

# Modernization Traps for Belarus

The Belarusian government has announced its plans to modernise the national economy. However, the content of the policy package is far from clear. Given the experience accumulated by Belarus and other transition economies, there are reasons to warn about possible traps that modernization policy could set, if implemented unwisely.

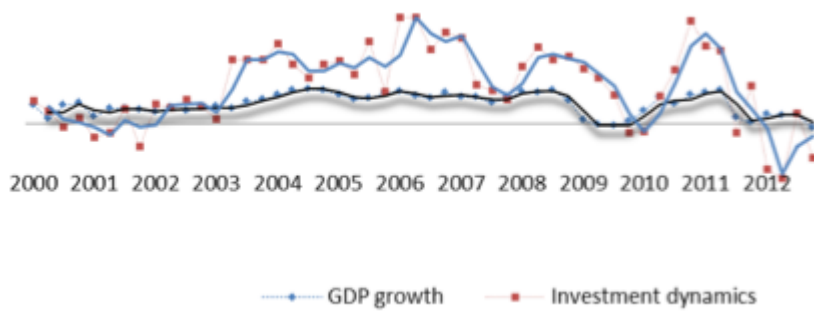
The government has announced a new course for modernization to strengthen weakening economic growth. In October 2012, Prime Minister Myasnikovich emphasised that “modernization of the national economy is a priority”.

When reporting to Aleksandr Lukashenka on 14 January 2013, Myasnikovich has been warned that the pace of modernization shall not be slackened. The target of modernization is apparently the state sector of the economy, which still produces about two-thirds of Belarus’ GDP.

Lukashenka summarised his vision of modernization policy at a press-conference on 15 January 2013. According to him, modernization is about “the installation of new equipment to the available production facilities”. Modern equipment is supposed to boost productivity and output growth as the stock of capital is increased – a necessary step to sustain a growth trajectory, which has been declining since from 2011.

In 2012, real GDP growth amounted to 1.5 per cent, while real investment dropped by 13.8 per cent (see Figure 1 below). Without investment growth, GDP dynamics is in danger of further enfeeblement.

**Figure 1: Real GDP growth and real investment dynamics, 2000–2012**



Source: Belstat, various years (quarterly data)

Both workers and managers of state-owned enterprises understand that the stakes in the “modernization game” are high. In particular, workers of the wood-processing plants [are not allowed to leave their enterprises](#) unless modernization is over.

Independent trade unions – supported in their claims by their Russian and international colleagues – criticised the emergence of “new serfdom” at the Belarusian labour market. Furthermore, a CEO and three managers of Mogilevdrev, a company with modernization underway, are being persecuted for the misuse of public funds granted for it.

### **Experience of Early Modernizers**

In fact, intentions to revive poorly performing economies by the means of technological renovation of industries are not novel for the post-socialist world. In the late 1980s, Poland, Hungary, and Bulgaria and other countries tried to revamp their economies by using foreign money to purchase equipment from abroad. However, export revenues were not sufficient to pay back foreign loans.

First, extensive trading within the socialist block by using convertible roubles had resulted in the lack of hard currency. Second, a more fundamental challenge came from the weak capacity of socialist enterprises to innovate. Foreign equipment was insufficient to substitute a whole system of

incentives for managers and workers.

Export-oriented growth of East Asia type failed to materialise. As a result, socialist economies were forced to start their transition to capitalism with considerable levels of foreign indebtedness. This fact allowed international financial institutions as the IMF to exert leverage upon reform, as, for instance, it happened in Poland.

This experience is worth to have in mind when thinking about the design and likely effects of modernization policies in Belarus. In a nutshell, Belarusian authorities see modernization as a task for the state, realised by the means of state investments to state-owned enterprises. Seeing in this light, these policies are not novel, but a continuation of lasting state investment policies.

### **Predecessors of Modernization**

Before the currency crisis of March 2011, investment programmes were a major tool to support technological renovation. These programmes were implemented with the help of cheap loans from state-owned banks. The 2012 World Bank memorandum on Belarus reveals that directed loans are typically three times cheaper than market loans.

