

BTI 2010 | Belarus Country Report

Status Index	1-10	4.52	# 96 of 128	
Democracy	1-10	4.08	# 94 of 128	➔
Market Economy	1-10	4.96	# 83 of 128	➔
Management Index	1-10	3.29	# 109 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	9.7	HDI	0.83	GDP p.c.	\$	10886
Pop. growth	% p.a.	-0.3	HDI rank of 182	68	Gini Index		27.9
Life expectancy	years	70	UN Education Index	0.96	Poverty ²	%	2.0
Urban population	%	73.0	Gender equality ¹	-	Aid per capita	\$	8.6

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

In February 2009, European Union High Representative for the Common Foreign and Security Policy Javier Solana was the first high-level European statesman to come to Minsk to talk both to President Alyaksandar Lukashenka and leaders of the democratic opposition. The visit followed signals from Lukashenka that democratic reform and the introduction of market-economic principles might be on the horizon.

The most remarkable step had been the release of prominent political prisoners Alexander Kazulin, Siarhei Parsiukevich and Andrei Kim in August 2008. In return, the European Union lifted a travel ban in effect against high-level Belarusians for a preliminary period of at least six months. However, other developments during the reporting period have indicated an opposite trend. Peaceful demonstrations were broken up in a brutal way, and political activists were arrested. The steps taken by the Belarusian authorities during this initial period of dialogue were primarily cosmetic and are ultimately reversible. While a small number of organizations have benefited, little has been done to facilitate the functioning of an independent civic or media sector in any meaningful manner. International election observers criticized the parliamentary election of 28 September 2008 in a similar manner to previous elections. Ongoing restrictions on human rights and fundamental freedoms continue to raise concern, demonstrating that Belarus has not yet begun a meaningful process of democratization.

Pressured by the effects of the global financial crises, as well as by increasing Russian energy tariffs, Lukashenka has initiated some reforms. These include some improvement in the business climate for new enterprises, and the initiation of a new privatization program. Both measures should be seen with cautious optimism at best. Until the crises, the country's political and technical elites showed an ability to open the economy slowly while keeping enough control to avoid major economic distortions.

History and Characteristics of Transformation

In the final years of the Soviet Union, Belarus' elite did not pursue liberalization. Although a national independence movement emerged with a strong program of liberalization and separation from Russia, it did not ultimately succeed. This was partially due to the absence of a meaningful Belarusian national identity, and partly to the resolve of some Belarusian decision-makers to continue enjoying the benefits of cooperation with Russia. National independence was not an active process but a result of the failed August putsch of 1991 in the then-Soviet Union. The transformation of the Belarusian Soviet Socialist Republic into the Republic of Belarus did not lead to a fundamental change of the nation's elite, and institutional reforms were only carried out slowly.

An important institutional turning point was the adoption of the Belarusian Constitution in March 1994, which created the office of president. With the help of a populist electoral campaign, Alyaksandar Lukashenka succeeded in winning the presidency in summer 1994. Since that time, the country's development has been dominated by the president's autocratic power. Lukashenka has consolidated his authoritarian regime with the help of a constitutional referendum in 1996 and another referendum in October 2004 allowing him to be reelected to more than the two terms in office provided by the constitution. Since the beginning of his tenure he has increasingly controlled and repressed the opposition, the independent media, civic society and the private business sector.

As a result of the latest parliamentary election of 2008 there are only 12 representatives of political parties in the new House of Representatives. The remaining deputies received their endorsement from a labor collective; 100 elected deputies were nominated either solely by a labor collective or through the collection of signature.

All members of parliament support the current government. The opposition is not represented in the legislature at all. The outcome of previous elections in 2004 was the same. The OSCE evaluated the elections as follows: "The authorities gave a number of clear signals of their interest to improve the election process[...] these elections ultimately fell short of OSCE commitments for democratic elections."

Since 2008, the Belarusian regime has made some progress toward fulfilling democratic standards. The most prominent decision was the release of several well-known political prisoners, including Alexander Kazulin, the most prominent figure held. This helped prompt the European Union to suspend sanctions against Belarus for a period of six months, beginning on 13 October 2008. A new EU assessment of Belarus' democratic progress was scheduled for April 2009. However, in February 2009 the arrest of human rights activists indicated a new wave of political repression.

