

*Chaillot Paper*

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November 2009

n° 119

# Back from the cold? The EU and Belarus in 2009

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*Margarita M. Balmaceda, Sabine Fischer, Grzegorz Gromadzki, Andrei Liakhovich,  
Astrid Sahm, Vitali Silitski and Leonid Zlotnikov*

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**Institute for Security Studies**  
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*Paris*

# Contents

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|   |   |     |
|---|---|-----|
|   | Executive Summary   | 5   |
|   | Sabine Fischer  |     |
| 1 | Belarus – a country in transition? The State, elections, and the opposition | 25  |
|   | Vitali Silitski   |     |
| 2 | Belarusian elites – change and authoritarian rule                           | 37  |
|   | Andrei Liakhovich   |     |
| 3 | Civil society and mass media in Belarus                                     | 49  |
|   | Astrid Sahm   |     |
| 4 | The Belarusian ‘economic miracle’ – illusions and reality                   | 65  |
|   | Leonid Zlotnikov  |     |
| 5 | At a crossroads: The Belarusian-Russian energy-political model in crisis    | 79  |
|   | Margarita M. Balmaceda  |     |
| 6 | Belarusian foreign policy – change or continuity?                           | 93  |
|   | Grzegorz Gromadzki  |     |
|   | Annexes   | 105 |
|   | • About the authors   | 105 |
|   | • Abbreviations   | 107 |

# The Belarusian 'economic miracle' – illusions and reality

Leonid Zlotnikov

Back from the cold?  
The EU and Belarus in 2009

4

For a long time, Belarus has been considered a country with a successfully developing economy, an assessment underpinned by relatively high annual growth rates and the comparatively stable living standard of the majority of the population. Since late 2008, however, the effects of the global economic crisis on the Belarusian economy have become more and more evident. GDP growth has decreased considerably. Industrial production has plummeted as a result of shrinking markets in Belarus and in Russia while Belarusian goods are, at the same time, not competitive in the world market. More and more industrial sectors have ceased being profitable. The Belarusian government has had to revert to the country's currency reserves to pay off increasing foreign debts. Structural problems deeply engraved in the inefficient Belarusian economic model undermine the country's ability to cope with the challenges of the economic crisis.

This chapter looks at the development of the Belarusian economy after the demise of the Soviet Union. Its basic assumption is that high economic growth in Belarus was essentially triggered by a confluence of external factors, while inefficient command-economy structures remain in force. This is why the consequences of the economic crisis in Belarus are very likely to be more severe than in other countries.

The chapter investigates the role of economic relations with Russia, which allowed the Belarusian authorities to avoid potentially painful reforms that could have destabilised their rule of the country. It analyses the reforms undertaken by the Belarusian government in 2007 and 2008 in reaction to the deterioration of relations with Russia and the global economic crisis. The chapter closes with the conclusion that these reforms remain fragile and isolated, and imitate liberalisation rather than genuinely reform the command economic model still in place in Belarus. This is underpinned by the fact that the authorities have backtracked on reforms in the face of the global economic crisis. President

Lukashenka still seems intent on curbing market reforms in order to maintain state control of the economy.

### **The rise and fall of the Belarusian economy**

Prior to 1917, Belarus was a backwater of imperial Russia. And as late as 1940, only 21.3 per cent of the population lived in towns. In the period from 1960 through 1985, however, industrialisation in Belarus proceeded more rapidly than in any other Soviet republic. Moscow provided the investment for intensive industrial development, and the resulting output increased ninefold during this period, which was much higher than the rate for the Soviet Union as a whole. Hundreds of large factories were built (in contrast, since the disintegration of the Soviet Union, not a single new large enterprise has been constructed), thus attracting workers from the countryside into the cities. As a result, the urban population more than doubled between 1959 and 1987.