At the same time, the gap between factor productivity of state-owned and private companies vary from 20 to 30 per cent on average. Private firms tend to be more efficient than state-owned enterprises.

This fact implies that the efficiency of state investments is lower than private ones. Prior to the currency crisis, directed loans amounted to a half of the total volume of loans, granted typically to agriculture and housing production.

According to a study, conducted by the BEROC researchers in December 2012, the expansion of these loans has not

contributed to the improvements in total factor productivity, which reflects the efficiency use of capital and labour in the economy.

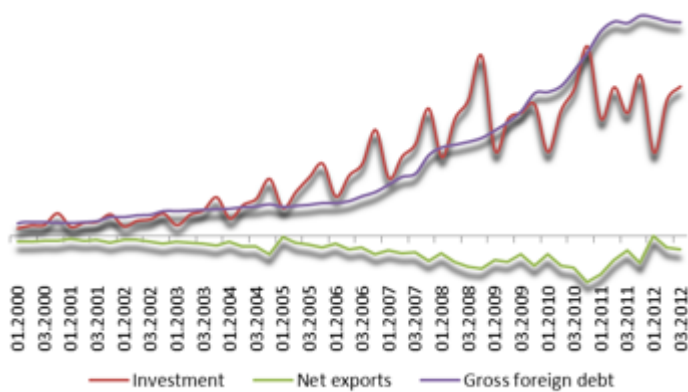
Modernization appears to be a call for a more productive use of funds, but there is little evidence in favour of changes in incentives of recipients of state financial aid. Moreover – and this is probably the crucial aspect – private domestic and foreign investors are not considered seriously as major actors of modernization. If foreign borrowing, and not a foreign investment, continues to be one of the sources of foreign cash to purchase equipment from abroad, then macroeconomic stability can be threatened.

### **The Adverse Effects**

Apparently, private investors can be more efficient in implementing modernization plans without state guidance. However, some recent steps of the authorities might keep them away from entering the scene. In particular, nationalisation of two confectioneries and planned amendments to privatisation legislation, stipulating the reservation of special places for state representatives to vote for the absent minority shareholders are the measures that lie far from improving domestic business climate.

There is a worrisome tendency that increase in real investment is associated with higher foreign indebtedness and lower net exports (see Figure 2).

*Figure 2: Investment, net exports, and debt, 2000-2012 (3<sup>rd</sup> quarter)*



Note: Index values, 2005=1

Source: National Bank, Belstat

Therefore, modernization – even it is understood narrowly as a mere technological upgrade – might bring temporary gains in the form of higher output growth rates, but it contains considerable risks. It is too early to make conclusive statements, but suspicions come from the lower capacity of state-owned enterprises to function as efficiently as enterprises in the private sector.

Without expansion of the private sector and incentives to private investment, the Belarusian economy might continuously require injections of liquidity in the form of state-guaranteed loans. These injections would increase the economy's volatility without addressing the fundamental efficiency problem. Instead, a vicious circle of more funds–more growth could emerge, with severe inflationary

repercussions and high costs of breaking with it.

To summarise, contemporary modernization plans look so far as “old vine in new glasses”. If that is the case, then seemingly new policies would have a limited success. However, if compounded by the measures to support the development of private sector, economic growth can be made more sustainable and less volatile.

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*This article is a part of a new joint project between Belarus Digest and Belarusian Economic Research and Outreach Centre (BEROC) – a Minsk-based economic think tank.*

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## **Why Belarusians Refuse to Work in Agriculture**

Post-Soviet mass discourse often portrays Belarus as a country of villagers. A big deal of that comes from the image of president Lukashenka himself. He has been director of a farm in Eastern Belarus before going into high politics and is famous for his obsession with agricultural issues. This, however, did not help Belarus farming to turn into a thriving industry.