With respect to economic matters, Belarus' initial conditions for a transformation to a market-based economy were favorable at the time of independence. It is problematic, however, that Belarus depends on the Soviet Union successor states – especially on Russia – for 90% of its energy. Belarus also suffered substantially from the effects of the 1986 reactor accident in Chernobyl, in which 70% of the radioactive fallout hit Belarus.

In general, Lukashenka's rise to power halted the trend toward liberalization and privatization that had emerged in the wake of independence. He tried to implement a model of economic reform similar to that of the successful transition economies in Asia, restricting the liberalization of key economic sectors to a minimum while enhancing state control. However, unlike the Chinese and Vietnamese models, Lukashenka's "market socialism" is not based on dynamic factors such as extensive foreign direct investments, the growth of small and medium-sized businesses, and agricultural reform. Lukashenka has also maintained resource-intensive social services and other social policies.

Within the regime's administrative straitjacket, macroeconomic reforms have moved forward in small steps. According to the Economist Intelligence Unit, Belarus' 2008 fiscal and monetary policies were more sustainable than in past years. However, this improvement was founded initially on favorable external conditions, and more recently on loans from Russia and revenue from the sale of a controlling stake in a natural gas pipeline network. Despite its command-economy policies, Belarus has managed to maintain roughly the social and economic conditions that prevailed in 1991. Belarus has experienced neither a sweeping economic boom accompanied by economic modernization nor dramatic and uncontrollable economic slumps. Until January 2007, the country profited from cheap subsidized energy imports from Russia, which were sold to Western Europe at high prices. This decreased the pressure on the country's Soviet-style industries to modernize and allowed for expensive social programs. Russia's recent policy of bringing energy prices for Belarus to world market levels may result in a slowdown in economic growth over the next years. Belarus was also affected by the effects of the global financial crisis in late 2008. To stabilize the country's currency, the government signed an agreement with Russia in November for a \$2 billion stabilization loan, followed by a \$2.5 billion stand-by agreement with the IMF in January 2009.

Transformation Status

I. Democracy

1 | Stateness

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

Monopoly on the use of force

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

State identity

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. In return, numerous benefits have been conferred on the church, and the state in return enjoys its cooperation. On 12 June 2003, Prime Minister Gennadiy Novitskiy and Metropolitan Filaret (Vakhromeyev) of Minsk and Slutsk signed a new agreement on cooperation between the state and the Orthodox Church.

No interference of religious dogmas

The government is able to impose its authority throughout the national territory in a centrally dominated way reminiscent of the Soviet era. The democratic elements of Belarusian federalism, originally conceived as a balance to central power, are too weak to establish a well-differentiated or capable administrative structure.

Basic administration

2 | Political Participation

Elections are held, but have only limited influence on the distribution of power. The presidential elections in March 2006 effectively served as a vote to confirm President Lukashenka's hold on power, and to strengthen his authoritarian regime. Neither the 2008 parliamentary nor the 2006 presidential elections met OSCE standards for free and fair elections. Their outcome cannot be regarded as democratic. The primary object of criticism is the inequality of baseline conditions, which favor Lukashenka. Despite some minimal democratic progress, the parliamentary elections in September 2008 indicated that the civil and political rights guaranteed by the constitution remain disregarded. This includes the freedoms of expression, association, and the right to access, gather and disseminate information.

Free and fair elections

Lukashenka not only controls the executive branch at all administrative levels but dominates the media as well. The incumbent possesses total power to govern but the democratic legitimacy of his authority must be regarded as minimal – even though he remains popular among many voters. The democratic opposition is almost wholly excluded from legislative representation at all levels.

Effective power to govern

Government bodies lack pluralism and show minimum levels of transparency, because the administration blocks virtually all opposition nominees from election. Neither the government itself nor constitutional amendments strengthening Lukashenka's power can be traced back to free and fair electoral conditions. On 23 November 2006, Lukashenka claimed he had falsified presidential election results in favor of his rivals, by decreasing his own vote count from 93% to 86%, in order to make the results appear more "European." This cynicism marks the extreme to which the regime has taken its disregard for the rules of democracy.