Having become one of the Soviet Union's main industrial centres, Belarus was known as the 'assembly plant of the USSR'. Industries were developed in the areas of transport and agricultural machine-building, as well as in the production of chemicals, food, and light industrial goods. In addition, Belarus became one of the main centres of the high-tech industry in Soviet times, developing sectors like microelectronics, instrument-making, computer manufacturing and modern machine-tool construction. In fact, 60 percent of the computers sold in the Soviet Union were manufactured in Belarus. The majority of the goods produced in Belarus were exported to Russia and other Soviet republics. As a result, it had a positive external-trade balance that was estimated at 2.5 billion USD in 1991. It also experienced higher *per capita* GDP growth rates than many other Soviet republics during this period, similar to those of the Baltic states and Azerbaijan.

However, with the demise of the Soviet Union and the liberalisation of foreign trade in the Commonwealth of Independent States, it became apparent that the notion of Belarusian prosperity was nothing more than a myth.

First, the high-tech products – computers, integrated circuits, television sets, etc. – that were being manufactured were not of the highest quality and were thus uncompetitive in the world market.

As a result, the high-tech sector promptly went into decline. During the last decade, even the production of television sets has depended on state subsidies. Second, the positive external-trade balance mentioned earlier was actually the result of pricing methods used during the socialist era. The prices for oil, gas, metals and other materials delivered from Russia were only about one-third of world market prices, while prices for manufactured goods and food products delivered from Belarus were, respectively, three times and 2.6 times higher than world market prices.<sup>1</sup> When the Soviet Union collapsed, it became clear that, according to world market prices, what had been considered an export surplus for Belarus in 1990 was actually a trade deficit of nearly 2.5 billion USD.<sup>2</sup>

Third, the situation of the Belarusian economy was aggravated by the absence of essential stocks of natural resources (with the exception of potassium salt and rock salt). Therefore, the fact that Belarus now had to pay much higher prices for the resources it imported led to a negative external-trade balance.

The decrease in the demand for Belarusian goods, including from the Russian military-industrial complex, structural changes in foreign trade prices and the slow pace of market reforms all prolonged the downturn caused by the transformation from socialism to a market economy. GDP and *per capita* incomes in the period from 1991 through 1995 dropped by 35 percent, industrial output dropped by 39 percent and agricultural output decreased by 45 percent. In 1995, capital investments equalled only 31 percent of 1990 levels.

### The Belarusian 'economic miracle'

As a result of the Russian-Belarusian customs union that was created in the autumn of 1995, Belarusian goods began to enter the Russian market duty-free. Moreover, import and excise duties on goods imported into Belarus increased up to Russian levels. The import of goods from countries outside the former Soviet Union declined, but the production and export of goods to Russia grew considerably. For example, the number of television sets imported from January to September 1996 fell to only 600 as compared to more than 100,000 during the same period in 1995, while domestic production increased by 60 percent and exports to Russia increased by 27 percent.<sup>3</sup>

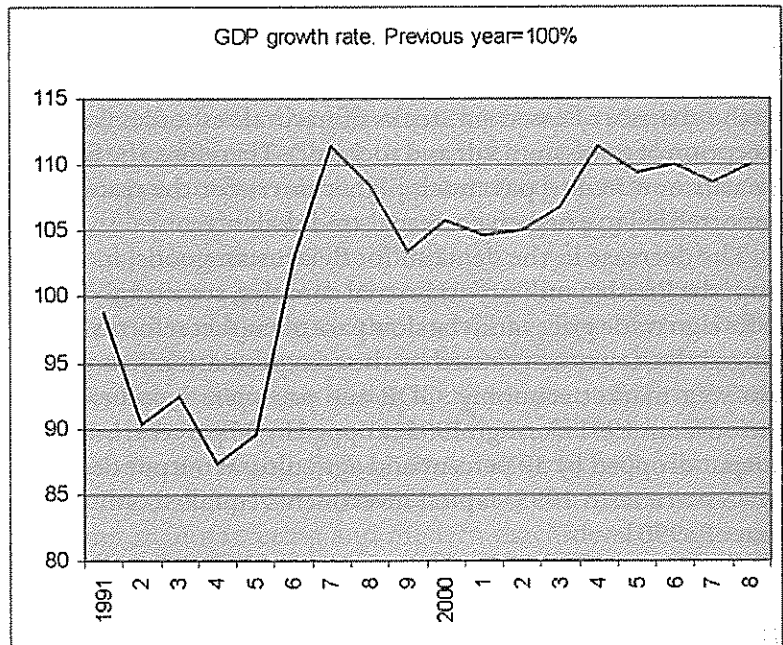
1. Marek Dabrowski and Rafal Antczak, *Economic transition in Russia, the Ukraine and Belarus in comparative perspective* (Warsaw: CASE, 1995), p. 9.

