Table 7 summarises the main empirical findings of this study.

Table 7. A summary of main empirical findings

Political (P)	Economic (E)
* Centralised rule and the authoritarian political system have created stability, but the leadership change may create major instability. * The regulatory environment is clear but changes can be rapid and unpredictable. * The administration works properly, though more slowly than in the developed West. * Some deficiencies could be found in privatisation and public tenders. * Finnish firms were generally pleased with the ownership rights. * Finnish firms have not experienced immaterial property right violations in Belarus. * The strategic benefits of the Customs Union are obvious, but on the operational level the Customs Union still needs further improvement. * Political dispute between Belarus and Russia/the EU can create additional problems for the Finnish firms as well. * The US blacklist on some Belarusian state-owned enterprises has created indirect problems for some of the Finnish firms.	* The Baltic States and Russia have offered a springboard for entering Belarus. * The growth opportunities in Belarus are good, though the purchasing power of the middle class has deteriorated after the 2011 financial crisis. * Belarus is a rather normal business environment, i.e. no major peculiarities related to competition, taxation, payment system, transportation and the legal system could be found. * It is easy to find office space but a problem emerges with industrial premises. * The Belarusian banks are seldom used as a source of finance. * Repatriation of profits to Finland is not a problem, but prepayments abroad are not working well. * Mandatory sales of a part of export revenues is a Belarusian peculiarity for the time being. * Exchange rate risk of the Belarusian currency is obvious, and hence the hidden dollarisation of the economy has already begun. *Subcontracting and outsourcing develop fast. * Reliable market information is scarce.
Sociocultural (S)	**Technological (T)**
* Recruitment of personnel is generally not a problem. * Technological skills of local staff are good but managerial and internationalisation skills need considerable upgrading. * Staff turnover is higher in Belarus than in the West, but it has not been a specific problem for Finnish firms. * Salary differences are notable between white collar and blue collar workers. * Trade unions do not present a problem, on the contrary, trade unions hinder progress more in Finland. * Finland has a good national image and its goods are regarded as high-quality and its firms as reliable partners. * Crime and corruption are not a specific problem.	* Technology transfer from Finland to Belarus works as the core of the technological base of the Belarus subsidiary. * ICT systems are frequently imported from Finland, though the Belarusian and Russian ICT systems are also in use in Finnish firms. * Technological breakthrough innovations in Belarus are rare. * Belarus does not have an image of a high-tech country, which has prevented some Finnish firms from building R&D activities in the country. * Customs fees of imported technology are not a problem. * R&D cooperation with a Belarusian company gives an additional competitive advantage to a Finnish firm.

Epilogue

"*The media has created horror stories about Belarus."*

"*Belarus is like any other market on the globe with the exception that foreign firms do not want to attract publicity about their activities in the country due to the poor public image of Belarus.*"

"*One should think so that a role of a firm is to do business not to conduct politics.*"

"*One should patiently develop relations with the authorities.*"

"*Bureaucracy is a considerable burden.*"

"*Belarus is the last European state, which has not gone through privatisation, and hence competition is still very modest.*"

"*Now, it is time to enter the Belarus market, as the assets are cheap and competition tolerable.*"

"*Business in Belarus should not grow too large in the overall revenues of a Finnish parent company.*"

"*I am concerned what will happen after the leadership change. Will the leadership change lead to a redistribution of corporate ownership?*"

"*We have been positively surprised."*

Extracts from the interviews of the Finnish directors;
translation by the author of this report.

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Appendices

Appendix 1. Map of Belarus

Distances from Minsk to some capitals

Moscow	678 km	Helsinki	716 km
Berlin	958 km	Brussels	1609 km
Beijing	6484 km	Washington DC	7462 km