During the 2008 parliamentary elections, opposition candidates had a slightly better access than in previous years to district election commissions, as well as a slightly better ability to conduct meetings in authorized locations without interference. However, new incidents of political repression early in 2009 indicated that Lukashenka has continued to increase pressure on political and social groups. The Law on Public Association, adopted by the House of Representatives in 2005, introduced several important new restrictions, including housing regulations that forced local branches of opposition parties registered at residential apartments to close down. The rules on foreign assistance forbid foreign aid to be spent on activities that advocate violent subversion of the government or interfere with the country's internal affairs. Freedom of assembly is not assured by the state. The only groups free of government harassment are puppet NGOs that act as channels for official propaganda, and which are directly subsidized by the state.

Association / assembly rights

The core elements comprising the public sphere are limited to a minimum of functioning. Public debate does exist, but is vulnerable to distortion and manipulation through massive intervention. The electronic media are dominated by the state; even Russian television networks have gradually lost influence as they have been replaced by Belarusian outlets. Lukashenka has increasingly used state intervention to restrict the independent print media. In fall 2008, the regime took some significant steps toward media freedom by lifting the ban on two major independent newspapers, *Narodnaya Volya* and *Nasha Niva*. However, it remains unclear whether these steps toward liberalization will be retained.

Freedom of
expression

3 | Rule of Law

The defining characteristic of Belarus' political system is a legal and de facto monopoly on power by 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, any bill that impacts the budget must be approved by the president or the government before being voted on. Only a small portion 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.

Separation of
powers

The country's administrative structure poses 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 12 justices on the Constitutional Court, as well as all remaining justices in the country. In addition to exercising power granted under the constitution, Lukashenka bypasses the institutional system and governs directly by means of decrees and directives.

While the judiciary is institutionally well differentiated, at the personal level it is directly subordinated to the president. Lukashenka appoints six of the 12 judges on the Constitutional Court, the judges of the Supreme Court, and those of the Supreme Economic Court. The president appoints and dismisses the majority of judges. Judges' appointments are subject to a probationary period of five years, during which candidates remain uncertain about their tenure. With respect to the Constitutional Court, the president appoints not only six of the twelve judges, but also the chairman, who then has the power to recommend the names of the other six candidates to be appointed by the parliament.

Independent
judiciary

Generally speaking it is not impossible to receive a fair trial in Belarus. But particularly in politically sensitive cases, judicial procedures are subordinated to

President Lukashenka's political authorities. Members of the democratic opposition continue to face arbitrary arrest and receive ill-treatment in jail.

Fighting corruption, including the abuse of position by low-level officeholders, is part of the official political agenda. Corruption charges in Belarus are a common instrument for settling political conflicts with figures inside the political apparatus who develop opposition views. This decision making process lacks both transparency and any system of checks and balances. Independent corruption investigations are not encouraged, and are perceived as a political attack against the regime.

Prosecution of
office abuse

Violations of human rights and fundamental freedoms, along with the lack of pluralist democratic norms, 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 directly and energetically an exercise of civil rights shows Lukashenka to be a target, the more quickly and forcefully the state executive limits those rights.

Civil rights

4 | Stability of Democratic Institutions

Belarusian institutional structures are not democratic, neither according to the law nor in reality. The institutions in place are heavily dominated by Lukashenka. With the constitutional amendment to extend his term in office, the president succeeded in cementing his power institutionally. Beyond institutionally driven decision-making processes, the Lukashenka system is dominated by some leaders who are directly subordinate to the president.

Performance of
democratic
institutions

Until July 2008, Gennadiy Navyglas headed the presidential administration, but was dismissed after a bomb explosion during an open air concert in Minsk. The deputy head of the presidential administration is Natalya Pyatkevich, who was born in 1972 and rose quickly inside the regime from position of legal expert to head of the state and international law department of the presidential administration's main state legal management division. In 2001, Lukashenka noticed the young expert and made her press secretary. Three years later, Pyatkevich was made assistant to the chapter of presidential administration.

Since summer 2007, President Lukashenka's inner circle has been dominated by some open conflict, stemming from several sources. First and foremost, the dispute with Russia over gas and oil tariffs has led not only to increasing prices, but has also limited Lukashenka's ability to run his "social oriented state." Secondly, the country has missed opportunities to establish partnerships with Europe and the United States that might serve as alternatives to the country's relationship with Russia.

“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.

Commitment to democratic institutions

5 | Political and Social Integration

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 serve above all as a “transmission belt” for the president’s policy. The United Civic Party headed by Anatol Lyabedzka, which backs liberal, free-market policies, primarily draws the support of intellectuals.