2. See 'Zayavlenie pravitel'stva Respubliki Belarus', *Narodnaya Gazeta*, 19 November 1991.

3. Leonid Zlotnikov, *Vyzhivanie ili integraciya, Pro et Contra*, vol. 3, no. 2, Spring 1998, p. 84.

In March 1996, Russia wrote off Belarusian arrears for energy imports to the amount of 1.3 billion USD (the equivalent of 8.2 percent of the country's GDP). The creation of the customs union in 1995 and Russia's writing off of Belarus's energy debts stimulated the Belarusian economy and enabled the country to emerge from the recession in which it had been mired.

Graph 1: Belarus GDP evolution (1991-2008)



GDP increased by a modest 2.8 percent in 1996 but shot up to an impressive 9-10 percent in 1997-1998. After a slowdown of the growth rate between 1999 and 2002, economic growth continued at 10.5 to 11 percent after 2004 (see Graph 1).<sup>4</sup> These fluctuations in growth rates between 1999 and 2002 can be seen as a reflection of the 1998 economic crisis in Russia and of the Russian economy's recovery after 2002. The figures show that, from the very beginning of its independence in December 1991, but especially after the creation of the customs union in 1995, the major factor influencing economic growth in Belarus was the country's relationship with Russia.

4. However, when using IMF standards to calculate Belarus's GDP, it turns out that, between 1999 and 2001, Belarus experienced virtually zero growth. The calculation methods used by the Belarusian government for most of the post-independence period produced industrial growth rates that were inflated by 4-5 percentage points. See Leonid Zlotnikov, 'Ekonomika-2002', *Belorusskii rynek*, no. 6, 2003.



Belarus used the customs union to generate revenues at Russia's expense. From 1995 up to 2007, Belarus failed to pay Russia obligatory export duties on oil products made at Belarusian refineries from Russian oil. Belarus sold goods to Russia by way of barter at inflated prices that were even higher than world market prices. In 1996, for example, Russia purchased Belarusian sugar at a price of 513 USD per tonne while, at the same time, buying sugar from other countries for just over 300 USD a tonne. Contraband goods entered Russia through Belarus too. In 1997, for example, half a billion dollars' worth of contraband cigarettes and vodka were imported into Russia from Belarus.<sup>5</sup> For the first six months of 1999, the Russian Customs Committee revealed that 2.5 billion USD worth of goods had been transported through Belarus duty-free.<sup>6</sup>

It is impossible to provide any sort of accurate calculation of the amount of money that flowed into Belarus due to loopholes in the customs union, but these capital inflows made a substantial contribution to the so-called Belarusian miracle. According to one 1997 calculation, for example, these inflows amounted to between 1.5 billion USD and 2 billion USD, or the equivalent of 9-12 per cent of Belarus's GDP.<sup>7</sup> Beginning on 1 October 2000, Russia restored customs posts on its border with Belarus in order to stop contraband trade.

Between 1999 and 2002, economic growth rates plummeted to 103.5-105 percent. The main reason for this drastic decline in growth was the collapse of the Russian economy in 1998, though streamlining of relations in the customs union also played a role. A further reason is that the influence on economic growth that had resulted from monetary policy and so-called soft credit since the end of 1996 had come to an end (as a result, inflation reached 351.2 percent in 1999).<sup>8</sup>

After 2002, the economy began to recover. The first major factor spurring growth in Belarus was, of course, the beginning of economic recovery in Russia. Second, the Treaty on the Formation of a Union State, signed in 1999, gave Belarus access to cheap Russian energy just before its prices began to increase on the world market. In the years that followed, Russian subsidies increased sharply. In 2007, for example, the Russian leadership estimated energy subsidies to be worth 5.8 billion USD.<sup>9</sup>

