This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University. More on the BTI at [http://www.bertelsmann-transformation-index.de/](http://www.bertelsmann-transformation-index.de/)


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Key Indicators

<table>
<thead>
<tr>
<th>Population</th>
<th>mn.</th>
<th>9.8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pop. growth</td>
<td>% p.a.</td>
<td>-0.5</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>years</td>
<td>68</td>
</tr>
<tr>
<td>Urban population</td>
<td>%</td>
<td>72.2</td>
</tr>
<tr>
<td>HDI</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td>HDI rank of 177</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>UN Education Index</td>
<td>0.95</td>
<td></td>
</tr>
<tr>
<td>Gini Index</td>
<td>29.7</td>
<td></td>
</tr>
<tr>
<td>Poverty</td>
<td>%</td>
<td>&lt;2</td>
</tr>
<tr>
<td>Aid per capita</td>
<td>$</td>
<td>-</td>
</tr>
</tbody>
</table>


Executive Summary

Alyaksandar Lukashenka’s landslide victory in the presidential elections of 19 March 2006 marked another step toward authoritarian consolidation in Belarus. President Lukashenka continues to have full control over the cabinet and also dominates the legislative process. In the past several years, he has employed various methods designed to increase pressure on democratic actors, including administrative sanctions, outright violence against the opposition – for example after the October 2004 referendum – and the sentencing of former opposition presidential candidate Alyaksandar Kazulin to five and half years in prison in July 2006. Since the mid-1990s President Lukashenka has striven to build and consolidate his autocracy, and has maintained his absolute grip on power in Belarus for almost an entire political generation (1994 – 2007) by repressing internal opponents, impeding the free exchange of information and repeatedly criticizing both western and eastern neighboring states.

Belarus is ethnically homogeneous and has no chronic conflicts. To the west, Belarus borders Lithuania and Poland, both of whom are member states of the European Union and support the democratic opposition seeking to bring about regime change in Belarus. These factors have the potential to open a window of opportunity and provide good preconditions for systemic change. In the past years, however there has been no transformation management in any genuine sense.

The Belarusian government restricts democratic rights, leaving civic organizations with little room to maneuver and assuring that they remain weak. In spite of these restrictions, the democratic opposition succeeded in electing Alyaksandar Milinkevich in October 2005 as their candidate for the 2006 presidential elections. The media are under the president’s growing control and pressure. The economy is primarily controlled by the state. However, the government has succeeded in maintaining stable economic and social conditions. One of the key factors contributing to this stability is
Belarus’ relationship with Russia, namely its receipt of Russian energy subsidies. The conflict with Russia over increasing gas and oil prices in late 2006 and January 2007 is likely to have a visible impact on the Belarusian economy. A transition to democratic governance has yet to emerge in Belarus because the nation lacks several factors needed to trigger such a change.

History and Characteristics of Transformation

Belarus, which was more an imperial periphery than a state before 1991, suffers from the absence of a national identity and a dearth of national elites. Though it embarked on a modest process of modern nation-building in the aftermath of Chernobyl in 1986, its elites failed to advance liberalization. There did emerge a national independence movement that promoted a platform of liberalization and a break from Russia, but it failed. This failure owed in part to the absence of a widely accepted Belarusian national identity and the reluctance of some Belarusian decision-makers to relinquish the benefits of cooperation with Russia. National independence was not an active process but a result of the failed putsch of August 1991. The transformation of the Belarusian Soviet Socialist Republic into the Republic of Belarus did not lead to a fundamental change in the nation’s elite, and institutional reforms were carried out only very slowly.

An important institutional turning point was the adoption of a Belarusian constitution in March 1994, which created the office of president. In the summer of 1994, with the help of a populist electoral campaign, Alyaksandar Lukashenka succeeded in winning the presidency. Since then the president’s autocratic power has dominated the country’s development. Lukashenka was able to consolidate his authoritarian regime with the help of a constitutional referendum in 1996 and a referendum in October 2004 that allowed him to be reelected for more than the two terms stipulated by the constitution. Since the beginning of his tenure he has increasingly controlled and repressed the opposition, the independent media, civil society and the private business sector. As of the latest parliamentary election in 2004, there are only 12 representatives of political parties in the new House of Representatives. The 100 remaining elected deputies received their endorsement either from a labor collective or through signature collection. Not one of the 150 opposition candidates received a seat in parliament. All members of parliament support the current government. The opposition is not represented at all. The OSCE evaluated the elections as undemocratic. Belarus has even further isolated itself from the West and oriented itself almost exclusively toward Russia. Lukashenka has also initiated contacts with other countries lacking democratic standards and who are antagonistic toward the West, such as Iran and Venezuela. Beyond the difficult and often dangerous working environment for political opponents, the opposition also suffers from structural shortcomings and internal division. However, government critics took an important step forward in choosing Alyaksandar
Milinkevich as a single opposition candidate for the 2006 presidential elections. Despite his expected overwhelming loss to President Lukashenka in Belarus’ presidential elections, Milinkevich’s six percent of the vote represented the largest expression of antigovernment protest in Belarus in the past decade.

When Belarus became independent, the initial conditions for the transformation to a market economy were favorable. However, the fact that Belarus has continued to depend on the successor states of the Soviet Union – especially Russia – for 90% of its energy has prevented the flourishing of the Belarusian economy. Belarus also suffered considerably from the effects of the 1985 reactor accident in Chernobyl: 70% of the radioactive fallout hit Belarus.