On 28 November, Belarus parliamentarians hosted deputy prime minister Michail Rusy. He presented plans for agricultural development and voiced some major problems of the sector. It

becomes evident that the absence of reforms turned agriculture into a very unattractive place work destination.

### **An Everlasting *Kalhas***

Belarus agricultural sector remains largely unreformed since Soviet times. Collective farms, or kalhas (kolkhoz in Russian), is the main production unit in agriculture. Kalhas operates as a state-owned enterprise which usually employs workers from nearby villages.

In the Soviet Union, kalhas was not only the centre of rural economy, as practically all social life of rural community revolved around it. Belarus leadership chose to preservation the Soviet rural economy and community. However, it turned absolutely unattractive for Belarusians today.

Initially Lukashenka regime was not supporting private farming and today it makes less than 2% of Belarus agricultural production. The kalhas system, on the contrary, have been considerably subsidised despite significant losses. With the decline of Belarusian economic model, traditional support of Soviet-style collective farms becomes virtually impossible.

In recent years Belarus attempted to implement some regional policies to support rural development. The government launched a number of national programmes: State Complex Program for Development of Regions, Small and Medium Urban Settlements (2007-2010) and State Program for Revival and Development of Rural Areas (2005-2010). The programmes aimed at fostering economic development and attracting workers to the countryside.

Although some sound measures were introduced, like tax reductions for firms operating in rural areas, little hope for real changes. Two decades passed since the need for transformation became evident, and the current policy tools are unable to change deeply entrenched negative trends.

## Growing Problems of the Sector

On 28 November, Belarus deputy prime minister Michail Rusy reported to the newly selected parliament. The subject of discussion was Belarus agricultural sector. Rusy presented ambitious plans for modernization of the sector by 2015.

Meanwhile, he admitted a number of serious problems that exist in agriculture today. Notably, he mentioned that "the problem of personnel able to implement large-scale transformations in agricultural sector has become crucial in recent years".

Indeed, for Belarus youth agriculture seems the least desirable sector of employment. First, farming offers lowest salaries compared to other sectors of employment.

It makes only 65% of the average national salary, while in industry it averages 120%, finances – 190%, public administration – 125%, education and health – 75%. Of course, the rates depend on the economic condition of various kalhas. While richer ones (which are not a common case) can afford paying higher wages, the poor kalhas practically keep their workers in poverty. A monthly salary lower than \$200 is not rarity in Belarusian villages. People cope by managing small kitchen gardens of their own or raising a couple of pigs.

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Second, most kalhas have poor managerial capacity. Soviet-style management, rudeness, contempt for initiative keeps young graduates and specialists away from kalhas. Moreover, farms offer very unattractive labour conditions. For instance, sometimes workers do not have day-offs, because they have to replace their drunk colleagues or simply because the staff is scarce.



Third, rural settlements offer very poor infrastructure of culture and entertainment. Libraries with a dozen of old books present the sole element of cultural and social life. Village club serves as the only entertainment place for youth, where they can relax after a hard workday engaging in drinking and fighting. Often though, the culture exists only around the local store, where villagers buy [cheap alcoholic beverages](#) and usually consume them right on the spot.

No wonder the youth move to urban centres looking for education, employment and fun. A special policy of mandatory two-year employment in public sector for graduates does not work either. Most of them leave villages after finishing the period and often use various tricks to escape it altogether.

But the problem concerns not only the youth. As Rusy admitted, agricultural workers started to seek employment and migrate to neighbouring states, particularly to Russia.

Paradoxically, in many villages of Eastern Belarus most men work in Russia and not in the local economy. They come home for a while to see their families and provide them with money, and then head for another period of work in Russia. This mode of economy favours neither households nor Belarusian economy in general. The government, however, seems unable to resolve the problem and prefers not to raise it publicly.

### **Globalisation Pushes for Reform**

Addressing the parliament last month, Michail Rusy announced a rather ambitious goal of the program of rural development till 2015. According to it, government is planning to invest \$7.5 bn in modernization of agricultural sector till 2015.