Party system

The Belarusian Popular Front Revival (Vintsuk Viachorka) supports nationalist ideas. The Belarusian Social Democratic Party “Hramada” (BSDP) is the main left-wing opposition party. Since the arrest of party leader Alexander Kazulin, Anatol Lyawkovich, the deputy chairman, has run the party. In addition to the very difficult environment facing opposition parties, opposition parties’ influence is limited by their relatively high number and small individual size, illustrating an unstable party system marked by extensive fragmentation.

There are three different kinds of interest groups: initiatives run by the opposition concentrating on human rights issues, associations and actors supporting specific economic interests or humanitarian aid – the latter to a large extent backed by Western donors – and pro-government interest groups driven by the Soviet idea of broadening the social support of the state apparatus. Significant interests are either restricted by the regime or suffer from extensive underrepresentation.

Interest groups

The presidential election on 19 March 2006 confirmed President Lukashenka in power with a majority vote of 83%, while the united opposition candidate Alyaksandar Milinkevich was backed by a mere 6% of the voters. The legitimacy of the result was questioned by the democratic opposition, triggering the country’s biggest opposition rally ever. Up to 20,000 people demonstrated in support of Milinkevich, demanding free and fair elections. The size of these post-election protests was unprecedented by Belarusian standards. Following the Orange Revolution example of Ukraine, revolution protesters organized a tent camp on 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, between 1,500 and 2,000 protesters were arrested in the week after the elections; Belarusian authorities officially confirmed a considerably lower number

Consent to democratic norms

of arrests. Most of those detained received administrative sentences of five to 15 days. Despite such setbacks, democracy enjoys an increasing degree of approval among the population, which implies a critique of both the existing system and Lukashenka himself.

Although the legal and financial conditions for an active civil society are extraordinarily poor in Belarus, and in extreme cases opposition activities are met with repression, civic engagement is on the rise, and there are more than 2000 officially registered NGOs in Belarus. The self-organized civic groups can be characterized as a) being in favor of the democratic opposition, b) oriented toward humanitarian activity (often in support of victims of the Chernobyl disaster) or c) providing social support for the regime. In 2005, NGOs were confronted with systematic attack, based on amendments to the Law on Public Associations adopted in 2003. The new decree banned foreign assistance supporting any activities related to elections, referendums or meetings which could alter the present constitutional regime, including seminars and conferences. In several important cases NGOs were shut down for technical or arbitrary reasons. According to international estimates about 2,000 NGOs today are run without being registered, either underground or on the premises of registered groups. Civic organizations are forced to operate within an area of conflict, caught between the solid trust of the population on one side and pressure from the regime on the other.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Compared to 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 at the cost of highly regulated labor and pricing policies. The UNDP 2007/2008 GDI is 0.803, reflecting a structural disadvantage for women with respect to income. There is no structural economic disenfranchisement for Belarus' minorities (mostly Russians and Poles). However, these indicators also reflect the fact that no economic transformation has begun in Belarus, and that for the regime, social policies take ideological priority to efficiency and sustainable growth.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	23141.6	30210.1	36961.9	45275.7
Growth of GDP	%	11.4	9.4	10.0	8.6
Inflation (CPI)	%	18.1	10.3	7.0	8.4
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.7	1.0	1.0	3.9
Export growth	%	13.5	-2.7	9.9	7.3
Import growth	%	19.4	-1.1	9.9	0.0
Current account balance	\$ mn.	-1193.3	435.5	-1447.4	-3041.5
Public debt	\$ mn.	744.4	785.5	841.9	2337.9
External debt	\$ mn.	4028.9	4736.5	5351.6	9469.9
Total debt service	% of GNI	1.6	2.2	2.0	2.4
Cash surplus or deficit	% of GDP	-0.1	0.2	1.5	0.4
Tax Revenue	% of GDP	18.4	20.1	22.2	23.7
Government consumption	% of GDP	20.6	20.8	19.2	18.4
Public expnd. on edu.	% of GDP	5.7	5.9	6.1	5.2
Public expnd. on health	% of GDP	4.6	5.0	4.8	-
R&D expenditure	% of GDP	0.6	0.7	0.7	1.0
Military expenditure	% of GDP	1.4	1.5	1.7	1.6

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework. President Lukashenka has pursued a policy of pervasive state involvement in the economy. Private enterprise is massively discouraged by the authorities. Nevertheless, the World Bank counts Belarus among its top 10 regulatory reformers.