Lukashenka ended the trend toward liberalization and privatization that had emerged in the wake of Belarusian independence. He tried to implement a model of economic reform similar to that of the successful transition economies in Asia, restricting liberalization of key economic sectors to a minimum while at the same time increasing the degree of state control. Unlike China and Vietnam’s successful approaches to transformation, however, Lukashenka’s “social market economy” is not based on dynamic factors such as extensive foreign direct investments, growing small- and medium-sized businesses or agricultural reform. Lukashenka has also maintained resource-intensive social services and social policy.

Trapped in an administrative straitjacket, macroeconomic reforms move forward only in small increments. According to the latest available EBRD data, the private sector share in GDP did not change in 2005 and was below 25%, although methodological difficulties in defining the terms “private sector” and “private companies” in Belarus complicate a precise measurement. Despite its command economy policies, Belarus has managed to maintain roughly the same social and economic conditions that prevailed in 1991, having experienced neither a sweeping economic boom leading to the modernization of the economy nor dramatic and uncontrollable economic slumps. During the review period, the country continued to profit from cheap subsidized energy imports from Russia (sold to Western Europe at high prices), which eased the pressure to modernize its Soviet-style industries and allowed for expensive social programs.
Transformation Status

I. Democracy

1 | Stateness

There is virtually no competition for the state’s monopoly on the use of force. The government is dominated both vertically and horizontally by the president’s autocratic system.

All citizens have equal civic rights. Problems arise, however, from the failure to differentiate sufficiently between Belarusian and Russian identities. The official languages are Belarusian and Russian. The lingua franca is Russian, which is supported by the government’s cultural and linguistic policies. Some ethnic minorities, for instance the Roma community, are denied certain civic rights, such as the right to education and freedom from arbitrary detention.

Among the country’s religions, only the Belarusian Orthodox Church, an offshoot of the Moscow-based Russian Orthodox Church, receives official government support. In January 2003, Lukashenka described his state ideology not as Communist but as “Orthodox Christian.” He praised the Belarusian Orthodox Church for opposing “destructive forces,” cooperating with the authorities and contributing to stability. Numerous benefits have been bestowed on the church, and the state enjoys its cooperation in return. On 12 June 2003, Prime Minister Gennadiy Novitskiy and Metropolitan Filaret (Vakhromeyev) of Minsk and Slutsk signed a new agreement of cooperation between the state and the Orthodox Church.

Seeing as the democratic elements of Belarusian federalism – which were originally conceived as a balance to central power – are too weak to establish a well-differentiated and capable administrative structure, the government is able to impose its authority throughout the national territory with a centralism reminiscent of the Soviet era.
2 | Political Participation

In Belarus, elections are held but have only limited influence on the distribution of power. The presidential elections of March 2006 were effectively demoted to a vote confirming President Lukashenka’s hold on power. Neither the latest elections nor the previous parliamentary and presidential elections met OSCE standards for free and fair elections. The primary object of criticism is the inequality of baseline conditions, which favor Lukashenka. The incumbent not only controls the executive branch at all administrative levels but dominates the media as well. Lukashenka possesses total power to govern but the democratic legitimacy of his authority must be regarded as small – even though he remains popular among many voters. The democratic opposition is almost entirely excluded from legislative structures at all levels.

The presidential elections of March 2006 again showed that civil and political rights guaranteed by the constitution are systematically disregarded, including freedoms of expression and association and the right to access, gather and disseminate information. Government bodies lack pluralism and show reduced transparency, in particular because almost all opposition nominees are excluded from election by the administration. Neither the government nor any of the constitutional amendments strengthening Lukashenka’s power can be traced back to free and fair conditions. On 23 November 2006, Lukashenka claimed that he had falsified the presidential election in favor of his rivals by decreasing the outcome from 93% to 86% to fulfill European standards. This cynicism marks the extreme to which the regime has taken its disregard for the rules of democracy.

Lukashenka continues to increase pressure on political and social groups. Opposition parties with any relevance to the regime have either been forbidden or encounter systematic obstacles. The repertoire of repressive measures even includes the “disappearance” or imprisonment of opposition politicians and journalists. In 2005, the regime introduced several amendments to the Law on Public Association adopted by the House of Representatives, including housing regulations that forced local branches of opposition parties registered at residential apartments to close down. New rules on foreign assistance forbid foreign aid to be spent on activities that advocate violent subversion of the government or interfere with Belarus internal affairs. Freedom of assembly is not guaranteed by the state. The only organizations spared from government harassment are puppet NGOs subsidized by the state to act as transmitters for official propaganda.

The core elements of the public sphere in Belarus are limited to a minimum. A public debate does exist, but it is vulnerable to distortion and manipulation through massive intervention. The electronic media in Belarus are completely...
dominated by the state; even Russian television networks have gradually lost their influence as Belarusian outlets have replaced them. Lukashenka has increasingly used state intervention to restrict the independent print media. On 31 May 2005, he banned three of the country’s leading independent newspapers (Belorusskaya Delovaya Gazeta, Belorusskaya Gazeta and Belorusskiy Rynok) for using the words “Belarusian” and “national” in their titles. Furthermore Belpochta, Belarus’s state postal service, reported on 17 November 2006 that their service would refuse distribution of major nationwide independent newspapers for the first six months of 2007. Facing such limited opportunities, representatives of the opposition are forced to use their only remaining options, that is, to address the Belarusian population directly on the streets and in front of factories. On the eve of the local elections on 14 January 2007, the House of Representatives changed the election law, requiring candidates in presidential, parliamentary and local elections to seek approval from local authorities before meeting voters anywhere out of doors.