Appendix 2. Exports of major products in 2012

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Petroleum oils, other than crude, million tons	7,8	7,7	9,9	10,6	13,0	13,5	14,8	15,1	15,2	15,5	11,2	15,7	17,5
Nitrogenous fertilisers (in terms of 100% N content), 1000 tons	341,8	364,3	385,2	344,1	245,8	214,5	224,9	236,4	153,9	305,6	238,2	323,3	235,3
Potash fertilisers (in terms of 100% K_2O contents), 1000 tons	2 840,2	3 309,6	3 330,1	3 816,2	4 254,8	4 288,7	3 962,7	4 354,0	3 797,2	1 759,0	4 180,6	4 698,3	3 669,0
Tyres, 1000 units	2 007,0	2 151,9	1 375,0	2 334,5	2 721,1	2 332,8	2 636,3	3 492,9	3 455,7	3 808,0	3 716,1	3 715,2	4 265,6
Chemical fibres and filaments, 1000 tons	150,1	157,8	163,5	158,2	155,5	141,0	153,1	160,9	151,4	156,1	171,6	153,7	173,7
Ferrous metals, 1000 tons	1 391,2	1 431,0	1 452,9	1 413,5	1 498,3	1 631,4	1 825,9	1 857,3	1 903,9	1 863,9	1 747,2	1 774,9	1 974,3
Refrigerators, freezers and other refrigerating equipment, 1000 units	610,7	654,5	721,3	790,2	848,9	890,1	969,0	982,4	946,4	816,3	989,5	941,7	1 016,8
Reception apparatus for television; monitors and projectors, 1000 units	373,5	480,2	454,8	544,3	739,0	814,8	437,4	385,2	355,2	176,4	296,2	270,5	535,8
Agricultural machinery, 1000 units	36,1	16,6	26,7	20,9	28,9	26,3	16,1	33,5	28,9	23,3	20,3	26,5	29,7
Tractors and trucks, 1000 units	21,7	23,5	25,7	30,2	36,4	41,4	49,9	64,6	62,6	41,3	43,9	64,1	66,5
Motor vehicles for the transport of goods, 1000 units	10,0	12,4	10,6	11,9	12,3	13,2	13,2	13,5	11,5	3,0	6,9	11,8	15,2
Trailers and semitrailers, 1000 units	9,0	15,7	18,4	19,3	28,9	34,0	31,2	21,7	20,9	10,2	10,6	19,9	12,9
Parts and accessories for motor vehicles and tractors, 1000 tons	43,8	48,5	55,3	62,8	78,8	58,1	59,0	66,7	62,1	45,9	68,1	71,0	67,6
Furniture (including medical), $ million	130,5	148,6	166,5	210,6	277,5	263,7	301,8	391,2	467,1	271,5	321,3	393,2	451,2
Beef, 1000 tons	6,8	16,4	25,6	36,6	46,2	51,7	64,3	57,0	60,9	110,0	125,5	100,4	106,9
Milk and cream, concentrated or in powder, 1000 tons	49,9	57,6	57,6	75,7	94,3	119,0	153,0	161,0	167,9	180,4	195,3	186,1	210,8
Cheese and curd, 1000 tons	16,9	25,8	28,3	38,3	53,5	65,1	82,6	99,0	102,0	121,5	128,7	132,2	144,4

Source: Statistical Committee of Belarus (2013)

Appendix 3. Imports of major products in 2012

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Crude oil, 1000 tons	11,9	11,9	13,9	14,7	17,7	19,2	20,9	20,0	21,5	21,5	14,7	20,4	21,6
Petroleum products, 1000 tons	1 075,4	376,2	500,6	1 004,6	1 143,4	573,0	1 233,6	908,8	2 516,8	3 795,7	1 577,7	5 731,8	8 474,2
Natural gas, billion m^3	17,1	17,3	17,6	18,1	19,6	20,1	20,8	20,6	21,1	17,6	21,6	20,0	20,3
Electrical energy, bn kWh	7,2	8,3	6,8	7,6	4,0	4,9	5,5	4,3	2,4	4,5	3,0	5,7	7,9
Ferrous metals, 1000 tons	2 175,5	1 932,6	1 888,0	2 465,4	2 657,5	2 572,0	3 180,7	3 287,6	3 402,7	2 712,6	3 537,7	3 513,1	3 436,6
Acyclic alcohols and their derivatives, 1000 tons	76,7	67,4	65,4	61,3	61,9	63,3	72,0	73,8	92,3	74,8	86,9	96,4	87,3
Medicaments put up in measured doses or in forms for retail sale, tons	7 650	7 747	7 667	9 204	8 581	7 473	8 315	8 755	8 564	7 997	7 387	6 402	6 721
Synthetic rubber, 1000 tons	30,4	38,0	32,3	38,2	47,6	52,1	58,9	65,0	86,3	67,7	80,1	66,5	75,4
Internal combustion engines, 1000 units	40,8	34,5	38,4	47,0	40,9	43,2	48,0	56,9	65,2	50,6	75,8	115,7	159,8
Automatic data processing machines, 1000 units	1 001,6	456,4	247,6	330,7	538,9	738,1	1 138,4	1 747,4	1 892,5	1 332,0	1 857,4	1 389,7	2 384,4
Harvesting or threshing machinery, 1000 units	4,9	4,1	38,8	6,1	37,8	24,5	14,7	14,4	16,5	21,0	20,6	15,0	20,9
Railway or tramway goods vans and wagons, units	371	42	404	749	416	1 733	1 462	1 587	1 179	737	751	1 754	4 547
Passenger cars, 1000 units	57,7	72,0	100,0	95,5	88,7	131,3	157,0	180,4	199,9	163,4	201,8	284,1	83,7
Parts and accessories of motor vehicles and tractors, 1000 tons	36,9	26,8	30,3	38,2	46,9	38,4	49,8	58,6	74,4	50,0	61,1	73,8	87,1
Vegetable oils, 1000 tons	88,3	115,8	126,7	132,1	137,2	126,9	136,9	138,8	107,6	115,2	123,2	108,1	114,9

