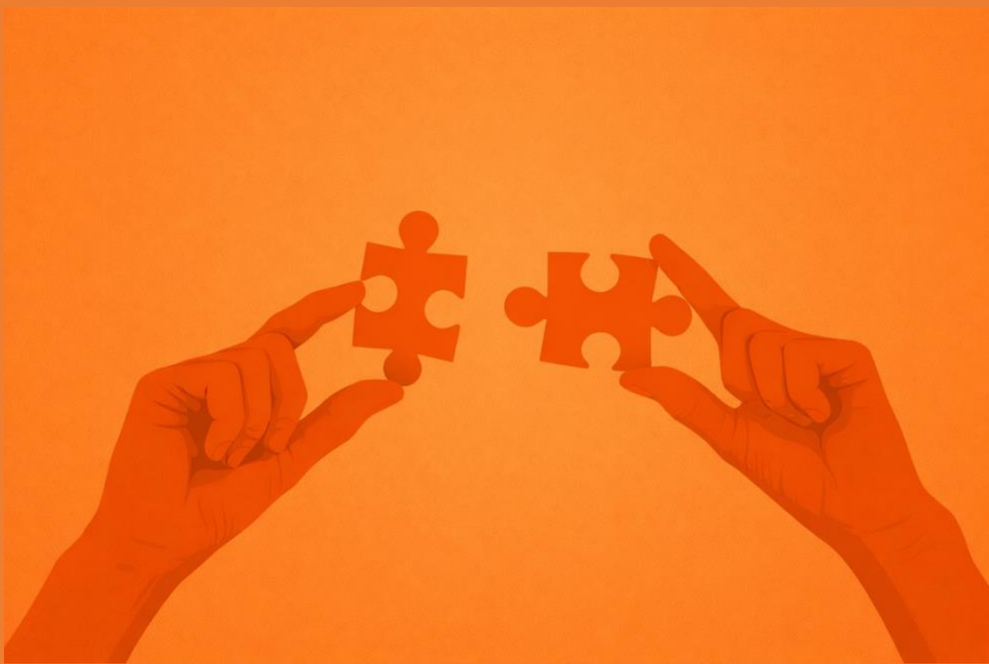
IDSM bee

Institute for Development and Social Market in
Belarus and Eastern Europe



POLICY BRIEF

Russian “Deathonomics” and Belarus’s Economic Vulnerability

Military Capitalism, Integration Dependency and Policy Options for the European Union and Democratic Forces

IDSMBEE
Vilnius, Lithuania
2026

Imprint

This policy brief has been prepared with the support of Konrad-Adenauer-Stiftung e.V., Belarus Country Office

Authors

■ Collective of authors from the Institute for Development and the Social Market in Belarus and Eastern Europe

Acknowledgements

This policy brief is based on the results of an expert discussion, “Russian ‘Deathonomics’ and Its Consequences for Belarus and the Region”, held on 30 June 2026 within the project “***Belarus and Russia under War and Sanctions: Social Attitudes and Policy Options for the EU and Democratic Forces***”, with the participation of representatives of the Belarusian and Russian expert communities.
The discussion was held under the Chatham House Rule. The analysis therefore reflects the substance of the discussion without attributing individual assessments to named participants.

IDSMBEE

IDSMBEE E-mail: info@idsmbee.org
IDSMBEE webpage: http://www.idsmbee.org

Date

July 2026

Using the content and citation

Should you wish to reproduce or cite any part of this written content, please provide proper reference to the policy brief “**Russian “Deathonomics” and Belarus’s Economic Vulnerability: Military Capitalism, Integration Dependency and Policy Options for the European Union and Democratic Forces**” (2026).

Disclaimer

Executive summary

The expert discussion indicates that Belarus and Russia have both adapted economically to the conditions created by Russia's war against Ukraine and sanctions, but their trajectories differ substantially. Russia has developed a militarised, two-speed economic model in which the expanded defence and war-serving sector drives output, absorbs labour, capital and budget resources, and crowds out civilian development. This model is described in the source materials as "military capitalism" or "deathonomics": it is unlikely to produce an immediate collapse, but it locks Russia into long-term stagnation, technological degradation, labour shortages, fiscal pressure and growing dependence on coercion.