3 | Rule of Law

The defining characteristic of Belarus’ political system is the legal and de facto monopoly of the presidential executive. The National Assembly has extremely limited powers and virtually no control over the state budget, which can be “amended” in the middle of the year by presidential decree. According to the constitution, the president or government must approve all bills that impact the budget before the assembly can vote on it. Only a small part of lawmaking is carried out in the parliament. The National Center for Legislative Activities (a state think tank responsible for the preparation of bills) is subordinate to the president.

While the judiciary is institutionally well-differentiated, at the personal level it is directly subordinated to the president. The president appoints and dismisses the majority of judges, including six of the twelve judges on the Constitutional Court, the judges of the Supreme Court and those of the Supreme Economic Court. The appointment of judges is subject to a probationary period of five years during which their tenure remains uncertain. The president also appoints the chairman of the Constitutional Court, who can recommend the names of the other six candidates to be appointed by the parliament. Generally speaking it is not completely impossible to receive a fair trial in Belarus. But especially in politically sensitive cases, judicial procedures are subordinated to the political authority of President Lukashenka. Members of the democratic opposition continue to face arbitrary arrest and jail time. The latest prominent example is the sentencing of former democratic presidential candidate Alyaksandar Kazulin to five and a half years in prison. Kazulin was charged with hooliganism and
disorderly conduct when he attempted to hold a press conference in the National Press Center as a newly registered presidential candidate.

Fighting corruption, including low-level officeholders misusing their positions, is part of the official political agenda. Corruption charges in Belarus are a common instrument for settling political conflicts with those regime opponents inside the apparatus who have allied themselves with the opposition. The decision-making process lacks transparency and checks and balances. Naturally, investigations into the regime are discouraged and perceived as political attacks.

Violations of human rights and fundamental freedoms as well as the lack of pluralist democracy continue to be sensitive issues. Whereas some human rights (i.e., the right to education) are respected, civil and political rights are heavily constrained. The more direct and energetic these civil rights are exercised against the Lukashenka regime, the quicker and more forceful the state executive seeks to limit those rights.

4 | Stability of Democratic Institutions

Belarus’ institutional structures are not democratic, neither according to the law nor in reality. President Lukashenka heavily dominates the existing institutions. With the constitutional amendment to extend his term in office, the president has succeeded in cementing his power institutionally. However, despite unequal starting conditions, the opposition utilizes the few possibilities that do exist to exercise influence and improve public access to information. In this spirit, the opposition attempted to take up the doomed contest against the president in the 2006 election. Lukashenka’s landslide victory exemplified again the restricted and unfair framework of the voting system, although the democratic 10 Plus opposition did take an important step forward by agreeing on a single candidate. However, the Belarusian Popular Front (BNF) recently criticized Milinkevich’s management style and announced its departure from the former coalition on January 25, 2007. The amendment introduced to electoral legislation by the Chamber of Representatives requiring candidates to approve any kind of outdoor meetings with the local authorities deprives the democratic opposition of yet another instrument of communication with the population.

“Democratic” institutions are part of the authoritarian system, which has been quite stable during the observation period. Beyond the difficult and often dangerous working environment for political opponents, the democratic opposition also suffers from structural shortcomings and internal division. However, government critics took an important step forward in choosing Alyaksandar Milinkevich as a single opposition candidate for the 2006 presidential elections. Despite the regime’s oppression of oppositional
campaigning, Milinkevich gained six percent of the vote, which represented the largest expression of antigovernment protest in Belarus in the past decade.

5 Political and Social Integration

Belarus is a unique among post-Soviet regimes in that the president has no party acting as his political power base. In fact, there is no party system at all outside the democratic camp. The political party system can be divided into opposition and pro-government parties. The latter are represented by the Agrarian Party, the Communist Party, the Belarusian Patriotic Movement, the Liberal Democratic Party of Belarus, the Party of Labor and Justice and the Social-Sports Party. The broad spectrum of regime-friendly parties is a specifically Soviet legacy; they merely smooth the way for the president’s policy. The main opposition parties are united in the 10 Plus Coalition (chairman: Alyaksandar Milinkevich) and include: the Belarusian Popular Front (chairman: Vintsuk Vyachorka), the Belarusian Party of Communists (chairman: Syarhey Kalyakin), the Social Democratic Party Hromada (chairman: Stanislav Shushkevich), the United Civic Party or UCP (chairman: Anatoliy Lebedko), the Women’s Party “Nadezhda” (chairperson: Valentina Matusevich), the Party of Freedom and Progress (unregistered, chairman: Vladimir Novosyad), the Green Party (chairman: Oleg Gromyko) and the Belarusian Party of Labor (chairman: Alyaksandar Bukhvostov), which was dissolved in August 2004 but remains active. The opposition parties either focus on nationalist ideas or on democratic reforms in general. Other opposition parties beyond the 10 Plus coalition include: the Social Democratic Party Nardonaya Hromada (chairman Alyaksandar Kozulin), the Christian Conservative (chairman: Zyanon Pazniak), Ecological Party of Greens (chairman: Mikhail Kartash), the Party of Popular Accord (chairman: Syargey Yermak) and the Republican Party (chairman: Vladimir Belazor). Even the high number of opposition parties illustrates an unstable party system marked by extensive fragmentation. A new leadership of the Political Council was elected at the Second Congress of Democratic Forces on 26/7 May 2007 and now consists of Vintsuk Vyachorka, Anatoliy Lebedko, Syarhey Kalyakin and Anatol Levkovich (acting chairman of the Belarusian Social-Democratic Party (Hromada). Alyaksandar Milinkevich has so far refused to participate in the work of the reformed Council.