The policy of financial support of collective farms will shift from general subsidies to loans by business-plans. Average salary in agriculture will rise to BYR 8 m (almost \$1,000) by means of rapid increase in economic effectiveness of

production. Today's salary in the sector varies from \$200 to \$400 depending on profitability of klahas.

This modernization rhetoric comes from an obvious fact, which Belarus leadership tried to deter for so long. Belarus becomes more and more involved in global economy through integration projects and therefore has to engage in stronger competition. The situation turned especially nasty when Russia joined WTO this year, being in Customs Union with Belarus simultaneously. Belarus [was not ready for such developments at all](#) and now has to catch up fast.

Russia consumes more than 80% of Belarus farming production. While other Belarusian production loses traditional markets, food remains a stable due to enormous needs of Russian megalopolises. Now and then, farming products appear in the middle of trade scandals between Belarus and Russia ("[milk and sugar wars](#)" for example).

Such an export strategy advantages Belarus producers, as they export at prices several times higher than domestic market can offer. However, it is Belarus population who end up being disadvantaged, because better quality products are going abroad and what remains is sold locally.

The plans of government are costly and ambitious, officials operate with numbers and figures and promise unprecedented growth. Yet the thing is that without a complex regional policy which targets all aspects of human life people will not come to work on the land.

*Vadzim Smok*

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# Belarusian Politicians in Social Networks – Digest of Belarusian Analytics

Politicians in social networks, civil society in politics, geopolitical preferences of Belarusians and the state of small business were, among other topics, in the focus of Belarusian analysts over the last few weeks.

[Belarusian Politicians Have Nothing to Catch in Social Networks?](#) – Naviny.by analyses what Belarusian politicians do in social networks and blogs: reveal personal secrets or promote their parties and movements. Most of the politicians use Facebook, broadcasting the same messages for Twitter and "VKontakte", as a form of communication with the people. However, so far there are not many politicians in the networks: during the parliamentary elections of 2012 only about 6% of the registered 364 candidates to the House of Representatives used the capabilities of the new media, mainly the opposition and independent candidates.

[The Return of Europe](#) – BISS presents the seventh issue of the polling memorandum series based on the public opinion poll data of the Independent Institute for Social, Economic and Political Studies (IISEPS). Surprising good news for Europe: for the first time since June 2011 Belarusians would prefer a European choice. No winner appeared in the opposition's controversy whether to boycott parliamentary elections or to participate. BISS considers those to be the two main outcomes of the latest polling data provided by IISEPS.

[Belarus' Foreign Policy Index №10](#) – Kremlin retains the full political support of Minsk. Ukrainian vector after summer activation returned to zero The relations with developing countries improved a bit, especially with China. The relations

with the European Union re-entered the stage of "vacuum of events". These are the main conclusions presented by BISS in the latest issue of Belarusian Foreign Policy Index, covering September and October of 2012.

[Mikita Likhavid: People Need a "Fairy Tale" about "Iron Man"](#) – a former political prisoner, Mikita Likhavid, during the "Belsat" program, answers the questions, why he does not try to make a political career in opposition, and how to raise the topic of political prisoners to achieve results. In particular, Likhavid notes that above all the opposition should become systematic and strong; otherwise all talks about political prisoners remain speculation.

[Belarus Leader Relishes Reputation as Dictator](#) – Alexander Lukashenka gave an interview to Reuters, an international news agency (November 26). The journalist shares his observation that Belarusian president is a pariah in the West, viewed suspiciously by Russia and loathed by opponents in exile or jail, but he is relishing his notoriety as Europe's last dictator.

[The Main Battle will be After Lukashenka](#) – Alexander Klaskovsky refers the Alexander Lukashenka's thesis that it is time "to bring to power normal young politicians." The journalist makes a sad conclusion that the hour "X", which is so expected of change agents can be stupidly missed: "Belarus is lack of truly educated, hardened in a real fight, polished by practice, disciplined by responsibility political cadres. It's difficult to consider as such members of Parliament who do not solve anything, or languishing in the ghetto, the maximum – the leading online internecine wars, opposition figures.