5. Ales Myakina and Andrei Bagrov, 'Minskoe "dinamo"', *Vlast'*, no. 27, 1999, p. 35.

6. Konstantin Smirnov, 'Druz'ya, uzhasen nash souz', *Vlast'*, no. 27, 1999, p. 38.

7. A. Il'iarionov 'Kak nam reorganizovat Rosbel', *Ekspert*, no. 41, 1997, p. 26.

8. While soft monetary and credit policy can stimulate economic growth, such growth is short-lived and, as a rule, is accompanied by inflation. See Colin D. Campbell, Rosemary G. Campbell, Edwin G. Dolan, *Money, Banking, and Monetary Policy*, (New York: The Dryden Press, 1998), ch. 17.

9. Pavel Vyutovich, 'S gazy na gaz', *Rossiiskaya gazeta*, 10 August 2007.



### Wasted opportunities

The massive inflow of Russian capital provided Belarus with an opportunity to reform its economy. But instead of investing in the modernisation of production methods, Russian subsidies were used to increase salaries and pay for social expenditures such as building houses and prestigious public, cultural and sports facilities. Moreover, a significant amount of funds was allocated to preserve inefficient public enterprises.

Although tax revenues (including the country's social insurance fund) increased from 33.5 percent of GDP in 1998 to 52 percent in 2008, more than half of the total budget (more precisely, 61.1 percent in 2006) was spent in the social and cultural sphere and on public assistance. A very small share of the budget (3.8 percent) was allocated for the development of industry, energy and construction. At the same time, 8.8 percent of the budget was allocated for the unprofitable agricultural sector alone.

Between 1996 and 2005, real wages increased 3.5 times. At the same time, GDP increased only 1.9 times. This trend, whereby wage growth exceeded growth in productivity, continued in 2006–2008. In addition, companies faced obstacles to potential investments in the modernisation of their production methods because of pressure to increase annual production, as well as a variety of obligatory social expenditures. At the same time, the inflow of foreign investments declined because of the unfavourable investment climate in the country. The share of foreign direct investments (not including foreign loans) fluctuated between 1 percent and 2 percent of total investments in fixed assets.

On the whole, the share of capital investments in Belarus over the last eight years has been higher than in neighbouring countries at 22–25 percent of GDP. However, a significant amount of these investments has gone into expenditures on housing and communal services, transport, agriculture and trade. Much less has been spent on industrial development. State interference has often undermined the efficient use of these investments. World Bank research on Belarus has shown that 'the correlation between increase in credit and in industrial production growth is also negative. This means that credits have been mainly allocated to the underperforming sectors of the economy'.<sup>10</sup>

In 2006–2007, just before the global financial crisis, the number of inefficient enterprises that owed their existence to public

10. World Bank, 'Report No. 32346-BY', 8 November 2005, p. 87. Available at: [http://sitere-sources.worldbank.org/INTBELARUSINRUSSIAN/Re-sources/446826-1132324050951/cem\\_by06\\_ru\\_full.pdf](http://sitere-sources.worldbank.org/INTBELARUSINRUSSIAN/Re-sources/446826-1132324050951/cem_by06_ru_full.pdf).

subsidies almost doubled.<sup>11</sup> Little by little, infrastructure and equipment inherited from the Soviet Union decreased in value. For example, the rate of depreciation of machinery and equipment between 1996 and 2004 increased in industry from 70.4 percent to 80.2 percent and in agriculture from 58.2 percent to 74.3 percent. The rate of depreciation of means of transportation increased from 45 percent to 73.4 percent and from 51.2 percent to 80 percent, accordingly. Based on the author's estimation, during this period, 1.3 billion-1.4 billion USD (3-4 percent of GDP) of accumulated depreciation was spent on current consumption annually.

The share of the engineering industry in total industrial production fell from 34.2 percent in 1990 to 20.3 percent in 2008, while the share represented by the mining industry (potassium salt and rock salt) and raw-material processing (oil refining, building materials, metallurgy, woodworking) increased. Firms in the engineering sector started to lose their competitiveness in 2005-2008 even in the Russian market. This sector produced important products like televisions, refrigerators, trucks, and diesel engines.

