China’s Enigmatic Loan to Belarus

by Ekaterina Zolotova - December 20, 2019

Rather than continue drawn-out negotiations for a Russian loan, Belarus on Monday signed an agreement with the China Development Bank for a five-year, $500 million loan. From an economic perspective, this case is of little interest, since Chinese loans are a common practice in the countries of the post-Soviet space, especially if the country is included in China’s Belt and Road Initiative. But from a geopolitical perspective, this could be a significant event. Belarus is integral to the balance of power in Eastern Europe, and any disruption or interference can change the behavior of Russia and the West. The thorny question, then, is why China is disturbing this balance with moves that apparently help Belarus to reduce its dependence on Russia – especially just days before an important meeting between the presidents of Russia and Belarus – which is sure to annoy the Kremlin and please the West.

No Strings Attached

The economy of Belarus is not going through the best of times. Changes to Russian tax policy – a so-called tax maneuver – are expected to cost Belarus more than $10 billion by 2024, including a direct hit to the budget of nearly $3.24 billion. (Despite an agreement reached by Moscow and Minsk on a “compensation” scheme for the tax maneuver, Moscow will not return the full amount. Russian subsidies could amount to $1.5 billion.) Moreover, Minsk owes some $3.8 billion in 2020 in foreign loan repayments and interest, and it is looking for ways to refinance previous credit payments without relying on Russia and increasing Russia’s leverage over it. Belarus’ geopolitical strategy hangs on balancing Russian influence with the promise of greater cooperation with Europe. Falling too firmly into the Russian camp would undermine the strategy and put Belarus squarely in Russia’s pocket. One need only look at the recent loan issue for a demonstration of what that might look like. In February, Minsk asked Moscow for $600 million. The Kremlin agreed in April, but it linked the transfer to progress on the integration of the two countries as part of the Union State. (Negotiations on the $200 million seventh tranche of a loan from the Eurasian Fund for Stabilization and Development were also cut short.) So in the summer, because of the lack of progress in negotiations with Russia, the Belarusian Ministry of Finance turned to the China Development Bank for the money.

China and Belarus have recently been interacting more and more intensively. In fact, this is not the

Belarus Government Loans and Public Debt, 2018-2019*

* 2019 figures from January - October
Note: EFSD = European Fund for Stabilization and Development, IBRD = International Bank for Reconstruction and Development
Source: myFIR.by

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Most of the Chinese loans and investments go to finance joint projects between Belarus and China (like the BelGee automobile assembly plant, the Vitebsk hydroelectric station, the Great Stone industrial park and the Minsk-Gomel high-speed rail project), which significantly increases China’s position as an important trading partner for Belarus. In 2018, bilateral trade grew by 17.1 percent, to $3.5 billion, making China Belarus’ third-largest trading partner. When Moscow over the past decade restricted Belarusian agricultural products’ access to the Russian market, Chinese imports helped pick up the slack. In 2018, for example, as the value of Russia’s imports of Belarusian milk and dairy products fell to $578 million, an approximately 20 percent decline from the previous year, China bought $60 million worth of the same goods – a more than 900 percent increase. China is also giving Belarus a boost in military procurement, which traditionally is Russia’s sphere. The headline project is the joint creation of the Polonez multiple launch rocket system, which could be deployed against tank groups and infantry dispersed over large areas.

Simply put, another Chinese loan to Belarus couldn’t be called unexpected. But this latest loan, unlike the others before it, is unconditional; the funds can go anywhere and are not required to be invested in Chinese projects or used to refinance previous Chinese loans. This is highly unusual for China, whose loans typically fall into one of two categories – soft loans and commercial loans – and which are normally secured or guaranteed by the government of the borrowing country. Previous Chinese loans to Belarus were intended to set up joint projects, with the condition that the Chinese component of the project would be at least 50 percent, or financed state programs with the participation of Chinese partners. For example, funds allocated for the modernization of the railway in Belarus and the purchase of 18 trains immediately went to Chinese suppliers.

Winners and Losers

It isn’t clear yet how Belarus will use the loan, but there are two main possibilities. One is that Minsk could pay off some previous Chinese loans coming due in 2020. In this case, the loan wouldn’t ultimately be a significant deviation from China’s usual practice, in that the funds would return to China. Still, this would serve as a reminder of China’s growing economic influence in Belarus – not to mention a potential Chinese debt trap. The other possibility is that the new loan could be used to refinance loans from Russia. This would be significant in that it would slightly reduce Moscow’s leverage over Minsk. Russia owns about 50 percent of Belarusian foreign debt, amounting to some $7.5 billion to $8 billion out of a total debt of $16.6 billion as of Nov. 1.

In trying to understand why Beijing attached no conditions to this loan, it’s worth considering which countries the loan benefits. The main beneficiaries of a decline in Russian influence over Belarus –
aside from Belarus itself – would be Poland and the United States. Neither the U.S. nor the European Union is willing to antagonize the Kremlin by providing credit to Belarus. No such impediment exists for China. Since the U.S. and China are still negotiating a trade agreement, this could be interpreted as a small concession by Beijing as part of the phase-one deal, or it could be linked to sanctions relief for North Korea. But we don’t think that China is interested in driving a wedge between Russia and Belarus to satisfy the United States, particularly since any help to the U.S. in containing Russia only frees up Washington to focus more on containing China.

Of course, it’s also true that Belarus occupies an important geographical position, the last piece needed to link China’s Belt and Road Initiative to Europe. But since China sees Russia as a much more important partner than Belarus, it is not in Beijing’s interest to anger Moscow. The trade turnover between Russia and China is many times that between Belarus and China, plus Russia-China trade has been growing steadily in recent years – by 2.2 percent in 2016 compared to the year before, by 20.8 percent in 2017 and by 27.1 percent in 2018. Russian exports to China in 2018 amounted to $56 billion, while Belarusian exports were worth only $480 million. From January to October 2019, agricultural imports from Russia grew by 12.4 percent in annual terms, and automobile exports from China to Russia grew by more than 66 percent. There’s also the recently inaugurated Power of Siberia gas pipeline, which will increase Chinese reliance on Russian gas.
For now, Belarus can rejoice that it found the additional funds – and on favorable terms, with less politicized conditions. From Minsk’s perspective, the loan will significantly strengthen its negotiating position with Moscow, enabling the country to attain better terms when its president meets with Russian President Vladimir Putin on Friday to hammer out a deal on energy prices, subsidies and economic integration. The Kremlin, for its part, is unlikely to react to the Chinese loan. But if Moscow starts to suspect ill intentions on the part of Beijing, it will think carefully about how to express its dissatisfaction.

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