[Pro-Russian Column in Belarus](#) – historian Victor Yevmenenko fixes the facts that on the basis of some non-governmental Belarusian organisations Russia plans to build a force that involves gaining widespread support among

the Belarusians. The author predicts that this force can be transformed into a pro-Russian political movement so he wonders why Belarusian civil society, adhering to national-democratic positions, is passive and indifferent to the mentioned processes.

## Society

[Does Civil Society Need the Political Track?](#) – Naviny.by is trying to understand, whether civil society should follow the path of politicization or continue to do their civil work, despite pressure from the government. Referring to the recent adoption of the concept of the National Platform, the author notes some politicization and warns that "CSOs on the political field, would not be able to fully engage in their activities, also have the risk to narrow the chances of public recognition...and will not be able to fulfill their primary function – to show the people the possibility of self-organization."

[Evolution of Images of "Enemy" and "Friend" in the Post-war Belarus and Ukraine, 1945 -1953](#) – the research shows that people born in the 1920-30, call Stalin a friend of the people, and in today's Belarus this place is taken by Alexander Lukashenka. Belarusian opposition is called as enemy, following with such epithets as "useless", "zero", "stupid". The study was presented at a round table held by the International Consortium "EuroBelarus" and the Centre for European Transformation in collaboration with the Heinrich Böll Foundation (Germany).

[Public Opinion in Belarus on the Project "Modernization for Belarus"](#) – In July and August 2012, the Belarusian Analytical Workshop conducted a qualitative study using a remote method of focus groups. The study summarised the opinions and judgments of different social groups on the socio-economic and political situation in Belarus, the geopolitical orientation of residents, their

assessment of the initiative "European Dialogue on Modernization". The main conclusion of the study is that people consider the political leadership of the country as a root cause of poor economic situation and related social problems.

[News without News](#) – Mediakritika.by presents its monitoring of state and non-state TV channels for the period August-October 2012. The experts note that most of the materials of the state-run TV news programs generally were not news. The only reason for the broadcast was Alexander Lukashenka who's ideas were supported by video illustrations. The violation of the standard of efficiency was also frequent in the news on the independent TV channel "Belsat".

[Belarusians' Ideas of Human Rights and Rights Defense Activities](#) – the study was conducted by the Centre for European Transformation on the initiative of Belarusian human rights organisations in April-June 2012. The purpose of the study was to identify concepts that exist in the Belarusian society regarding the relationship between the man and the state, human rights and their defense. The initial hypotheses were generally affirmed that: a) the set of issues that is being researched is not actualized in practices and beliefs of the respondents; b) the level of competence of the respondents as to the specified issues is not very high.

[Damocles Sword of Anonymous Donations](#) – Yuri Chausov, based on case of the magazine ARCHE which is now under financial investigation, expresses concern that formal suspicion of violating the law in the economic sphere can be a reason for the persecution of civil society institutions. The expert, in particular, draws attention to the legislative nonsense whereby anonymous donations in Belarus are not prohibited, but are treated as foreign aid, the use of which is tightly regulated.

## Economy

[State Budget 2013: a Collection of Surprises](#) – Denis Lavnikovich, [BEL.BIZ](#), analyzes the national budget for 2013 and comes to the conclusion that it is more like a set of good intentions. The expert believes that it will be possible to avoid the fiscal crisis in the next year only under two conditions: if Russia continues to supply Belarus with energy on current prices, and if the government finally seriously undertakes the privatization. The expert also cites Andrei Porotnikov, Belarus Security Blog, who points to the fact that next year's budget continues the trend of the last 20 years of chronic under-funding of the national army.

[Business in Belarus 2012: Status, Trends, Prospects](#) – IPM Research Center prepared an annual report on the status and prospects of small and medium business in Belarus in 2012. The issue considers the economic situation of small and medium enterprises and their development prospects, including analysis of the influence of the integration agreements with Russia and Kazakhstan in this field.