There are three different kinds of interest groups: initiatives run by the opposition concentrating on human rights issues, associations and actors in favor of supporting economic interests or humanitarian aid – the latter to a large extent supported by Western donors – and pro-government interest groups driven by the Soviet idea of broadening the social support for the state apparatus. Significant interests are either restricted by the regime or suffer extensive underrepresentation. Alyaksandar Kozulin was arrested and sentenced to five years in a labor colony in summer 2006. He was the most prominent voice of the
growing dissent among former regime stabilizers who have since become strong opponents. They include ex-Chairman of the National Bank Stanislav Bogdankevich, ex-Minister of Labor Alexander Sosnov, ex-Deputy Chairman of the Constitutional Court Valeri Fadeev, ex-Judge of the Constitutional Court Mikhail Pastukhov, member of the National Academy of Sciences Alexander Vojtovich and former Ambassador to Latvia Mikhail Marinich.

Considering the authoritarian character of the regime, data on democratic support is limited and the assessment must consist in the more general observations elaborated in the following paragraph. The presidential election on 19 March 2006 confirmed president Lukashenka with a majority of 83% while a mere 6% of voters backed the front-runner of the united opposition Alyaksandar Milinkevich. Doubt was cast upon the legitimacy of the result by the democratic opposition and served as the spark for the biggest opposition rally in Belarusian history, as up to 20,000 people mobilized in support of Milinkevich and demanded free and fair elections. The size of these post-election protests was unprecedented for Belarusian standards. Following the example of Ukraine’s “Orange Revolution,” protesters organized a tent camp on the central October Square in Minsk, which was forcibly dissolved by the authorities five days after the elections on March 24. According to the Belarusian Helsinki Committee, approximately 1,500 to 2,000 protesters were arrested in the week after the elections, although the Belarusian authorities declared a considerably lower number. Most of those detained received administrative sentences of 5 to 15 days. Despite the pressure of the authoritarian regime of President Lukashenka, democracy still enjoys an increasing degree of approval among the population, thus implying dissatisfaction with both the system and Lukashenka.

In Belarus, the legal and financial conditions for an active civil society could hardly be worse; in extreme cases opposition activities have met with violent repression. Nonetheless, civic engagement is on the rise and there are more than 2,000 officially registered NGOs in Belarus. The civic self-organizations can be characterized as a) supporting the democratic opposition, b) oriented toward humanitarian issues (very often devoted to supporting victims of the Chernobyl disaster) or c) providing social support for the regime. In 2005, systematic attacks from the state, based on amendments to the Law on Public Associations adapted in 2003, continued to thwart NGO activity. The new decree bans foreign assistance supporting any activities, including seminars and conferences, related to elections, referendums and meetings that could alter the present constitutional regime. In several important cases NGOs were shut down for technical or arbitrary reasons. According to international estimates, about 2,000 NGOs are run without registration, either underground or on the premises of registered groups. To sum up, civic organizations enjoy the solid trust of the population on the one side, but must fend off hard pressure from the regime on the other side.
II. Market Economy

6 | Level of Socioeconomic Development

Compared to the other post-Soviet states – with the exception of the Baltic states – Belarus has a relatively high level of socioeconomic development. According to the World Bank, Belarus has the lowest poverty rate within the CIS and one of the lowest GINI-coefficients in the world. A wide societal distribution in GDP has been achieved, albeit at the cost of highly regulated labor and pricing policies. The UNDP 2006 GDI is 0.793, reflecting a structural disadvantage for women in income. There is no structural economic disenfranchisement for Belarus’ minorities (mostly Russians and Poles). However, these indicators also reflect the fact that a transformation toward a market economy has not yet begun in Belarus and that the regime places ideological priority on socially compatible policies rather than on efficiency and sustainable growth.

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP $ mn.</td>
<td>14,595</td>
<td>17,825</td>
<td>23,142</td>
<td>29,566</td>
</tr>
<tr>
<td>Growth of GDP %</td>
<td>5.0</td>
<td>7.0</td>
<td>11.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>42.5</td>
<td>28.4</td>
<td>18.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Unemployment %</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment % of GDP</td>
<td>1.7</td>
<td>1.0</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Export growth %</td>
<td>8.4</td>
<td>8.6</td>
<td>13.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>Import growth %</td>
<td>10.2</td>
<td>13.4</td>
<td>19.3</td>
<td>-1.3</td>
</tr>
<tr>
<td>Current account balance $ mn.</td>
<td>-326.4</td>
<td>-434.4</td>
<td>-1194.2</td>
<td>433.7</td>
</tr>
<tr>
<td>Public debt $ mn.</td>
<td>748.6</td>
<td>710.0</td>
<td>743.5</td>
<td>783.2</td>
</tr>
<tr>
<td>External debt $ mn.</td>
<td>2,897.8</td>
<td>3,231.8</td>
<td>4,028.1</td>
<td>4,734.2</td>
</tr>
<tr>
<td>External debt service % of GNI</td>
<td>2.5</td>
<td>2.4</td>
<td>1.6</td>
<td>2.3</td>
</tr>
</tbody>
</table>
7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework. President Lukashenka pursues a policy of pervasive state involvement in the economy. Private enterprise is massively discouraged by the authorities. World Bank indicators for business start-ups rank much lower than the regional levels, at 69 days and 16 procedures (as opposed to 32.0 days and 9.4 procedures regionally). The total tax rate paid on profits is 186.1%, effectively barring any form of entrepreneurship. Government price regulation is widespread. About 80% of all industry remains in state hands; the industrial base has become obsolete. According to the Heritage Index of Economic Freedom 2006, roughly 40% of industrial enterprises work at a loss and profit margins are decreasing overall. The emphasis of large-scale privatization is limited to corporatization. Belarus is the only country in the world where the government has the right to introduce a golden share (similar to the institution of eminent domain in Western countries) after a firm has been incorporated and privatized. The EBRD 2007 strategy for Belarus states that while numerous laws have been enacted that should theoretically improve the situation of enforcing contracts and property rights, there has been no factual improvement in these fields.