Belarus is not yet militarised according to the Russian model. Its defence-industrial sector remains comparatively limited and does not define the overall structure of the economy. However, Belarus's key vulnerability is multi-channel integration dependency on Russia: trade, energy, production chains, logistics, budget flows, debt, banking infrastructure and payment systems reinforce one another. This dependency makes Belarus exposed to Russian economic shocks and political pressure, even though diversification remains technically possible.

For the European Union and democratic actors, the central policy task is to prevent Belarus from being pushed into deeper Russian military-economic integration while maintaining pressure on Russia's war economy. EU policy should differentiate between Russia and Belarus, preserve legal channels for Belarusian private-sector resilience, monitor sanctions circumvention across the post-Soviet space, and prepare a transition-support package for future Belarusian economic diversification.

Key findings

- Russia has already moved beyond ordinary defence-sector expansion. The experts describe a two-speed economy in which military and war-serving sectors drive demand, employment, budget spending and industrial output, while civilian sectors stagnate or contract.
- Belarus is not yet a military-capitalist economy. The direct and expanded defence-industrial sector remains too small to determine the overall allocation of labour, capital and budget resources.
- Belarus's main economic risk is not immediate militarisation, but multi-channel integration dependency on Russia. Trade, energy, production cooperation, logistics, budget flows, credit arrangements and financial infrastructure create a cumulative system of leverage.
- China provides Belarus and Russia with alternative trade, technology and financial channels, but it does not replace the European market or eliminate dependency. For Belarus, the Chinese track may diversify away from Russia in some areas while creating new long-term technological dependency.
- Economic deterioration in Russia may increase social and political risks over the medium and long term, but the experts do not support the assumption that economic pressure alone will stop the war or produce regime change in the short term.

Why this matters for European policy

The issue matters for Europe because the economic trajectory of Belarus and Russia directly affects regional security, sanctions effectiveness, democratic resilience and the future possibility of Belarusian transformation.

Russia's military-capitalist model makes the war economy more resilient than a short-term shock model would suggest. Even after a reduction in active hostilities, defence demand may continue because of arsenal replenishment, regional employment dependence, infrastructure needs and institutional interests. European policy should therefore prepare for a prolonged contest over Russia's military-economic capacity.

Belarus matters because it is not yet locked into the same model as Russia. Its economy remains more open, smaller and potentially more adaptable. However, if European policy contributes to the closure of remaining non-Russian channels, Belarusian economic actors may be pushed further into Russian structures. This would increase the cost of any future democratic transition and reduce the feasibility of economic diversification.

The central European interest is therefore to combine pressure and preservation: pressure on Russia's war economy and sanctions circumvention, and preservation of Belarusian capacities that could support a future non-militarised, diversified and European-oriented economic model.

Content

Introduction

This policy brief is based on the analytical materials from the expert discussion "Russian 'Deathonomics' and Its Consequences for Belarus and the Region", held on 30 June 2026.

The discussion addressed the transformation of the Belarusian and Russian economies after 2022, the scale and consequences of economic militarisation, the structure of Belarus's dependency on Russia, the role of post-Soviet states in sanctions circumvention, the limits of Chinese economic alternatives and the changing social contract in both countries.

The brief is not a full macroeconomic study. It is a decision-oriented synthesis for European institutions, EU Member State governments, diplomatic missions, think tanks, donors, foundations, policy experts and Belarusian democratic forces.

The central policy problem is that Russia's war economy is becoming institutionally entrenched, while Belarus remains economically dependent on Russia through multiple mutually reinforcing channels. *This creates a strategic risk: if European policy treats Belarus only as an extension of Russia, it may unintentionally close the remaining channels for Belarusian economic resilience and accelerate the country's deeper integration into Russia's military-economic system.*

1. Russia: from wartime adaptation to military capitalism

The experts describe the Russian economy after 2022 as having passed through three broad phases: initial sanctions-related contraction; adaptation supported by budget stimulus and credit expansion; and subsequent slowdown towards stagnation. The short recovery cycle of 2023–2024 appears to have been exhausted, while long-term constraints in technology, capital and labour have become more visible.