Source: Statistical Committee of Belarus (2013)

Appendix 4. Foreign trade of Belarus with main partners in 2012

BELARUS' TRADE WITH MAIN PARTNERS (2012)

The Major Imports Partners

Rk	Partners	Mio euro	%
	World (all countri	36,274	100.0%
1	Russia	21,415	59.0%
2	EU27	7,245	20.0%
3	China	1,845	5.1%
4	Ukraine	1,804	5.0%
5	United States	498	1.4%
6	Switzerland	295	0.8%
7	Turkey	276	0.8%
8	Venezuela	252	0.7%
9	India	181	0.5%
10	Brazil	161	0.4%
11	Argentina	146	0.4%
12	Japan	140	0.4%
13	South Korea	118	0.3%
14	Thailand	117	0.3%
15	Kazakhstan	93	0.3%
16	Norway	90	0.2%
17	Malaysia	82	0.2%
18	Israel	76	0.2%
19	Saudi Arabia	72	0.2%
20	Moldova	66	0.2%
21	Serbia	59	0.2%
22	Iceland	50	0.1%
23	Cuba	45	0.1%
24	Indonesia	33	0.1%
25	Morocco	31	0.1%
26	Canada	28	0.1%
27	Georgia	27	0.1%
28	Ivory Coast	24	0.1%
29	Uzbekistan	23	0.1%
30	Vietnam	22	0.1%
31	Ghana	17	0.0%
32	Mexico	16	0.0%
33	Egypt	15	0.0%
34	Singapore	14	0.0%
35	United Arab Emira	13	0.0%
36	Philippines	13	0.0%
37	Bangladesh	10	0.0%
38	Kyrgyz Republic	10	0.0%
39	Azerbaijan	9	0.0%
40	Pakistan	9	0.0%
41	Croatia	9	0.0%
42	Sri Lanka	9	0.0%
43	Ecuador	8	0.0%
44	Algeria	8	0.0%
45	Costa Rica	8	0.0%
46	Chile	8	0.0%
47	Tadjikistan	7	0.0%
48	Iran	7	0.0%
49	South Africa	6	0.0%
50	FYR Macedonia	6	0.0%