The formation of monopolies and oligopolies is regulated by law, as for instance the “Law of the Republic of Belarus on Natural Monopolies (adopted December 16, 2002),” but at the same time state actors are not interested in privatization.

Though over the past years Belarus has increased its trade volume with European countries, Russia remains Belarus’ main trading partner and trade growth with non-CIS countries has been much slower than the regional average. The bulk of

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<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash surplus or deficit % of GDP</td>
<td>1.1</td>
<td>-1.1</td>
<td>-0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Tax Revenue % of GDP</td>
<td>14.2</td>
<td>17.7</td>
<td>18.4</td>
<td>20.6</td>
</tr>
<tr>
<td>Government consumption % of GDP</td>
<td>21.0</td>
<td>21.4</td>
<td>20.6</td>
<td>19.6</td>
</tr>
<tr>
<td>Public expnd. on edu. % of GDP</td>
<td>-</td>
<td>5.8</td>
<td>5.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Public expnd. on health % of GDP</td>
<td>4.7</td>
<td>4.9</td>
<td>4.6</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure % of GDP</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure % of GDP</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Belarus’ exports is made up of mineral products (35.4% of exports in 2005). Other major goods include machinery, chemical industry items and food industry products. Significant progress has been made in improving economic law and methods of regulating foreign trade, with the aim of bringing them in line with WTO rules. World Bank indicators for obstacles in trading across borders place Belarus near the regional average. A law on the state regulation of foreign economic activity, which entered into force in 2005, gives the president of Belarus and other state authorities extensive and wide-ranging powers to regulate foreign economic activity in Belarus. The timing of Belarus’ accession to the WTO is also influenced by Russia’s WTO accession and the progress of negotiations on forming a single economic space with Russia, Ukraine and Kazakhstan.

The banking system is largely in state hands, and the state uses various measures to control the private banking sector, which only plays a minor role. State banks continue to hand out loans according to government demands, which only reduces the liquidity and efficiency of the banking system.

8 | Currency and Price Stability

After a period of hyperinflation at the turn of the century, consumer price stability has considerably increased since 2004 (inflation rates at 10.3%, 7.9% and 9.0% for 2005 – 2007 respectively, according to the IMF). The current account balance reached its first positive values ever with 1.6% of GDP in 2005, although it is expected to decrease to 0.2% in 2006 and move further down to a deficit of 1.1% in 2007. The national currency has remained stable against the U.S. dollar (although the National Bank officially targets the Russian ruble, the economy remains highly dollarized). A proposed currency union with Russia is currently on hold. The central National Bank of Belarus remains a conduit of the government’s economic policy.

Though these developments reflect increased government efforts at financial stability, the Lukashenka regime still relies too much on state wage and price controls. Policy has attempted to maximize income from existing volatile yet cheap energy imports and done too little to diversify the economy and structurally reduce its dependency on Russia. According to the latest available EBRD data, Belarus’ external debt has dropped from 21.3% of GDP in 2005 to 17.1% in 2006. continues to be low at 5.9% (2004 external debt/ GDP). Belarus’ debt service capacities of foreign currency reserves is one of the lowest in Europe with only 0.9 month of import cover.
9 | Private Property

Belarus’ economic framework strongly discourages any development of a private business sector. Businesses continue to be subject to pressure on the part of central and local governments, e.g. arbitrary changes in regulations, numerous rigorous inspections, retroactive application of new business regulations and arrests of “disruptive” businessmen and factory owners. One of the few success stories is the local manufacturer Milavitsa, which improved its management and corporate governance standards with EBRD credits.

As in previous years, there is no specific privatization program. The government has not yet completed the privatization of large enterprises. On the contrary, it has been regaining shares in companies through re-nationalization and the acquisition of the shares of indebted companies. Small and medium-sized businesses that are insignificant in terms of their contribution to GDP find their economic activities hampered by the inadequacy of the legal and institutional framework on the one hand and by excessive state regulation on the other.

10 | Welfare Regime

Belarus’ highly developed welfare regime is one of the priorities of the Belarusian “social market economy” model and it is very expensive. This is a result of the fact that the government places priority on social services that are both too indiscriminate and increasingly associated with ideological rather than social goals. Nevertheless, social benefits do not cover the cost of living. For example, it is almost impossible for retirees to survive solely on government pensions.

The fragmentation of society remains within tolerable limits, although inequalities persist. More than 50% of the work force is female, but women are underrepresented in top positions and overrepresented in poorly paid occupations. In Belarus, poverty predominantly affects women, families with two or more children and the rural population. Representatives of Belarusian women’s organizations report on issues of domestic violence and the problematic position of NGOs in Belarus. Sexual violence both at home and in the workplace has increased substantially.