The central analytical finding is that Russia has developed a two-speed economy. The military and war-serving sectors continue to expand, while civilian production, private investment and long-term productivity prospects weaken. The "military sector" in this analysis should be understood broadly. It includes not only arms, ammunition and military equipment, but also textiles, footwear, transport, repair, logistics and other industries serving the war infrastructure.

The experts argue that the qualitative role of the military sector is more important than its exact share of GDP. Even if the expanded military sector remains below levels historically associated with full wartime economies, it dominates current growth dynamics because it absorbs labour, budget resources, credit and political attention. Defence demand has become a central driver of output and employment.

This is why the source materials use the term "military capitalism" or "deathonomics". The model does not simply involve higher military expenditure. It reallocates resources from civilian to military uses, creates regional and sectoral constituencies dependent on state defence orders, and makes post-war demilitarisation politically and economically difficult.

The experts do not predict a rapid collapse of the Russian economy. The more likely scenario is prolonged stagnation, technological backwardness, weakened financial stability, declining civilian investment, lower quality of life and rising social tension. This distinction matters for policy. Sanctions and economic pressure may raise the cost of war and increase medium-term vulnerabilities, but they should not be expected to produce automatic short-term political change.

Labour, fiscal pressure and the social contract

The experts identify labour shortages as a structural problem intensified by war. Military recruitment, demographic decline, emigration and reduced migration inflows all constrain the labour market. Low unemployment is therefore not necessarily a sign of economic strength. In the Russian case, it may reflect the removal of people from civilian economic activity and a shortage of available workers.

Fiscal pressure is also increasing. The source materials describe rising military and security expenditure, opaque budget items, the growing role of state banks and the transfer of war costs to the population, banks and civilian sectors through taxation, financial repression, high interest rates and pressure on savings.

These trends are changing the Russian social contract. The earlier exchange of political passivity for stability and acceptable living standards is becoming harder to sustain. Citizens and businesses face higher costs, weaker predictability and increased insecurity. However, the materials caution against assuming that this will translate quickly into anti-war mobilisation or democratic demand. It may instead lead to greater coercion by the state.

2. Belarus: dependent stability without Russian-style military capitalism

Belarus differs significantly from Russia. The available materials do not support the claim that Belarus has become a military-capitalist economy. Its defence-industrial sector benefits from cooperation with Russia, and individual enterprises may gain from military-related orders. However, the sector remains too small to determine the overall direction of economic development.

The submitted materials estimate that the direct contribution of the defence-industrial complex to Belarusian GDP remains below 1%, even when broader military-related effects are considered. Military expenditure has increased, but not at a scale comparable to Russia or sufficient to restructure the economy around war production.

Belarus's economic vulnerability lies elsewhere. The key problem is multi-channel integration dependency on Russia. This dependency is not defined by one indicator such as debt or trade alone. It is the cumulative interaction of several channels:

- concentration of exports and imports around the Russian market;
- dependence on Russian energy resources and related subsidies;
- integration of production chains and industrial cooperation;
- reorientation of logistics towards Russian routes;
- use of Russian financial and payment infrastructure;
- budget flows linked to duties, excise mechanisms and transfers;
- debt and credit arrangements with Russia and Russia-linked institutions;
- technological and infrastructural links, including in energy and banking.

The materials emphasise that this dependency is powerful because the channels reinforce one another. Russia may not need to use all levers simultaneously. Pressure on one channel may create a broader economic shock because the system is interconnected.

The reversibility of Belarusian dependency

The materials do not present Belarusian dependency as irreversible. Belarus remains a smaller, more open economy with a significant private sector and a greater potential capacity for rapid reorientation if political conditions change. This is a crucial policy point.

However, the window for easier diversification is narrowing. The deeper Belarus becomes integrated into Russian production chains, energy systems, logistics, banking infrastructure and technological standards, the more costly and time-consuming any future reorientation will become. The main risk is therefore not that Belarus already mirrors Russia's war economy, but that continued dependency may gradually transform Belarus into a military-industrial appendage of Russia.

The future direction of Belarus's economy will depend on political choices, the availability of external support, the preservation of private-sector capacity and the ability to maintain or restore access to alternative markets, technologies and financial channels.