The Major Export Partners

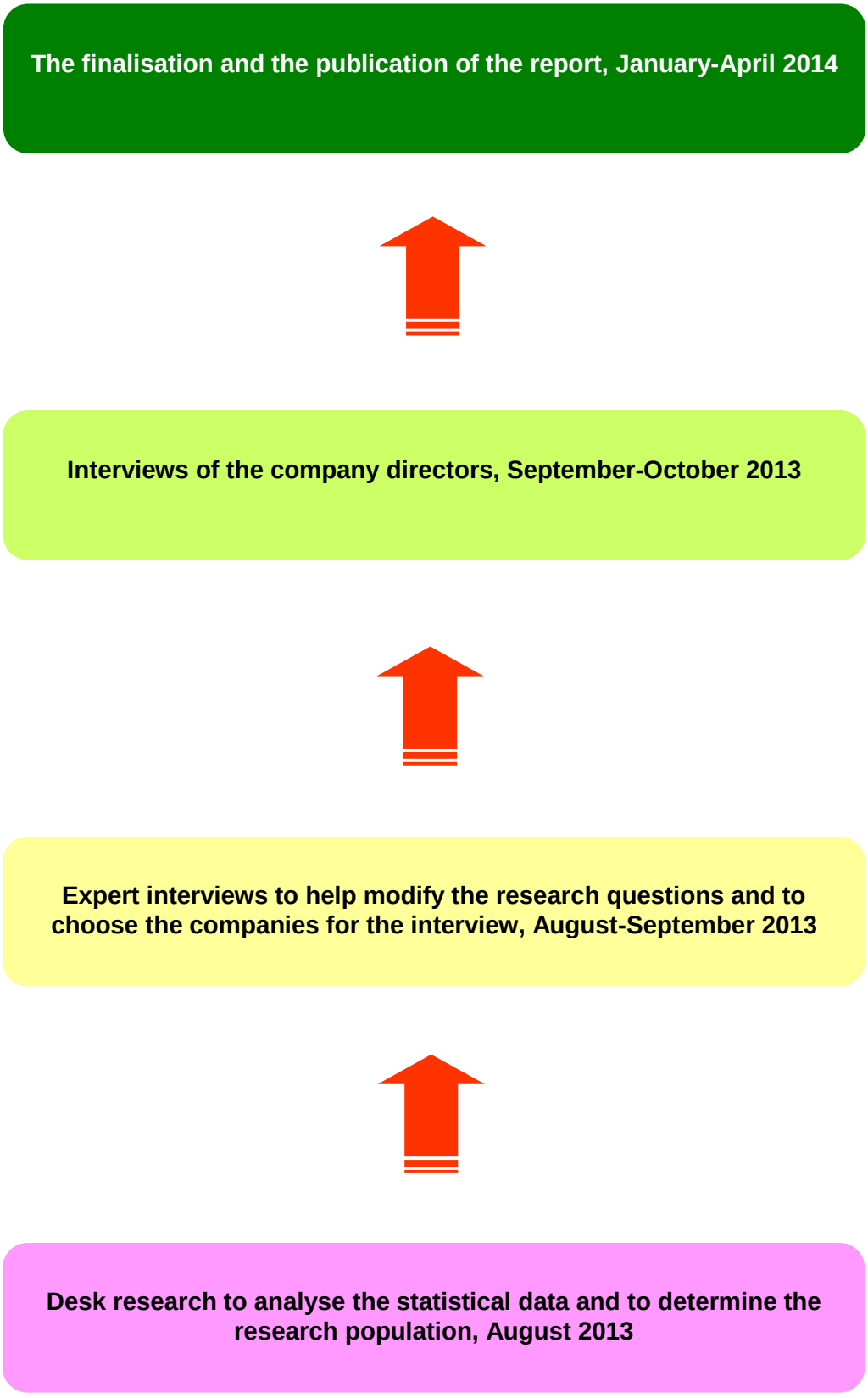
Rk	Partners	Mio euro	%
	World (all countri	36,143	100.0%
1	EU27	13,655	37.8%
2	Russia	12,674	35.1%
3	Ukraine	4,346	12.0%
4	Kazakhstan	628	1.7%
5	Brazil	627	1.7%
6	China	339	0.9%
7	India	207	0.6%
8	Venezuela	198	0.5%
9	Moldova	197	0.5%
10	Turkmenistan	181	0.5%
11	Norway	166	0.5%
12	Azerbaijan	164	0.5%
13	Vietnam	122	0.3%
14	Afghanistan	121	0.3%
15	Turkey	113	0.3%
16	Kyrgyz Republic	110	0.3%
17	Malaysia	92	0.3%
18	Iran	87	0.2%
19	Mongolia	87	0.2%
20	Uzbekistan	74	0.2%
21	Indonesia	71	0.2%
22	Thailand	61	0.2%
23	Egypt	60	0.2%
24	Serbia	57	0.2%
25	United States	56	0.2%
26	Bangladesh	45	0.1%
27	Pakistan	42	0.1%
28	Tadjikistan	38	0.1%
29	Cuba	35	0.1%
30	Jordan	33	0.1%
31	Croatia	30	0.1%
32	Armenia	30	0.1%
33	South Korea	29	0.1%
34	Georgia	28	0.1%
35	Sri Lanka	28	0.1%
36	Canada	27	0.1%
37	Tunisia	24	0.1%
38	Colombia	23	0.1%
39	Australia	22	0.1%
40	South Africa	19	0.1%
41	Philippines	19	0.1%
42	Iraq	18	0.0%
43	Syria	18	0.0%
44	United Arab Emira	16	0.0%
45	New Zealand	16	0.0%
46	Mexico	15	0.0%
47	Ghana	14	0.0%
48	Chile	14	0.0%
49	Ivory Coast	13	0.0%
50	Mali	12	0.0%