11 | Economic Performance

The relatively strong performance of the Belarusian energy-intensive economy – at least according to official statistics – is highly contingent upon the import of
cheap energy from Russia at about a quarter of the world market price, a de facto subsidy. Real GDP growth slowed from 11.4% in 2004 to 9.3% in 2005 and to 7.0% in 2006 (IMF estimates, World Economic Outlook Sept. 2006). Per capita GDP has risen from $1,380 in 2000 to $2,760 in 2005. The doubling of gas and oil prices and a falling-out with Russia in January 2007 will likely lead to economic difficulties. Even after the compromise of 13 January 2007, under which Belarus will pay Russian export duties of $53 per ton of crude, Lukashenka can no longer count on Russia’s unconditional support, especially given that he himself has called into question the security partnership between the two countries. The latest World Bank Country Economic Memorandum for Belarus (2005) notes that maintaining its current growth strategy will lead to a further erosion of economic competitiveness. The state budget is also subsidized by loans from the National Bank, as well as by compulsory loans from private banks.

12 | Sustainability

In the areas of energy supply and use, Belarus occasionally attempts to reconcile economic growth with concern for the environment, and it also makes qualified attempts to reflect this concern in its institutions. The Chernobyl reactor accident continues to have effects, although the lack of government accountability and transparency make an evaluation of the lasting ecological damage difficult. In this context, president Lukashenka’s announcement in December 2006 that his country would build a nuclear power plant in order to decrease energy dependency from Russia came as a surprise.

Overall tertiary enrollment in education has been growing and is currently at about 60%, while government expenditures on education make up 4.4% of GDP (World Bank statistics). However, private sector enrollment is only about one percent. The public educational sector suffers from the country’s self-imposed international isolation. Since 2003 the Lukashenka regime has been closing Western-oriented institutions of basic and advanced education, forcing them into exile. The European Humanities University formerly located in Minsk is now operating in Vilnius.
Transformation Management

I. Level of Difficulty

The individual factors that determine the level of difficulty vary considerably. According to information from the World Bank, per capita GDP stood at $6,970 in 2005, a middle-income level. In 2006, the UNDP ranked Belarus at 67th in its Human Development Index (close to Russia in 65th position, and better than Ukraine at 77th). Among the country’s other advantages are its relative ethnic and religious homogeneity and low disparities in income. The number of new HIV cases in 2005 was estimated at 20,000 adults and 47,000 children. Sexual transmission now accounts for the largest wave of new HIV diagnoses. According to the UNDP Education Index, the educated labor force in Belarus remains large, although it is an ambivalent legacy of the Soviet system. The average Belarusian citizen has a high level of education, but the population has been trained to serve the needs of centrally planned economies and thus their mindset poses an obstacle to a potential market economy. As one of Europe’s few landlocked states, Belarus also has reduced access to international trade routes.

Belarus possesses negligible or at best only weak civic traditions. However, since the collapse of the Soviet system in 1991, numerous civic activities have emerged. During the reporting period, the activities of civil society organizations have been seriously restricted by attacks from government agencies, in particular opposition activities. The stable institutions of the state, which are oriented less towards the separation of powers and democracy than towards the consolidation of Lukashenka’s power, pose an obstacle to transformation.

There are no substantial or dominating ethnic or religious conflicts in Belarus. Nevertheless, Lukashenka oppresses the activities of religious communities by prohibiting international contacts. In 2005, the government prompted domestic and international protest when it dismissed the independent leadership of the Belarusian Union of Poles and pressed for the election of loyalists. These developments are not so much manifestations of ethnic or religious strife, but rather show the massive state intervention in all aspects of society. Belarusian society remains divided over the legitimacy of Lukashenka as president.
II. Management Performance

14 | Steering Capability

Belarus’ political leadership claims to pursue long-term aims, but these are regularly replaced by the short-term interests of political bargaining and Lukashenka’s goal of seeking office consolidation. Overall, the regime has been based on a favorable valuation of Russian energy. By the end of 2006, Russia charged Belarus $47 per 1000 cubic meters of gas and $27 per barrel of oil compared to world prices of $230 and $60 respectively. As Belarus is consuming about 20 billion cubic meters of gas per year and 250,000 barrels of oil per day the resultant fiscal support amounts to $6.6 billion per year. Furthermore, Belarus exports subsidized energy to EU member states, making a profit of 100%. When Russia announced that it would be raising its energy tariffs in December 2006 to world market levels, this signified not only the Kremlin’s repeated use of energy as a tool for exerting international influence, but also threatened the basic requirements of Lukashenka’s leadership.

Belarus has seen little structural reform since 1995, when Lukashenka launched the model of “social market economy.” In keeping track with this policy, Lukashenka re-imposed administrative controls over prices and currency exchange rates and expanded the state’s right to intervene in the management of private enterprises. During the 12 past years of Lukashenka’s rule, there has been no investment in modernizing the country’s 1950s asset base, which is now mostly worn out and requires subsidized Russian energy supply to even continue operation.

With respect to policy learning, little change has occurred during the reporting period. At present, almost no reform policy besides strengthening the authoritarian regime exists. The only exception is the use of several types of administrative intervention – such as technical hampering with the distribution of opposition newspapers or NGO activities and the arrest of democratic activists – designed to suppress questioning of the regime.