Just as in other parts of the former Soviet Union, the unreformed agricultural sector continued to absorb vast amounts of the country's resources. Immediately after taking power in 1994, President Lukashenka made the development of the agrarian and industrial complex a government priority. From 2001 onwards, the volume of agricultural production began to grow, but the overall efficiency of the sector remained low.<sup>12</sup> Nonetheless, food prices surpassed those in Russia, Poland and even in Germany, all countries with higher *per capita* incomes than Belarus.

In 2004-2005, another attempt was made to improve the efficiency of the agricultural industry. State subsidies increased eight-fold (up to 4 percent of GDP). The share of investment in the agrarian sector of the total volume of investment increased from 5-6 percent to 16-17 percent. The funds for this investment boom mainly came from long-term loans and the leasing of machinery. The schedule for the repayment of the loans coincided with the beginning of the global economic crisis. However, the agro-industrial complex is unable to pay back the loans, as its profitability remains negative or close to zero.

Attempts to improve the competitiveness of Belarusian industrial and agricultural goods have failed. 'Traditional and non-technological goods are quickly losing their competitiveness. Nei-

11. Mikhail Miasnikovich, 'O gosudarstvennoi podderzhke i konkurentosposobnosti predpriatii', *Nauka i innovatsii*, no. 8, 2007, p. 11.

12. Vladimir Gusakov, 'Povyshe-nie effektivnosti natsional'nogo APK v kontekste realizatsii programmy vozrozhdeniya i razvitiya sela', *Agroekonomika*, no. 5, 2005.

ther price decreases nor the reorganisation of working methods to ensure a minimum of profitability have had any effect. Moreover, the algorithm of activity [regarding enterprise modernisation] practically excludes technological updating of manufacturing capabilities.<sup>13</sup> Thus, Belarus did not use Russian subsidies for the modernisation of its economy so as to improve its competitiveness. Instead, additional resources were wasted on current consumption, as well as on prestigious buildings and social facilities and the support of unreformed and underperforming enterprises. The economic policy of the Belarusian leadership, therefore, resembled a continuation of the methods used by the Soviet command economy.

### **The Belarusian economic model: a return to Soviet times**

Of the 28 post-socialist countries that began to make the transition to a market economy in 1989-91, Belarus was the only one that returned to the command economic model. When President Lukashenka took power in 1994, he put a halt to market reforms and strengthened administrative and state control of the economy.<sup>14</sup> In 2000, the share of the state sector in Belarus's GDP amounted to 70-75 percent.<sup>15</sup> The voucher privatisation scheme launched in 1994 was never finished, and privatisation virtually stopped after 2000.

The Belarusian economic model is based on the priority of public benefit over individual interests, which is reflected in the Civil Code: '... the direction and coordination of state and private economic life is ensured by the state for social purposes [...]. The exercise of civil rights should not conflict with the public good' (Article 2). This interpretation of the relationship between the state and society provides the legal basis for unlimited state interference in private economic activities.

The Belarusian economy is essentially characterised by three salient aspects: inflexible planning practices, a rigid and non-transparent system of pricing and taxes, and the *de facto* absence of property rights.

*Planning:* At the beginning of every year, the government establishes 19 indices in the areas of growth rates of production volumes, working efficiency, capital investments etc. Every quarter,

13. Aleksandr Kovtunenka, 'Khozyaystvennaya svoboda- osnova innovatsennoi deyatel'nosti', *Direktor*, no. 1, 2005, p. 1.

14. It is interesting to note that the word *market* was conspicuously absent from Lukashenka's campaign prior to the 1994 election.

15. According to the Ministry of Statistics, the share of the state sector was 50.7 percent of the total workforce, 48 percent of investments, and 35-37 percent of industrial output. However, these figures underestimate the role of the state sector. Official Belarusian statistics classify companies as private even in cases when 99.9 percent of their shares are owned by the state. In this chapter, we use World Bank estimates of the state-sector role in GDP production based on the assumption that an enterprise belongs to the private sector if the state share in its property is less than 50 percent.

the prime minister reports to the president regarding the fulfilment of these indices.