Market-based
competition

Belarus reformed in six of 10 areas studied by the World Bank report between June 2007 and June 2008. Its overall rank on the ease of doing business climbed to 85

from 115. The country created a one-stop shop for property registration and introduced a broad administrative simplification program that set strict registration time limits and computerized its records. As a result, the time required to register property in Belarus fell from 231 days to just 21.

To meet all current tax requirements, businesses must pay 117.5% of profits. Although this percentage decreased at the beginning of 2009, it continues to significantly hinder 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 2009, Belarus' economic freedom score is 45, ranking at 167th place worldwide.

Aside from announcing an overall liberalization of the economy, Belarus in practice has not pursued a true process of privatization. The emphasis of large-scale privatization has been 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 formation of monopolies and oligopolies is regulated by law, as for instance the Law of the Republic of Belarus on Natural Monopolies (adopted 16 December 2002). However, state actors are not interested in privatization.

Anti-monopoly
policy

Russia remains Belarus' main trading partner, accounting for 35.5% of exports and 55.2% of imports in 2007, according to the IMF. Trade growth with non-Commonwealth of Independent States (CIS) countries has been much slower than the regional average.

Liberalization of
foreign trade

Until January 2007, the country profited from cheap subsidized energy imports from Russia, which were sold to Western Europe at high prices. This decreased the pressure on the country's Soviet-style industries to modernize and allowed for expensive social programs. Russia's recent policy of bringing energy prices for Belarus to world market levels may result in a slowdown in economic growth over the next years.

This change in energy policy might indicate a deadlock for the Lukashenka regime, and has been threatening the government's stability.

Belarus' banking system is largely in state hands. The state uses various measures to control the private banking sector, which only plays a minor role. State banks grant loans as the government demands, reducing the banking system's liquidity and efficiency.

Banking system

8 | Currency and Price Stability

Controlling inflation is a component of the economic system in principle, but this goal is institutionally and politically subordinate to President Lukashenka's concept of "market socialism." Inflation has been high, averaging 8.2% between 2005 and 2007. Rising energy costs are expected to hurt the economy further and increase inflation throughout 2008.

Anti-inflation /
forex policy

Driven primarily by pressures associated with the global financial crises and increasing tariffs for Russian energy imports, the president has sought to open the economy slowly while retaining enough control to avoid major economic distortions. However, adverse terms of trade, falling demand from trading partners, and problems with accessing financial markets have led to a rundown of foreign currency reserves, put the country's currency under pressure, and forced the authorities to seek financial assistance from the IMF and Russia.

Macrostability

9 | Private Property

Belarus has become one of the top 10 reformers worldwide with respect to property registration. The country has created a one-stop shop for property registration, introduced a broad administrative simplification program with strict time limits for the registration process, and computerized its records. As a result, the time required to register property in Minsk has fallen from 231 days to just 21. Nevertheless, President Lukashenka has continued to resist anything more than limited privatization. Although in early 2007, Belarus finally succumbed to Russian pressure to sell a controlling stake in Beltransgaz, which operates one of the two major pipeline networks, this sale was an exception.

Property rights

The global financial crisis has had an impact on the situation in Belarus. In July 2008, the Belarusian government adopted a two-part privatization plan for 2008 – 2010. The plan's first part lists 519 national enterprises, both small and large, which are supposed to be incorporated as joint-stock companies within the next three years. The second part lists 147 open joint-stock companies. In practice, one can assume that privatization will be carried out by direct deals with state institutions.

Private enterprise

Overall, private companies are permitted as exclusive enclaves; otherwise the state dominates the economic system.

10 | Welfare Regime

Belarus' highly developed welfare regime is one of the priorities of the Belarusian "social market economy" model, and is highly cost-intensive. This is because the

Social safety nets

government places priority on social services that are too indiscriminate, and are increasingly closely associated with ideological rather than social goals. Nevertheless, social benefits do not cover the cost of living. For instance, in 2008 fewer than one-half of unemployed persons qualified for benefits, which themselves were equivalent to less than 10% of the average wage.