3. Belarus in Russia's post-Soviet dependency architecture

The source materials place Belarus within a broader typology of post-Soviet economic dependencies on Russia. Belarus is described as a case of multi-channel integration dependency. Other countries may depend more on labour migration and remittances, trade and transit, mixed arrangements or reduced historical ties. Belarus's case is distinctive because several channels of dependency operate at the same time.

This creates asymmetric leverage. Belarus matters to Russia economically, but Russia matters far more to Belarus. The materials note that the post-Soviet space is currently significant for

Russia not mainly as a market for raw materials or as a conventional export destination, but as infrastructure for sanctions circumvention and access to critical imports.

This has two implications for EU policy.

First, sanctions enforcement cannot focus only on direct EU–Russia flows. It must also monitor intermediary chains, re-export patterns, new legal entities, transport routes, payment intermediaries and dual-use goods moving through neighbouring and post-Soviet jurisdictions.

Second, sanctions and secondary restrictions must be designed with attention to unintended effects. If measures close the remaining legal channels for Belarusian private-sector activity, education, technology, finance and trade, they may make Russia the only available economic space for Belarusian firms and citizens. That would strengthen the very dependency that European policy should seek to reduce.

4. China: diversification channel and new dependency risk

The materials describe China as an increasingly important trade, technology and financial channel for both Russia and Belarus. For Belarus, cooperation with China can reduce Russia's monopoly in certain areas and provide access to goods, equipment and technologies that have become harder to obtain from Europe.

However, China is not presented as a full alternative to either Russia or the European Union. The materials describe an asymmetric relationship. China does not appear to treat Belarus as a strategic priority on the same scale as Russia. Investment and credit opportunities remain limited, and the attractiveness of Belarus is constrained by war-related risks and disrupted logistics.

The Chinese track may therefore diversify some channels while creating new dependencies. The gradual shift towards Chinese equipment, standards, digital infrastructure, payment systems and technology may produce a long-term lock-in effect. For Russia, this risk is already described as close to critical. For Belarus, it is weaker but still significant.

The most realistic long-term risk identified in the materials is a chain dependency: China provides technologies and financial alternatives to Russia; Russia absorbs and filters these channels; Belarus becomes increasingly dependent on Russia-mediated access to Chinese goods, infrastructure and systems. This scenario would not restore Belarusian autonomy. It would simply replace one form of dependency with a more complex hierarchy.

5. Economic expectations and the transformation of the social contract

The submitted materials also examine how economic trends affect public expectations and the social contract in Belarus and Russia.

In Belarus, the social contract had already changed after 2020. The materials describe a shift from a traditional formula of loyalty in exchange for welfare to a more coercive arrangement based on fear, repression and enforced loyalty. After 2022, the Belarusian authorities supplemented this with a promise of physical security and non-participation of citizens in the war.

As long as salaries, exchange-rate stability, affordable credit and the absence of mass mobilisation are preserved, visible calm may continue. However, this stability is fragile. Economic deterioration or loss of the sense of security could undermine the remaining foundations of the current arrangement. The materials do not provide grounds to assume that such a shift would automatically produce political change.

In Russia, the war initially generated material benefits for some groups through military expenditure, contract payments and defence-related employment. However, the materials indicate that this effect has weakened. Citizens increasingly experience inflation, taxes, insecurity, reduced convenience, labour-market pressure and uncertainty. Even loyal groups may become irritated by the everyday costs of war.

This does not necessarily produce anti-war mobilisation. The materials suggest that negative expectations may increase social and political risks, but these risks are more likely to unfold over the medium and long term. The state may respond by increasing coercion rather than changing foreign policy.

6. Policy options

Option 1: Maximal economic isolation of both Belarus and Russia

This option would apply broad restrictions to both economies, treating Belarus primarily as Russia’s co-belligerent economic space.

Expected benefit: It may simplify enforcement and reduce some channels available to Russia.

Risks: The materials suggest that this approach could close residual legal channels for Belarusian private-sector resilience, make Russia more economically unavoidable for Belarus and accelerate deeper integration into Russian military-economic structures.

Feasibility: Politically feasible in a restrictive environment, but strategically risky if not paired with exemptions and support mechanisms.

Option 2: Differentiated pressure with protected civilian channels for Belarus

This option would maintain pressure on Russia's war economy and sanction circumvention while preserving lawful trade, educational, technological and financial channels for Belarusian private actors where they do not support repression, militarisation or sanctions evasion.

