

# Belarusian Authorities Battle Street Vendors to Save the Textile Industry

On 17 March, Belarusian President Alexander Lukashenka paid a personal visit to a popular bazaar in Minsk, the capital, to resolve a conflict between the authorities and local street vendors.

Earlier this month, a new government request was issued requiring all street vendors to obtain quality certificates. That prompted the vendors to go on strike.

Although Belarusian officials handpicked the vendors who met with Lukashenka, the president's speech at the bazaar at least acknowledged the main cause of the conflict. He stated that the Belarusian textile sector is being undercut by cheap imports from Russia.

What Lukashenka failed to mention is that Belarusian clothing chains also want the government to introduce new regulations in order to reduce competition from street vendors.

Although the authorities pretended to make concessions, the street vendor strike has been a lost cause. The fragmentation of this small business movement is one of the main reasons it has failed to achieve its goal.

## **The Force that Does not Feel Its Power**

Individual shop owners play a much greater role in Belarusian commerce than is commonly believed. Official figures show that 248,952 people were registered as individual entrepreneurs at the beginning of this year, representing 2.5% of the Belarusian population. Since this group employs roughly the same number of people, the total workforce active in this

segment of the economy could represent as much as 5% of all Belarusians.

Although accurate data is lacking, it is estimated that about 100,000 of these self-identified entrepreneurs are sole proprietors of stalls who trade in the markets where many Belarusians still buy their clothes. The authorities have sought to clamp down on the activities of this group of entrepreneurs. The sheer size of the street vending sector has not prevented the authorities from introducing tedious regulations every few years.

The most egregious example is a 2008 ban on the hiring of non-relatives, which effectively forces sole proprietors to set up firms in order to hire workers legally. Also in 2008, the last private kiosk disappeared from Minsk; the authorities deemed



this type of business outdated, even though it was quite cost-effective and doing well at the time. Eight years ago, Minsk had 4,000 such kiosks.

Moreover, the regime often arrests local leaders who seek to organise the interests of street merchants. [Anatol Shumchanka](#), head of the business association "Perspective", served prison sentences in 2003, 2008, and 2013.

### **Explaining the Recent Conflict**

The 17 March visit of [Lukashenka](#) to the Minsk market was a rare show. The president, now at the outset of another reelection campaign, likely wanted to show who is in charge. The secret service officers who accompanied him hand-selected street vendors with congenial attitudes to serve as his audience. The market was also full of police who frisked shoppers with metal detectors.

Lukashenka proposed his idea on how to resolve the conflict: Rather than apply for a quality certificate, street vendors will now be asked to pay higher taxes. The hand-picked audience of street merchants dutifully applauded the announcement.

Lukashenka's staged meeting with the street merchants could possibly end their strike, which dates back to 1 March. According to the association "Perspective", around 80% of local street vendors took part in the strike.

Belarusian entrepreneurs lack quality certificates because they buy clothes from Moscow wholesalers who do not have them either. If the new regulations are enforced, the retail price of clothes could rise so much that ordinary Belarusians may not be able to afford them. Lukashenka stated that the new regulation will be postponed and introduced only next year.



The president accused individual entrepreneurs of "decimating" the Belarusian textile industry by procuring cheap clothes in Moscow. Since most of Belarus's textile industry is run by the state, the choice seems simple: either state employees or private businesses will be deprived of

income.

Lukashenka stated that Prime Minister [Andrei Kabiakou](#) takes responsibility for supplying Belarusian commodity distribution centres: "If entrepreneurs cannot acquire [here in Belarus] the types of garments or footwear they get at the Cherkizovsky market [the most popular market in Russia], Andrei Kabiakou will answer for this." The reality is that made-in-Belarus products are more expensive and of worse quality than those sold in Russia. Forcing vendors to procure locally will fail to solve the problem.

Another interest group lobbying the government behind the scenes are supermarket chains. They already have the requisite quality certificates, and so have good reason to demand that individual street vendors obtain them as well. [Aliaksandr Mashenski](#), one of the most influential Belarusian businessmen, stated that "entrepreneurship should be pursued in a civilised manner."

Mashenski may be right, but the new regulation still looks strange, as such a rule has not been instituted for over 20 years. Reduced competition will simply help large retailers stay afloat during the current economic crisis.

At the same time, it seems the authorities have realised that small entrepreneurs cannot afford to comply with the new requirements. Aliaksiej Novikau, a small entrepreneur from Salihorsk, told Belarus Digest that "the Minsk traders can take on the burden, but for vendors elsewhere it would spell the end of their business."

## **Survive or Die**

Why are the authorities making such a fuss about fighting a group which represents a small segment of the national economy? In fact, this conflict could become the most difficult for private businesses in Belarus since the early 1990's. It's not just that the authorities are making unreasonable demands in the form of certificates and higher taxes; the worst thing is that this is happening at a time when the Belarusian economy is [preparing for a recession](#).