Societal fragmentation remains within tolerable limits. At more than 50%, the employment rate for women is relatively high, but women are underrepresented in top positions and overrepresented in poorly paid occupations. Poverty is predominantly female in Belarus, but it also affects families with two or more children as well as the rural population. Representatives of Belarusian women's organizations have documented the issues of domestic violence and the problematic positions of NGOs in Belarus. Sexual violence both at home and at work has increased substantially.

Equal opportunity

11 | Economic Performance

Until 2007, Belarus' energy-intensive economy – at least according to official statistics – relied heavily on the import of cheap energy from Russia. Prices paid were about a quarter of the world market price, a de facto subsidy. Nevertheless, the IMF has estimated that real GDP growth slowed from 11.4% in 2004 to 9.3% in 2005 and 7.1% in 2007. The state budget is subsidized by loans from the National Bank and compulsory loans from private banks.

Output strength

12 | Sustainability

Especially in the areas of energy supply and utilization, Belarus has occasionally attempted to reconcile economic growth with environmental concern. The government has made some limited attempts to reflect this concern in its institutions. The 1986 reactor accident in Chernobyl continues to have effects. The lack of governmental accountability and transparency makes an evaluation of the lasting ecological damage difficult. In this context, President Lukashenka's December 2006 announcement that his country would build a nuclear power plant in order to decrease energy dependency on Russia came as a surprise.

Environmental policy

Overall tertiary enrollment in education has been growing, and is currently at about 60%. Government education expenditure represents about 6.1% of GDP, according to the World Bank. However, private sector enrollment is only about 1%. The public educational sector suffers from the country's self-imposed international isolation. Since 2003, the Lukashenka regime has been closing Western-oriented institutions for basic and advanced education, forcing them into exile. For example, the European Humanities University, formerly of Minsk, now operates in Vilnius.

Education policy / R&D

Transformation Management

I. Level of Difficulty

The level of difficulty posed by Belarus' structural constraints varies substantially. According to the World Bank, per capita GDP stood at \$6,970 in 2005 (the latest data available), a middle-income level. The 2007/ 2008 Human Development Index ranked Belarus 67th (close to Russia, which ranks 65th). Among the country's other advantages are its relative ethnic and religious homogeneity, and its low disparities in income. The estimated number of people living with HIV/AIDS by the end of 2007 was 13,000, or 0.2% of all adults (ages 15-49). According to the United Nations Joint Programme on HIV/AIDS (UNAIDS), 1,000 people died of AIDS in 2007. The UNDP Education Index shows the country's labor force to be relatively well educated, but this 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, an obstacle to the establishment of a market economy in Belarus. As one of Europe's few landlocked states Belarus also has limited access to international trade routes.

Structural
constraints

Belarus possesses negligible or at best weakly developed 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 continued to be seriously restricted by attacks from government agencies, particularly if the activities were run by the opposition. The stable institutions of the state, which are primarily oriented toward the consolidation of Lukashenka's power, are an obstacle to rather than an expression of transformation.

Civil society
traditions

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

Conflict intensity

II. Management Performance

14 | Steering Capability

The political leadership claims to pursue long-term aims, but these are regularly supplanted by short-term interests associated with political bargains and Lukashenka's efforts to consolidate his hold on office. Overall, the regime has been dependent on access to Russian energy at below-market prices. When Russia started to raise its energy tariffs in December 2006 to world market levels, this signified not only the Kremlin's intention to use energy as a tool for exerting international influence, but threatened the basic foundation of Lukashenka's leadership. Consequently, Belarus' regime has since summer 2008 begun measures allegedly aimed at improving the democratic climate and strengthening conditions for market economic reforms. By the close of the review period, it was not clear whether these reforms represented a sustainable breakthrough or were simply cosmetic changes.

Prioritization

Belarus has seen little sustainable reform since 1995, when Lukashenka launched the "social market economy" model. In keeping with this policy, Lukashenka reimposed administrative controls over prices and currency exchange rates, and expanded the state's right to intervene in the management of private enterprises. During Lukashenka's rule, there has been no significant investment in modernizing the country's 1950s-era asset base. This is now 80% worn out, and requires access to subsidized Russian energy to continue operation.

Implementation

Following Russia's decision to begin charging market prices for energy delivery, and the impacts of the global financial crisis, Belarus' political leadership has initiated some structural reform. These include the announcement of a privatization program, the reduction of administrative barriers to opening a private business and the release of high-level political prisoners. However, there are also indicators that the regime has not given up its former routines and interests.