Expected benefit: It reduces the risk that Belarus becomes fully dependent on Russia and preserves future transition capacity.

Risks: Requires careful monitoring to prevent abuse by state-linked actors or intermediaries serving Russia.

Feasibility: More complex than blanket restrictions, but better aligned with the evidence in the materials.

Option 3: Transition-preparedness without immediate political assumptions

This option would prepare a practical support package for a future democratic or reform-oriented Belarus without assuming that transition is imminent.

Expected benefit: It would reduce the time needed to respond to a window of opportunity and help democratic actors develop credible economic alternatives.

Risks: Planning may remain unused in the short term and requires sustained expert capacity.

Feasibility: High for research, scenario planning and donor coordination; dependent on political conditions for implementation.

Recommendations and policy proposals

At the level of EU institutions and international partners

- **Differentiate sanctions policy towards Russia and Belarus according to the structure of militarisation**. EU institutions and Member State governments should recognise that Russia already operates a military-capitalist model, while Belarus remains less militarised but highly dependent. Sanctions should target Belarusian state-linked actors, military-relevant production and sanctions circumvention without automatically closing civilian channels that preserve future diversification capacity.
- **Preserve legal economic, educational, technological and financial channels for Belarusian private-sector resilience**. The European Commission, Member States and donor institutions should identify lawful forms of engagement with Belarusian private business, professional communities, students, researchers and civil society that do not benefit the Lukashenka regime or Russia's war economy. The objective is to prevent Russia from becoming the only available economic and professional space.
- **Shift the monitoring of financial restrictions away from the formal availability of SWIFT access towards correspondent banking relationships, intermediary chains, newly established legal entities, and cross-border digital settlements**. External

settlements in cryptocurrencies — both privately issued and central bank digital currencies — represent another means of circumventing sanctions restrictions.

- **Assess secondary sanctions by their double effect**. EU policymakers should weigh whether a measure increases the cost of Russian sanctions circumvention while also closing Belarus's remaining channels for diversification. Where restrictions are necessary, they should be paired with safeguards for independent Belarusian actors.
- **Prepare a transition-support package for Belarus.** EU institutions and international financial and donor partners should develop a package covering energy supply, trade finance, logistics, standards adjustment, access to the EU market, support for small and medium-sized enterprises, banking reintegration and social cushioning of reforms.

At the level of research, donor and civil-society programmes

- **Develop regular indicators of economic militarisation.** Researchers should monitor military procurement, defence-related employment, secret budget expenditure, credit quality, budget transfers, production chains, re-export, payment systems and the balance between civilian and military output.
- **Distinguish between direct and expanded defence-industrial sectors.** Analysis should separate narrow arms production from the wider group of industries serving the war economy. This distinction is necessary for credible sanctions, transition planning and risk assessment.
- **Model transition scenarios for Belarus.** Expert institutions should examine possible shocks linked to energy pressure, logistics disruption, debt renegotiation, banking isolation, production-chain reversal and loss of Russian budget flows.
- **Analyse the most difficult scenario: democratic change in Belarus while Russia remains unchanged.** This scenario would likely generate the highest risk of Russian economic pressure and should be treated as a priority for planning.

At the level of Belarusian democratic actors

- **Prepare a roadmap for reducing dependency on Russia by channel.** Belarusian democratic forces, economic experts and civil-society organisations should develop a phased plan covering energy, production chains, logistics, budget flows, debt, banking, payment infrastructure and technology. The roadmap should distinguish priorities for the first 100 days, two years and five years of a possible transition.
- **Treat preservation of the private sector as a strategic democratic resource.** Democratic actors should regard small and medium-sized enterprises, independent professional communities, human capital and market institutions as essential infrastructure for a future economic reorientation.
- **Develop a realistic policy on China.** Belarusian democratic forces should not reject diversification through China where it reduces immediate dependence on Russia, but they should assess risks of technological lock-in, trade asymmetry, financial opacity and long-term dependency.

- **Communicate economic transition as managed risk, not instant prosperity.** Public communication should explain that diversification from Russia would require costs, time and external support, but would reduce long-term vulnerability to political pressure.

Email: info@idsmbee.org
Webpage: http://www.idsmbee.org