

Bye, .BY: how Belarus could lose its lucrative IT industry

Blog post by Practice Lead Alexander Smotrov, 26 August 2020

The nationwide protests and industrial strikes that followed the controversial presidential elections in Belarus continue. The outcome of this unprecedented expression of public dissatisfaction with President Alexander Lukashenko and his grip on the country is, however, not yet clear. Lukashenko may still cling on to power - at least for the time-being - relying on his powerful security apparatus and repressive measures, internet shutdowns, and scaremongering about 'foreign threats' from both the west and the east.

Investor confidence has already been hit by the political unrest and the looming threat of western sanctions. This has created uncertainty for foreign businesses and turned Belarus from a being a haven (relatively speaking) into a volatile hotspot. And the first major casualty of this change of tide seems to be the country's buoyant IT industry.

Unlike other sectors of the economy, largely built on the legacy of the past and still managed by the state, the IT industry has developed over the last two decades as the result of a skilled workforce, creativity and entrepreneurship. The government eventually realised that the sector has given Belarus an opportunity to establish a competitive niche in the international economy and reduce economic dependence on Russia.

In 2017, due to the efforts of a group of local business leaders and their supporters, led by a former diplomat Valery Tsepkalo (who unsuccessfully tried to run for 2020 elections and is now in exile), a de facto special economic zone for the IT industry was set up in the form of the High Technologies Park (HTP). Lukashenko gave his personal blessing to the project through a special presidential decree which guarantees various tax, visa and employment privileges for IT companies and their staff in the park. Just before the August elections, over 800 domestic and foreign companies were registered as HTP residents, with 90% of the park's output being exported, mostly to Europe and North America. The IT sector was on track to provide 10% of the country's GDP by 2022.

The mood quickly changed after the elections when the authorities launched a violent crackdown on the peaceful protests and started blocking the internet across the country. Over 2,500 HTP residents and members of the wider IT community turned away from Lukashenko's patronage and [signed an open letter](#) demanding a re-run of the elections, the release of political prisoners, and free and open access to information.

Their demands were not just a political statement but also a plea for survival and the further development of their industry. The warnings they made - about a brain drain, loss of investments and tax revenues, and ultimately a reversal of the sector's recent achievements - have started to materialise. In the last two weeks several major tech companies has said they intend to leave Belarus. These include Wargaming, which moved its HQ to Cyprus some time ago but kept its largest development centre in Minsk; Viber, an online messenger, now owned by Japan's Rakuten, which saw members of its staff arrested by Belarusian authorities; Russia's Yandex whose offices in Minsk - also

housing their JV with Uber - were raided; and Manchester-based software development firm Godel with offices in six Belarusian cities.

Ukraine is now being touted as a prime destination for fleeing IT specialists, and the Ukrainian government has announced a number of measures to help companies move. Russia could be another option for Belarusian tech specialists, with its recently legislated tax reductions for the IT sector and further incentives aimed at establishing a regional technology hub. Among EU member states, Cyprus and Poland stand out as potential choices, with Cyprus offering low taxes and Poland emphasising its convenient geographic and language proximity.

Belarus faces the real prospect of losing its competitive advantage as an outsourcing destination, coupled with an exodus of its highly-skilled and creative workforce which has been driving the most dynamic part of the economy. Even if the country eventually moves towards a political transition, it may take years to restore this competitive advantage and to repair the reputation in the eyes of the global investment community.