A good example of the devastating impact that this method has had is the Minsk watch factory. Regardless of the fact that the factory had 28 months' output stocked in its warehouse as of December 2008, it is being forced to continue manufacturing watches, which are classified as consumer goods. The management cannot produce a different type of good because this would mean the administration of the district where the factory is located would not reach the target of consumer-goods production envisaged in 2009. This has made the factory a stark example of the inefficiency of public planning. Its case has been repeatedly reported in the public media, without, however, prompting the authorities to act.

*Prices:* Following a decree that dates back to 1999, the government establishes maximum indices for admissible price growth for all enterprises, including private companies. If an enterprise is not able to keep its prices within the established limits, it has to prove to the price-control authorities that a price increase is necessary. Over the years, it became evident that this practice was severely curtailing economic development, which forced the government to gradually exempt more and more commodity groups. In 2007-2008, however, price controls were reinstated across the board, affecting a broad range of economically significant goods and services. They remained in place even when the authorities announced liberal reforms in 2008 and 2009.

*The tax system:* In 2007, according to research conducted by the World Bank, Belarus ranked 178<sup>th</sup>, last among those rated, in terms of the quality of its tax system. Suffice it to say that, of the 4.4 million people employed in Belarus, nearly half a million are accountants.<sup>16</sup> Excessive bureaucratisation and the complexity and non-transparency of Belarusian economic legislation further complicate business activities in the country.

*Absence of property rights:* From a strictly legal point of view, private property does exist in Belarus. It is even easier and faster to register it in Belarus than it is in many other countries. Nevertheless, there are a large number of restrictions on entrepreneurial activity. For instance, if a company begins to operate successfully in a given market sector the state can prevent other private enterprises

16. International ratings and indices of the Belarusian economy are collected in the documents 'Platforma biznesa 2008' and 'Platforma biznesa 2009'. These documents were prepared by the Minsk Capital Association of Enterprises. They are available at <http://allminsk.biz>.

from entering this sector. This has happened in the real-estate sector and in the fish-processing and trading sector. With an extremely high number of regulations, the bureaucracy and state oversight involved in business procedures borders on the ridiculous. Businesses can face stiff fines for violating these rules and procedures, which further discourages entrepreneurial activity in the country.

In 2009, the Heritage Foundation ranked Belarus 167<sup>th</sup> out of 183 countries in an index of economic freedom and 106<sup>th</sup> out of 115 states in an index of protection of property rights.<sup>17</sup> The combination of the peculiarities of the country's economic legislation and the sheer number and power of regulatory authorities creates an extremely favourable environment for corruption. Accordingly, Transparency International's Corruption Perception Index 2008 ranked Belarus 151<sup>st</sup> out of 166 countries.<sup>18</sup>

Hence, if property is defined as a bundle of rights to take economic decisions independent of state regulations and control, it is impossible to speak of the *de facto* existence of private property in today's Belarus.

### De-bureaucratisation instead of liberalisation

Financial difficulties in the Belarusian economy first occurred at the end of 2005, when the period of recovery growth had ended. Up until the end of 2005, the growth of the Belarusian economy was fuelled largely by expansion in areas like housing construction and the production of trucks and tractors. Growth came to an end, however, when companies in those sectors that were leading the recovery reached the limits of their capacity and were unable to expand any further. A substantial portion of the country's fixed assets had depreciated beyond a critical point, and there was a clear need for investment. But instead of going up, investments in production began to decrease from 131 percent in 2006 to 115 percent in 2007 (as compared to the previous year). The foreign-trade balance gradually slipped into the red. What had been a negative external-trade balance of 183 million USD in 2001 reached 2.9 billion USD by 2007 (5.8 percent of GDP) and 6.1 billion USD by 2008 (10 percent of GDP).

In 2007, the government took several first steps to counterbalance these developments. Among them were modifications of the

17. Heritage Foundation, Washington D.C. and *The Wall Street Journal*, '2009 Index of Economic Freedom'. Available at: <http://www.heritage.org/Index/Ranking.aspx>.