The Major Trade Partners

Rk	Partners	Mio euro	%
	World (all countri	72,417	100.0%
1	Russia	34,089	47.1%
2	EU27	20,900	28.9%
3	Ukraine	6,151	8.5%
4	China	2,184	3.0%
5	Brazil	788	1.1%
6	Kazakhstan	721	1.0%
7	United States	554	0.8%
8	Venezuela	450	0.6%
9	Turkey	389	0.5%
10	India	388	0.5%
11	Switzerland	300	0.4%
12	Moldova	263	0.4%
13	Norway	256	0.4%
14	Turkmenistan	186	0.3%
15	Thailand	178	0.2%
16	Malaysia	174	0.2%
17	Azerbaijan	173	0.2%
18	Argentina	152	0.2%
19	Japan	152	0.2%
20	South Korea	147	0.2%
21	Vietnam	144	0.2%
22	Afghanistan	122	0.2%
23	Kyrgyz Republic	120	0.2%
24	Serbia	116	0.2%
25	Indonesia	103	0.1%
26	Uzbekistan	96	0.1%
27	Iran	94	0.1%
28	Mongolia	87	0.1%
29	Israel	85	0.1%
30	Cuba	79	0.1%
31	Egypt	75	0.1%
32	Saudi Arabia	75	0.1%
33	Bangladesh	55	0.1%
34	Georgia	55	0.1%
35	Canada	54	0.1%
36	Iceland	51	0.1%
37	Pakistan	51	0.1%
38	Tadjikistan	45	0.1%
39	Croatia	39	0.1%
40	Morocco	38	0.1%
41	Ivory Coast	36	0.1%
42	Sri Lanka	36	0.1%
43	Armenia	36	0.0%
44	Jordan	34	0.0%
45	Philippines	31	0.0%
46	Ghana	31	0.0%
47	Mexico	30	0.0%
48	United Arab Emira	30	0.0%
49	Colombia	28	0.0%
50	South Africa	26	0.0%

Source: DG Trade (2013)

Appendix 5. Implementation of the empirical part of the study



Appendix 6. Interview guide

(1) How long have you operated in Belarus/with Belarus?
(2) History and current state of your Belarus unit
* main historical events
* main indicators (turnover, foreign sales, personnel, investments)
(3) Your assessment of the Belarus business environment (PEST model)

Political (P)	**Economic (E)**
Leadership change and its impact on economic policy Political unrest during this decade Clarity and sustainability of ownership rights (incl. land ownership) Respect of intellectual property rights Changes in foreign trade regulation The EU-Belarus relations and its impact on foreign trade regulation Impact of the Customs Union (EurAsian Union) on foreign trade regulation Bureaucrats favour local firms Restrictions concerning foreign firms Access to public procurements/public tenders Access to privatization Other – name?	General economic development (GDP plus your industry) Development of purchasing power Taxation Equality of competition (role of Belarusian oligarchs, role of Russian firms) Salary development Availability of finance (incl. foreign loans) Interest rate development Exchange rate of Belarusian rouble Inflation Functioning of payment transactions Functioning of distribution channels Functioning of courts of law Availability of quality legal services Availability of quality market information Availability of quality transport services Availability of quality office and industrial premises Access to the electricity grid Other – name?
Sociocultural (S)	**Technological (T)**
Population decrease and ageing Availability of skilled workers Emigration of qualified labour force abroad Availability of quality training services Social mobility within the country Public attitude (incl. media) towards foreign/ Finnish firms Role of trade unions Consumption preferences Ethnic issues (incl. discrimination) Ethical issues (incl. corruption) Changes in lifestyle trends Other – name?	Availability of modern technology within the country Customs fees of imported technology Functioning of infrastructure (roads, railroads) Functioning of the ICT network Innovation potential Availability of R&D funding Other – name?

4) SWOT analysis of your Belarus unit
* current situation and development over time
5) Prediction of future development of your unit in Belarus until 2020
6) Messages to the Belarus Government
7) Messages to the Finnish business community

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