It is precisely the threat of economic crisis that strengthens the government's hand. Relations are tense among individual entrepreneurs who are struggling to make ends meet, so they cannot concentrate on battling Lukashenka together. "Many try to somehow negotiate with the government officials because they need to feed their families," Novikau said.

Such internal conflicts could reduce the leeway for

entrepreneurs to lobby for their interests in the future. Many will be forced to close their businesses and let go of their workers. They will only stand a chance of influencing the authorities if they stay united, but it seems they will not.

Lukashenka's postponement of the certificate demand looks like a temporary victory, but that will not change the fundamental relationship between individual entrepreneurs and the government. Every step Lukashenka takes, the businessmen follow, even at great cost to their livelihoods.

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## **Business Climate in Belarus: Pessimism Prevails**

Belarusian government recently reaffirmed its desire to become a top-30 nation in the World Bank's Doing Business Report. To assess how well local authorities across the country pursue this goal a number of Belarusian organisations organised a special competition – “The Best Town/District and Oblast for Doing Business in Belarus”.

The latest competition results were announced at the Assembly of the Business Circles of Belarus at the end of February. Now the Belarusian business community and potential foreign investors know where their entrepreneurial activity can yield the highest profit in 2012. But because of the voluntary and populist methods of economic governance in Belarus both entrepreneurs and officials are sceptical that the country will land in the top-30 of the most favourable places to do business.

### **The Results of the Competition-2012**

The competition compared business climates in all Belarusian towns and regions and identifies where a local or foreign businessman can enjoy more favourable conditions for doing business. The jury of the competition consisted of entrepreneurs, representatives of business unions, academics and analysts. The organisers included the Republican Confederation of Entrepreneurship, one of the biggest Belarusian business associations.

The study assesses various factors, including the number of small enterprises per 1,000 inhabitants and the share of small businesses in the overall number of the employed, the amount of taxes paid and investments. The jury also takes into account opinions of local business associations about the attitudes of local authorities to businessmen, the image of entrepreneurship in local media and opportunities for young people and particularly women to run their own business.

This year the authorities of 76 (out of 118) districts submitted their documents for the competition, the highest number ever. This could be an indication that local authorities are becoming increasingly interested in attracting private investments. But probably the official support of the Ministry of the Economy played a more important role.

The jury named the following winners:

- among the towns/districts with fewer than fifty thousand of population – Naraulyany District of Homel Oblast (eastern Belarus);
- among the towns/districts with more than fifty thousand of population – Maladzechna District of Minsk Oblast (central Belarus)
- among the 6 oblasts of Belarus – Homel Oblast (eastern Belarus);
- among the districts of the capital city – Frunzenski District of the City of Minsk.

The assessment results revealed a number of interesting facts. For example, the city of Minsk has the biggest share of population employed by small enterprises (more than a quarter of the working population). In the east of Belarus this share is significantly smaller than in the West. In some districts of the east less than three percent of the population work for private firms.

The share of taxes paid by small businesses is the highest in central Belarus. In some districts the share reaches a half of all the taxes collected. In eastern Belarus this share is generally the lowest.

Perhaps, the most telling data concerns capital investments by small businesses. It shows where in Belarus entrepreneurs feel more secure and can make long-term plans. According to the competition jury, after the 2011 economic crisis there were simply no "safe havens" for long-term investments in the country. However, in some regions of Belarus private investors are still active. For example, certain parts of central Belarus receive more than 40% of all investments from small businesses. Whereas, in some areas in the West this indicator is close to zero.

### **Alarming Expectations**

The XIII Assembly of the Business Circles of Belarus, where the competition results were announced, shed light on the very alarming expectations shared by entrepreneurs and even state officials.

The main organiser of the Assembly – the Republican Confederation of Entrepreneurship – presented an updated version of the National Business Platform. This document represents the business community's vision of desirable market reforms. The Platform focuses on the new economic realities that Belarus faces in the Common Economic Space with Kazakhstan and Russia. It articulates the idea that the

Belarusian economy is doomed if the government fails to carry out fully-fledged market reforms.

The discussion of the Platform revealed that almost all participants of the Assembly (including state officials) see market reforms as the only way to raise the competitiveness of the Belarusian economy. All speakers were vocal about the need to launch a structural transformation and seriously improve the business climate. But at the same time there was a great deal of pessimism and even despair in the speeches of the Assembly. And this state of despair is easy to explain.

### **Insurmountable Economic Voluntarism**

In a country where economic policy is so susceptible to the arbitrary decisions of just one man (even though he is the President) no one knows what a new day will bring. And when social populism generously supported by [Russian energy subsidies](#) permanently prevails over economic analysis, the chief decision-maker is very unlikely to start listening to economic arguments. As a result, even top officials turn into desperate pessimists.

This desperate pessimism makes the goal of becoming a top-30 jurisdiction for doing business sound more like a bad joke. And the competition for the best business climate in Belarus becomes just a nice public speaking exercise.

Yauheni Preiherman

*Yauheni Preiherman is Policy Director at the Discussion and Analytical Society Liberal Club in Minsk*