18. Transparency International, '2008 Corruption Perception Index'. Available at: <http://www.transparency.org>.



economic legislation in order to improve the climate for foreign direct investment (FDI), such as tax breaks, the improvement of conditions for privatisation or the increase of the potential share of foreign capital in Belarusian banks. However, the amount of FDI remained insignificant and accounted for a mere 1-2 percent of the total volume of capital investment in 2008.<sup>19</sup>

This prompted the Belarusian leadership to allow more pro-market reforms so as to attract foreign investors. In July 2008, a plan to incorporate and privatise 519 state companies between 2008 and 2010 was adopted. At the beginning of December 2008, the prime minister declared that economic liberalisation in Belarus should be completed by the end of the year.<sup>20</sup> However, the government's approach apparently did not satisfy the conditions laid down by the International Monetary Fund for its stabilisation loans to Belarus. On 13 January 2009, therefore, a plan to liberalise the economy was promulgated, which promised an array of measures to improve economic legislation.

The plan aims first and foremost at the improvement of administrative procedures so as to stimulate entrepreneurial activity and foreign investment. Among the most important points was the simplification of the rules for setting up and closing down businesses. Other measures regarded the simplification of foreign trade transactions, tax payments, leasing of commercial space and so on. Some restrictions on the remuneration of managers were lifted. For example, whereas managers used to earn, on average, four times as much as the workers in the same enterprise, they can now earn five times as much.

While those and other measures, such as the devaluation of the Belarusian rouble in January 2009, were important steps in the direction of market reforms and the improvement of the competitiveness of the Belarusian economy, many other crucial issues remained unaddressed. For example, several ministries objected to the planned abolition of retail trade licensing, as well as the abolition of the existing wage rate structure. In addition, a plan to favour taxpayers in the event of contradictions in the Tax Code was also shelved.

Overall, the January 2009 liberalisation plan focuses on the de-bureaucratisation of economic management in Belarus. However, real liberalisation implies a transition from the coordination of economic activities (what to produce, how much, at what price and for whom) by the state to coordination on the basis of market

19. In contrast, the equivalent volume of FDI in Russia was 16 per cent over the same period.

20. Sergei Sidorski, 'Modernizatsiya i liberalizatsiya ekonomiki Belarusi dolzhna byt' zavershena v 2008 godu', *Belorusskoe telegrafnoe agentstvo*, 9 December 2008. See: [http://news.belta.by/ru/news/archive?date=09\\_12\\_2008&page=18&id=309901](http://news.belta.by/ru/news/archive?date=09_12_2008&page=18&id=309901).

mechanisms. Only in this way can economic reform lead to substantial improvement in the efficiency of the national economy.

The liberalisation plan of the Belarusian government, however, does not envisage the abolition of production quotas for enterprises, including private ones. Hence, it should be seen more as a cosmetic measure in response to IMF requests to liberalise the economy.

Moreover, as indicated above, the pricing system has, for all intents and purposes, remained unchanged. Although some minor amendments to legislation on pricing were made in the summer of 2009,<sup>21</sup> the main instruments of state price control remained in force, including, for example, establishing limits on the rates at which the prices of all goods and services were permitted to increase.

The implementation record regarding the privatisation programme remains weak as well. While the incorporation and privatisation plan for 2008 has been fulfilled, virtually none of the 176 enterprises envisaged for privatisation in 2009 were actually privatised.<sup>22</sup> The leadership had already previously curbed privatisation by complicating the procedures and imposing more and more conditions on investors. In times of economic crisis, privatisation seems to be considered inappropriate.<sup>23</sup>

In a nutshell, the central planning system has remained steadfast in Belarus, even in the face of the economic crisis. In fact, it seems that the government has even been trying to slow down reform processes recently in order to maintain control, as the economy is increasingly being affected by the crisis. As a result, decision-making and policy implementation have been erratic and contradictory throughout 2009.