15 | Resource Efficiency

There is little transparency with regard to the national budget. In 2005, the IMF put the budget deficit at -0.7% of GDP, but it would have measured -6% without
oil-related revenues. For 2006, the deficit is estimated to increase. Government expenditure has risen from 46.7% of GDP in 2002 to 49.0% in 2005. The increase in oil and gas prices, combined with Lukashenka’s social policies, will likely further increase spending and thus the deficit. Despite currently moderate deficits, the Belarusian national budget has considerable fiscal problems. The state in general and the executive under Lukashenka in particular, intervene directly in the granting of loans, the setting of interest rates and the evolution of prices. This involves not only the extension of loans to the public sector but also the forced extension of loans by commercial banks, for example to subsidize the sensitive agricultural sector. This policy eases the burden on the current state budget and delegates deficit spending to the banking sector. If these quasi-fiscal activities were no longer shifted to the banking sector, the state budget deficit would be substantially higher. The monistic administration structure is a severe obstacle to accountability and transparency. Among his other powers, the president appoints and dismisses members of the electoral commission, appoints and dismisses members of the cabinet, including the prime minister, and appoints the chiefs of the Supreme Court, the Constitutional Court and the Supreme Economic Court. He also appoints six of twelve justices on the Constitutional Court, as well as all the remaining justices of the Republic of Belarus. In addition to exercising power granted under the constitution, Lukashenka bypasses the institutional system and governs directly by means of decrees and directives. Lukashenka’s dominance within the Belarusian system of government extends to the municipal and regional levels as well. On the eve of the local elections in January 2007, Lukashenka introduced amendments to the election law limiting the options for the democratic opposition. Legislative bodies in the administrative regions as well as in the cities and towns have only very limited opportunities to participate. This is especially the case with respect to Belarus’ weakly developed fiscal federalism and the circumscribed political decision-making processes that prevail at the regional level. On the whole, Lukashenka compels the government to utilize its financial and administrative resources in order to preserve his power. Thus, any goals he sets are designed primarily to preserve power and perpetuate the existing system rather than transform it.

So far, the government of Belarus has surprised critics by achieving both income equality (for CIS standards) and high economic growth with a stable development of social services. However, the dominant model of a “social market economy” does not allow for conflicting policy priorities, but rather demands high expenditures and neglects structural reform of the economy. Even Lukashenka has admitted that the country has all but maximized the economic potential of its old Soviet-style industry. Increasing international isolation and a growing lack of economic competitiveness will increase the pressure on the government to choose between stepping up economic modernization and socially
balanced policies. The new economic program for 2005 – 2010 focuses on boosting energy and resource efficiency, as well as research-intensive industry sectors (medicine, telecommunications, biotechnology) and agricultural technology. Given that Lukashenka owes his high degree of popularity to social expenses, coordination of these goals is likely to be subordinate to political calculations. The emergence of the gas and oil crisis with Russia in January 2007 showed that Belarus’ leadership increasingly lacks the ability to compromise.

Findings on the success of Belarus’ anti-corruption efforts are inconclusive, in part due to a lack of transparency in the authorities. While the country ranks 151st of 163 in Transparency International’s 2006 corruption perception index (a decline from position 36 when first surveyed in 2002), the EBRD 2005 World Bank Business Environment and Enterprise Performance Survey reported that corruption in Belarus was not evaluated as high by the country’s business partners. Though fighting corruption is officially on the agenda of the government, in practice Lukashenka often utilizes his anti-corruption campaign merely as a means of eliminating political opposition and keeping a tight rein on private enterprise. Thus, various opponents of the regime have been sentenced to multi-year prison terms in anti-corruption trials.

16 | Consensus-Building

All major political actors have to agree on Lukashenka’s path of “social market economy.” Only loyalty to the president allows members of the state government in Belarus the possibility to make political and economic decisions. The current consensus surrounding reforms and their objectives is enforced from above.

All major political and economic actors in Belarus are directly appointed by Lukashenka, which makes their reform activities structurally and personally tied to the president’s program. There is no independent political force outside of government that obstructs the latter’s actions. The opposition distinguishes itself more by its rejection of Lukashenka than by a common position on substantive questions concerning reform and the path towards democracy and a market economy. Even those relevant political and economic actors who might be able to promote reform fail because the president blocks all reform attempts in general.

The Belarusian political leadership has begun to level accusations of government subversion against members belonging to the Polish minority, which has caused concern among this group. This most likely simply marks the latest manifestation of the regime’s efforts to remove opposition-supporting leadership, this time within the Belarusian Union of Poles. The political leadership downplays cleavages to the opposition, often dismissing attempts to
create political alternatives as being influenced by foreign powers. Lukashenka marginalized democratic protests against the fraudulent presidential elections by deeming them “hooliganism.” These phenomena illustrate the extent of the regime’s readiness to use misperceptions of democratic practices to strengthen its own position.

The political leadership suppresses civil society actors and excludes them from the political process. Government harassment has targeted journalists, religious groups, trade unions and others. Opposition demonstrators are regularly jailed. During the 2006 presidential elections, opposition parties were undermined by arbitrary government interference in their campaigns and frequent arrests of opposition leaders. The incumbent, Lukashenka, dominated the media, while other candidates were restricted to one month of campaigning and required permission to meet voters. Belarus’ secret service KGB raided opposition activists’ homes across the country “preemptively” in the run-up to the elections.