Policy learning

15 | Resource Efficiency

The Belarusian government gives contradictory signals as to how economic and human resources are used. The negative effects of the global financial crisis reached Belarus in late 2008, and the country struck an agreement with Russia in November for a \$2 billion stabilization loan. That was followed by a \$2.5 billion stand-by agreement with the IMF in January 2009. In line with IMF conditions, Belarus

Efficient use of assets

devalued the ruble by approximately 20% in January, and has tightened some fiscal and monetary policies. At the same time, President Lukashenka issued a decree “On Establishing a State Investment Program for Year 2009,” which included the construction of 19 ice arenas in 2009 in Belarus.

By summer 2008, the government of Belarus had surprised critics by achieving relatively high economic growth, a stable development of social services and widespread income equality. However, the dominant “social market economy” model does not allow for conflicting policy priorities, 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 the old Soviet-style industry. Rising energy costs and the impacts of the global financial crisis impact are creating pressure on the government to choose between a course of economic modernization and its current path of subordinating the economy to the regime’s political interests.

Policy
coordination

Findings on the success of Belarus’ anti-corruption efforts are inconclusive, in part due to a lack of transparency among the country’s authorities. Belarus was ranked 151st of 180 countries in Transparency International’s 2008 Corruption Perception Index. Although 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 regime opponents have been sentenced to multiyear prison terms in anti-corruption trials.

Anti-corruption
policy

16 | Consensus-Building

Major political actors have to agree on Lukashenka’s path of “social market economy.” Members of Belarus’ state government who forgo expressions of loyalty to the president have little opportunity to make political and economic decisions. The current consensus on reforms and their objectives is enforced from above. In May 2007, the KGB arrested the management of Belneftchim, a Belarusian petrochemical giant. Some time later, the KGB and the Ministry of Interior exchanged attacks, and scores of officers on both sides were arrested and charged with corruption. Again in the ostensible cause of anti-corruption, Zianon Lomat, the former head of the State Control Committee, was beaten by KGB and Security Council agents. Following the incident, President Lukashenka fired KGB head Sciapan Sukharenka and his deputy Vasil Dziemianciej, replacing Sukharenka with the former head of the presidential bodyguard service, Jury Zhadobi. The resignation of the speaker of the House of Representatives on 2 October 2007 and his replacement by Vadim Papov, as well as the growing political influence of

Consensus on goals

Lukashenka's son in the Security Council, might indicate a slow handover of power to a new generation. Natalya Pyatkevich, an inner member of Lukashenka's circle, is another representative of the younger generation among members of the authoritarian regime.

There is no substantial independent political force outside the government. The opposition's posture is characterized by objection to the government's policies. 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. Political and economic actors who might be able to promote reform fail because the president blocks reform attempts in general.

Anti-democratic
veto actors

The political leadership downplays cleavages, often dismissing attempts to create political alternatives as influenced by foreign powers. Democratic protests against the fraudulent presidential elections were characterized by Lukashenka as "hooliganism." These events show the regime's readiness to propagate misperception of democratic protests as a political tool, when the regime comes under pressure.

Cleavage /
conflict
management

Overall, the political leadership suppresses and excludes civil society actors from the political process. Government harassment has targeted journalists, religious groups, trade unions and other civil society actors. Opposition demonstrators are regularly jailed. During the second term of 2008, the Belarusian authorities took some steps toward the toleration of civil society activities, however. These included the registration of For Freedom, an NGO; the registration of the Homel branch of the Belarusian Popular Front, an opposition political party; and the establishment by the administration of a public advisory council on human rights, which will include representatives of independent civil society including the Belarusian Helsinki Committee, For Freedom, and the opposition United Civic Party. (All invited institutions are officially registered; other opposition parties and unregistered NGOs were not invited to participate).

Civil society
participation

It is difficult to separate the identity of the elites or the population from the Russian and Soviet past. For this reason Lukashenka deliberately affirms the continuity of the Soviet heritage, and does not exploit the country's European potential. Thus, Belarus' political elite has not addressed acts of Soviet injustice and has not initiated a process of reconciliation, elements that would surely emerge in the case of democratic regime change.