*Belarus Digest prepared this overview on the basis of materials provided by Pact. This digest attempts to give a richer picture of the recent political and civil society events in Belarus. It often goes beyond the hot stories already available in English-language media.*

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## **Belarus Police on the Edge of**

# Reform

Despite being “over-policed” Belarus has one of the highest rates of crime per capita among ex-USSR countries.

This fact contradicts a famous myth about stability and order in Lukashenka regime. Belarusian system of justice and law enforcement obviously needs a serious reform, which Lukashenka publicly acknowledged. Such a reform presents quite a task for the government, as police serves as one of the main pillars of authoritarian regime in Belarus.

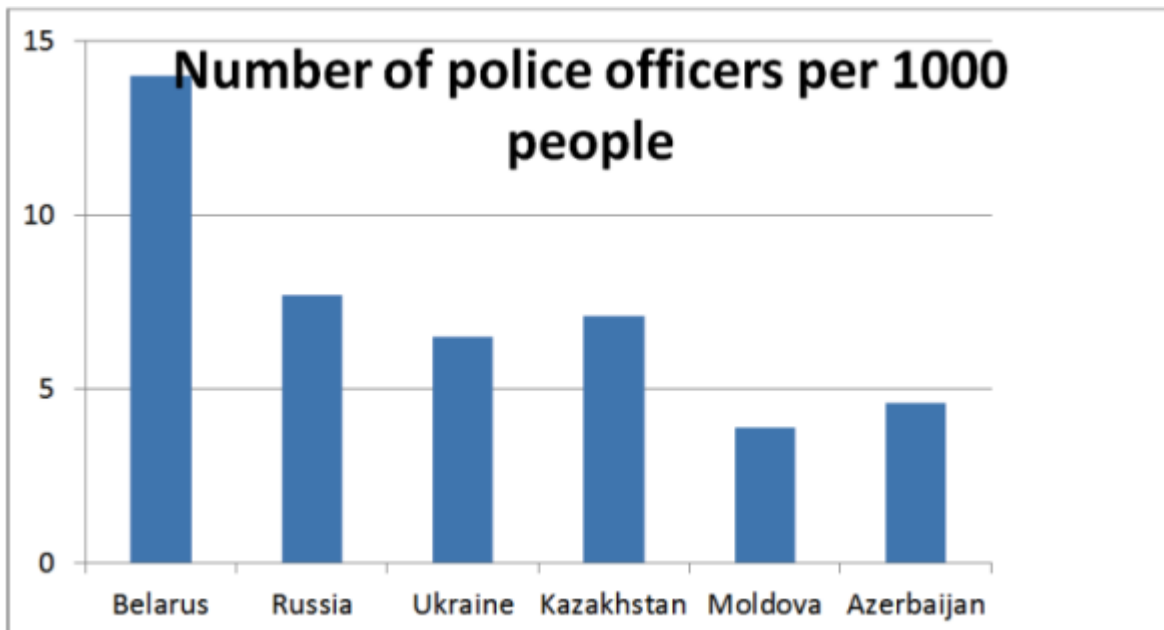
## **Statistics Breaks the Myth**

Very little official information about inner processes and problems of police reach the public in Belarus. Still it is possible to find and analyse some data which can tell much about the issue.

The first publication of criminal statistics that recently appeared at National Statistical Committee website shows a rather interesting picture of crime in Belarus. The diagrams below suggest a small comparison of police and crime rate per capita.