Belarus is geographically and culturally a part of Europe. This has become even more evident since Poland and Lithuania, the country’s immediate neighbors, joined the European Union. However, national identity is underdeveloped in Belarus and the prospective union of the country with Russia poses a threat to the Belarusian nation state as such. It is difficult to separate the identity of the elites or the population at large from their Russian and Soviet past. For this reason Lukashenka deliberately affirms the continuity of Soviet heritage and does not tout the country’s European potential. Thus, Belarus’ political elite does not address past acts of Soviet injustice and does not initiate a process of reconciliation.

17 | International Cooperation

International cooperation is largely prevented by the self-imposed isolation of the Lukashenka regime. Problematical relations between Minsk and the West characterized the period under review. First, according to the official OSCE statement, the Belarusian presidential elections of 19 March 2006 fell significantly short of OSCE commitments. On 13 January 2007, the United States prolonged the “Belarus Democracy Act” of 2004. The act authorizes assistance for democracy-building activities, such as support for NGOs, independent media and international exchanges. It also prohibits all U.S. government agencies from providing loans or investments to the Belarusian government unless it is for humanitarian goods and agricultural or medical products. Although it seeks to prevent democratic cooperation with the West, Minsk is nevertheless interested in pursuing economic and trade relations. Thus the political leadership cooperates with individual bilateral or multilateral international donors but does not use international aid to improve its politics.
Belarus has reached an all-time low in its foreign relations. As a result of the March 2006 presidential elections, the European Union and the United States imposed visa bans on President Lukashenka and other Belarus officials and agreed to freeze their assets, while Lukashenka accused the West of attempting to topple his government. For its part, Belarus has continued to deny visas for Western decision makers and journalists, such as Marieluise Beck, member of the German Bundestag and Cornelia Rabitz, Head of the Russian Program at Deutsche Welle in November 2006. There has also been an increase in the expulsion of Western diplomats. In addition to this, the 2006-2007 disagreement over Russian gas and oil supply to Belarus has led to the latter’s estrangement with its one main partner. During the second half of 2006, Lukashenka met with Venezuela’s Hugo Chavez and Iranian president Mahmud Ahmadinejad, signaling the country’s continued opposition to Western foreign policy and calls for reform. On a positive note, the European Union has awarded Deutsche Welle a tender to broadcast a Russian-language radio program to Belarus as a response to increased pressure on independent media in the country.

In Belarus, economic reformers and members of the democratic opposition are interested in cooperating with single neighbor states as well as with regional and international actors. Polish, Lithuanian, Slovakian projects, as well as other projects driven by the new EU member states to encourage the transition to a market-based democracy in neighboring Belarus, have the potential to become a driving force of future development. The government itself has rebuffed calls from the European Union to participate in its neighborhood policy. Growing tensions with Russia, as well as with the democratic governments in Ukraine and Georgia have also slowed Belarus’ involvement in regional cooperation and integration into Eastern Europe and the CIS. Belarus’ cooperation with multilateral organizations is relatively limited. Though institutions such as the IMF, World Bank, IFC, EBRD and UNDP are active in Belarus, their programs focus on the small SME sector, civil society, HIV/AIDS and Chernobyl relief.
Strategic Outlook

Regime change in Belarus has yet to transpire. A change in the power structure could come about in two ways. First, Belarus could undergo a scenario of “Singaporization” in which the country opens up to foreign trade, welcoming foreign investors, guaranteeing their rights and achieving a higher living standard through a mix of market economy and state planning.

However, as long as the Kremlin is willing to offer a certain amount of political support and economic subsidies, the regime may well stay in place. Lukashenka will use almost any possible measure to remain in power and surely will never display a commitment to Western democratic values. The second opportunity for change lies with the opposition, which has made decisive steps forward by agreeing on a single candidate for the 2006 presidential elections and by mobilizing the biggest mass protest ever.

Relations with Russia will have a decisive influence on Belarus’ development. The domestic economic success of Lukashenka’s model of a “social market economy” depends to a great extent on cooperation with Russia, first and foremost in the energy sector. The Belarusian government constantly expresses discontent about Russian gas prices. Based on the 1999 Belarusian-Russian Union State Treaty, Russia has to supply Belarus gas at Russian domestic prices. Russia’s energy tariff increase in December 2006 could seriously endanger Lukashenka’s leadership.

At the beginning of 2007, it took Russian President Putin and Belarusian President Lukashenka significant effort to solve the energy conflict, which damaged Russia’s position as a reliable energy supplier. Putin announced that Russia will continue to support Belarus’ economy, but at a significantly reduced level upon the conclusion of their tit-for-tat energy dispute. A breakdown of relations with Russia is likely to have implications for Belarus’ economic stability and in this context might also destabilize Lukashenka’s rule.

Negotiations between Russia and Belarus in the field of energy are a symbol of the final dissolution of the post-Soviet states. Political and economic relations between the two Eastern, Slavic, brotherly peoples had recently become as close as during the late Soviet period. The core of the union state agreement of 1996, signed by Yeltsin and Lukashenka, was cheap energy. From 1 January 2007 however, that symbolic, privileged non-market neighborhood ceased to exist. Belarus is finally becoming an independent state. Russia is setting its last ideology-based ally free.
Belarus’ future development depends on the extent to which it engages in democratic change, whether from a bottom-up movement or from gradual reforms introduced by president Lukashenka. Either way, the Kremlin will continue to perform an influential role in post-Soviet integration due to its position in the field of energy and its personal networks with Belarusian elites.