The aim of the Belarusian leadership's 'liberalisation policy' has never been genuine liberalisation in the sense of a transition to self-regulation of the economy. The government's approach is deeply rooted in the economic thinking of the ruling elite in Belarus. In this mindset, state control of all spheres of societal life, including the economy, continues to play a crucial role. Thus, when talking about liberalisation, President Lukashenko emphasises that: 'this does not mean that we will now leave everything to the market. Everybody understands that there is no way to get by without the state – particularly in a sphere as crucial as the economy. Everybody understands that – why should we depart from that now?'<sup>24</sup> It is obvious that the president does not intend to

21. For instance, a number of services were allowed to set their own prices, e.g., hairdressers, dry-cleaners, and laundry facilities. Prices were also freed on a number of basic goods such as documentary photos, cakes, bagels, and goat milk. The minimum export prices for 17 out of 29 commodity groups (sugar, oil, mushrooms, berries, etc.) were lifted. The list of products whose prices are set directly by the state was slightly reduced. The retail mark-up on certain products was increased. For example, the mark-up on bananas increased from 25 percent to 30 percent.

22. 'Reformirovanie belarusskoi ekonomiki oboidet privatizatsiyu storonoi', *Belorusskie novosti*, 18 February 2009. See: <http://infobaza.by>.

23. Ibid.

24. Interview with the heads of the main media organisations in Belarus, 18 December 2008. See [www.president.gov.by/press66220.html.doc](http://www.president.gov.by/press66220.html.doc).



change the basic characteristics of the Belarusian model: 'It is the state's and the president's most prominent task to control three things: power (which is impossible to privatise), property and money.'<sup>25</sup> Hence, it is very unlikely that the current efforts at 'liberalisation' will change the socialist (or command) nature of the fundamentally inefficient Belarusian economic model. Rather, reforms aim at allowing exactly the degree of economic freedom necessary to keep social dissatisfaction under control and, thus, help the regime to stay in power.

## Conclusion

Throughout its post-Soviet history, Belarus has shown higher growth rates than most of the other CIS countries. This 'Belarusian miracle' has led observers in Belarus, and also in Russia, to believe in the superiority of the command economy over the market economy.<sup>26</sup>

It is true that many things have been done to improve the country. Cities are cleaner, new homes are being built, and crime rates are lower. However, no miracle ever took place in the Belarusian economy. This chapter has shown that:

- ▶ High growth rates officially promoted by the Belarusian authorities were based on inflated figures. By our estimation the rate of economic growth in 1996-2005 was overestimated approximately by 1.8 times.<sup>27</sup>
- ▶ No reasonable investment policy was ever pursued to replace the infrastructure and industrial equipment inherited from the Soviet Union. Instead, significant funds were poured into social expenditures and prestigious projects whereas the need to modernise the Belarusian economy in order to create a more sustainable basis for development was neglected.
- ▶ Belarus was able to afford this policy of non-reform thanks to enormous Russian subsidies and external loans.

Belarus's economic situation has significantly worsened because of the drop in the price of oil and the global financial crisis.<sup>28</sup> The Belarusian miracle is over, but the government has no new development strategy. The policy of innovative development based on attracting foreign investments and the privatisation process has been abandoned. The failed liberalisation experiment

25. Ibid.

26. See, for instance, Yuri Godin, *Belorussia- eto 'Brestskaya krepost' sovremennoi Rossii* (Moscow: ITRK, 2008), p. 107.

27. Leonid Zlotnikov, 'Ne ubedili', *Belarusy i rynek*, no. 46, 2008.

28. Although the deficit of external trade balance in 2006 amounted to 4.4 percent of GDP, it went up to 9.2 percent in 2008 and to 18.1 percent between January and July 2009. This means that Belarus is currently consuming 18 percent more of GDP than it is producing on account of external loans.

has taken place in the context of an inefficient command-economy system.

The Belarusian leadership keeps telling the population that there is no crisis in Belarus, that the problems there are simply the consequences of the crisis in other countries, and that those countries cannot afford to purchase Belarusian goods. This is why the only strategy, according to Lukashenka, is to wait until the crisis in other countries is over. Therefore, the government is now actively trying to attract intergovernmental loans and funds from international financial organisations and other states. If the current policy continues, this money will be spent mainly on supporting inefficient and unprofitable enterprises. The likely outcome of all this is that the country may find itself insolvent before the global crisis ends. By then, the government's room for manoeuvre will have been exhausted due to its doomed efforts at maintaining a dysfunctional economic system.