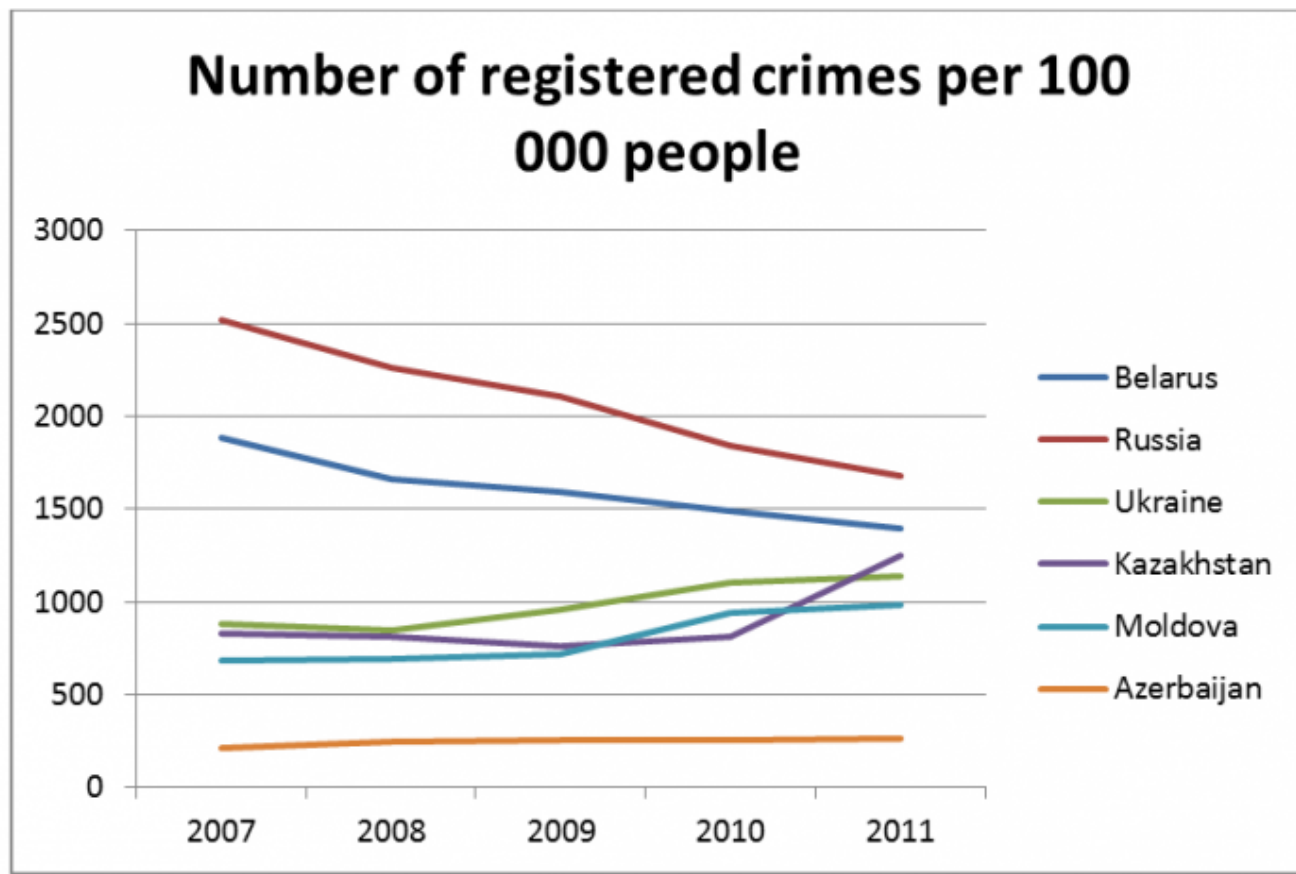
It is a widely known fact that Belarus has the largest per capita number of police among the ex-USSR countries. While the world average for this proportion is around 3 officers per 1000 citizens, in Belarus it reaches 14 officers. It is twice as much as in Russia or Ukraine and three times as much as in Moldova or Azerbaijan.





If compared to statistics of registered crimes per capita in the region, the excess of police presents a real problem for society. Although the number of crimes per 100 000 citizens in recent 5 years clearly decreased, Belarus stays among the leaders of crime in post-communist area. It firmly holds the second place after Russia throughout the period.