Reconciliation

17 | International Cooperation

During the second year of the reporting period, the regime made some progress with respect to cooperating with international partners. On 13 October 2008, the

Effective use of
support

European Union suspended its sanctions against prominent Belarusian officials for a period of six months. This followed the August 2008 release of political prisoners Alexander Kazulin, Siarhei Parsiukevich and Andrei Kim. EU officials noted that their decision would be reviewed after six months, following an assessment of the progress Belarusian authorities had made in a number of specific areas concerning “fundamental freedoms, including the freedom of expression and of the media, and the freedom of assembly and political association.”

At the close of the review period, it was not yet clear whether the steps taken by the Belarusian authorities during this initial period of dialogue represented a true democratic breakthrough or were primarily cosmetic and ultimately reversible.

In recent months, the European Union and Belarus have each signaled an interest in stronger cooperation. Mostly reacting to the release of some political prisoners, the European Union has suspended a travel ban against top Belarusian officials for six months. Considering that this is not the first time Lukashenka has expressed an interest in cooperation with Europe, it remains too early to assess whether he is willing to introduce democratic standards, which would be a precondition for such cooperation.

Credibility

Since 2007, relations with the United States have been deteriorating, leading to sanctions on both sides. In November 2007, the U.S. Treasury Department announced that any assets of Belnaftakhim in the United States would be frozen. Belnaftakhim is the country’s state-controlled oil-processing and chemical company, and accounts for about a third of the country’s foreign currency earnings. The sanctions also barred U.S. citizens from doing business with Belnaftakhim. Later, the U.S. State Department conditioned the lifting of these sanctions on positive steps toward the protection of human rights. In response, the Belarusian foreign minister in May declared 10 U.S. diplomats to be *persona non grata*, and demanded that they leave the country within 72 hours. In March, the U.S. ambassador to Belarus, Karen Stewart, was ordered to leave. This has left Belarusian-American diplomatic relations in a deadlock, and has reduced the number of Minsk-based diplomats from 15 to five.

Members of the democratic opposition and economic reformers have expressed interest in cooperating with single neighbor states as well as with regional and international actors. Polish, Lithuanian, Slovakian and other projects driven by the new EU member states, aimed at strengthening forces of transition in neighboring Belarus, might develop into a driving force for future-oriented development. As a part of Lukashenka’s latest turn toward European cooperation, the government has expressed interest in joining the Eastern Partnership program, an EU foreign-policy initiative aimed at improving relations with its neighbors.

Regional
cooperation

Strategic Outlook

As long as President Lukashenka remains in power, Belarus' strategic outlook clearly depends on him. Lukashenka controls, both formally and informally, all significant decision-making processes. Two constitutional referendums have allowed him to establish a lifetime presidency. He personally controls the executive and legislative apparatus as well as the judiciary. In addition to the constitutional branches of government, the president has created a range of institutions, such as the presidential administration and the intelligence service, that are directly subordinate to him. There is a slim possibility that regime change might happen in a scenario called "Singaporization," in which the country would be opened to foreign trade, would welcome foreign investors and guarantee their rights, and would achieve a certain living standard by using a mix of market-economic principles and state planning. However, the country's most recent changes, aimed at improving the business climate and initiating a privatization program, will only lead to regime change if the president is willing to allow reforms beyond a cosmetic nature, and even those which decrease his personal influence.

In comparison with previous BTI evaluation, the country's framework conditions have considerably changed. Hard-pressed by rising Russian energy tariffs and the effects of the global financial crisis, Belarus was forced to agree to stabilization loans from Russia and the IMF. The IMF has obliged the country to move away from a fixed exchange-rate regime, and is demanding strict controls on public sector wages and investment. These conditions are aimed at restoring the manufacturing sector's competitiveness and replenishing the country's low level of official foreign exchange reserves, thus diminishing Belarus' external vulnerability.

Belarus' landlocked geographic position compels it to cooperate with its neighbors, but in practical terms. The latest attempts to improve relations with the European Union appeared to present an opportunity for democratic change, but were also evidently an attempt to strengthen the regime through external support. Lukashenka has historically isolated Belarus from the international arena.

If Lukashenka is no longer able to fulfill his promises of a "market socialism," public unrest might increase. Even if the democratic opposition is weak, Belarus' future development might depend on democratic change initiated through a bottom-up movement. A democratic change of regime – an option which cannot be excluded – would have to rely on a well-developed civil society and an emerging market, which today is controlled by the state.