This fact contradicts a widespread myth about due public order in Belarus which is a result of high state effectiveness. It turns out that actually the inflated staff of police could not deal with crime and situation remains very bad. However, lack of information and massive propaganda make many people think differently. If you are charged with a crime, the [Leppard Law defense lawyers](#) can help you navigate through the criminal justice system, prepare and assert your legal defense, and ensure your rights are protected throughout the process.



The last diagram shows some interesting distribution of crime rates over the territory of Belarus. The cleavage between Western and Eastern Belarus, which exists in politics, culture and identity, reveals itself in criminal statistics too.

Western regions of Hrodna and Brest have a 1/3 less crime than eastern regions and 1/2 less than central Minsk region. Minsk city and region are most criminal areas, apparently because of higher economic and human concentration in the heart of the republic.



## Police on Modernization Agenda

On the 8 May this year, Lukashenka made an annual “Address to the People and the Parliament”. This time the main message of the address proclaimed a need for an extensive modernization of Belarus. One of the most important issues that appeared on modernization agenda was the reform of Ministry of Internal Affairs – Belarusian police.

This reform, according to the Belarusian leader, will become the next step of a comprehensive reform of system of justice and law enforcement, which started with a creation of Investigatory Committee (The Committee was supposed to take investigatory functions from other security services such as KGB and police and thus make this function more independent).

During the Lukashenka rule, security services as practically whole system of public administration, remained out of citizen control. Belarusians have no information about what is going on there and cannot influence or lobby any change. The only channel of information remains Lukashenka himself, who sometimes reveals major problems that exist inside the

bureaucracy.

Back in 2009, he mentioned such crimes as corruption, abuse of authority and betrayal of service interests as well as ineffective personnel policy among the problems of police. Since those times, no major changes were made to improve the work of this service.

This year, Lukashenka publicly confirmed another well-known problem of security services. He insisted that security services should act within legal boundaries. There should be no “shakedowns, reprisals, lawlessness”, when security services pursue their own interests covering under “combat against corruption”. Apparently, such facts took place systematically within the system.

Lukashenka started the reform from the very top – he sacked notorious Minister of Internal Affairs Anatol Kuliashou, who managed the crackdown on protests after presidential elections in 2010 and “silent protests” in 2011. The new minister, Ihar Shunievich, got a task to lead the reform of police.

Neither a program of reform nor any public discussion was suggested to make the process more democratic. Nevertheless, citizens know that the reform has already started in progress from scarce information pieces that appear in official media.

According to them, reform aims to improve police image in society. For example, the reformers plan to establish civic councils to consult and assess police work, to amend service regulations and create the code of honour, and to introduce some other changes to enhance citizens involving in police operation.

According to Minister of Internal Affairs, the reform will proceed in three main directions: ideology and personnel, public security police and criminal police reform. Such plans sound not bad indeed, the question though remains how the reform will actually be implemented.

## **A Delicate Challenge**

Reform of security services poses an extremely delicate task for any government, since they serve as one of the pillars of state authority in all societies. In non-democracies, where authority is not based on trust in government and rests upon coercion, the issue becomes even more complicated.

An unexpected mistake can lead to discontent among relevant social groups which will lose positions and benefits within the system. Subsequently, they can even join the opposition or create a new political group.

This group will be different from present opposition in Belarus, which consists of intellectuals, dissidents, and mere fans of “extreme sport”. The regime will have to face a coherent legion of combatants with extensive connections within the regime, power skills and thorough knowledge of the system.

Lukashenka, as a very insightful leader, fully realises all dangers of such enemies. That’s why the phrase “the most important thing is not to hurt the people (“the people” means dismissed policemen)” became a central message of the police reform rhetoric.

One may only guess what benefits the regime can suggest to those who will suffer from downsizing and restructuring of security services. Any financial tools will hardly apply here, as the reform implies reduction of expenses. For some of the policemen, gloomy future is approaching already. The regime on his part faces another challenge of badly needed change with unpredictable outcome.

*Vadzim Smok*