

Will Private Businesses in Belarus Support Market Reforms?

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Why wouldn't they?

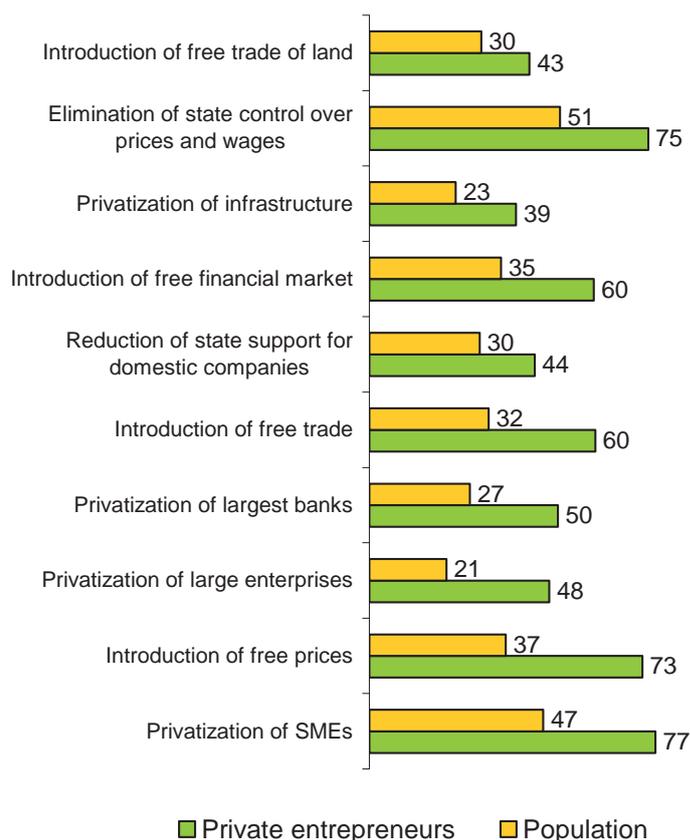
It has become common knowledge among researchers of the post-communist transition that the private sector is a natural ally of market reforms because it is vitally interested in the development of a free economy, market institutions, and property rights protection. So far, this has basically been true, especially in the case of the 'reform leaders' (mainly in Central and Eastern Europe), at least during the early stages of reform. In the course of time, however, the inconsistency and slow pace of the reform process has often led to the deterioration of such support: private entities started to adapt to the distorted institutional conditions that had been created by incomplete reforms. Some businesses found their own specific 'niches' in which they gained profits that would have otherwise vanished or been reduced had reforms continued. Thus, some entrepreneurs have been caught in somewhat of an 'institutional trap', in which short to medium-term profits are preventing them from switching to strategies that would have brought in much more substantial and sustainable profits in a long-term perspective. The more distorted a transition economy is, the more 'traps' of that kind it creates for businesses.

From this perspective, the Belarusian economy is one of the most 'trap-prone' post-communist economies. It has elements of both the command and market economic systems, the latter being made up of both the residuals from the pre-Lukashenko transition period and the newer solutions forced on the government out of necessity in order to keep the economy running. For a long time, the pro-market imperative was quite weak because the Belarusian economy was able to sustain itself due to an extremely good combination of terms of trade with both the Russian Federation and the West (thanks to the low costs of Russian oil and gas). After Russia changed its oil and gas price policy towards Belarus at the end of 2006, Belarus lost its capacities for non-market development. The Belarusian president and the government seem to be increasingly aware of this and are making some (though presently very cautious) steps towards the development of a free market and private sector.

However, the question is whether Belarusian businesses are ready to support such changes, as reforms may oblige them to abandon their comfortable 'niches' and become

exposed to increasing competition. In addition, many businesspeople accept Lukashenko's view of economic policy and simply do not believe in the efficiency of the market and the mechanisms of economic self-sustainability. If this is truly the case, then all future market reform attempts in Belarus may be seriously impeded.

Figure 1. Level of support for market reform principles by Belarusian private entrepreneurs and the whole population of Belarus (in %)



Source: IPM Research Center, own calculations

This problem was on the research agenda of the project carried out by CASE – Center for Social and Economic Research and the IPM Research Center in Minsk. The project was co-financed by the 2007 Polish Aid program of Poland's Ministry of Foreign Affairs.

(Cautious) Support for Reforms

The research shows that, despite all the disfunction in the Belarusian economic system, private businesspeople are one of the main proponents of market values. Apart from them, pro-market attitudes are only seen among employees of private companies, of which there are very few in Belarus. Their attitudes contrast with that of the whole population, which is basically against the market and prefers a paternalistic state that will ensure every person a job and a means of living.

Representatives of the Belarusian private sector are the only social group where pro-market mentality and attitudes are much stronger than the anti-market, pro-paternalistic ones. Yet within the Belarusian private sector, supporters of wide-scale governmental intervention in the economy make up a small minority of that group, constituting less than 10 per cent of the research sample of 500 private owners and managers interviewed in the project.

Although they are pro-market in principle, the majority of those working in Belarusian private businesses believe that the state should not completely withdraw from the economy and that it should exert some impact on market functioning, mainly in order to protect domestic companies from foreign competition. According to them, the state should also exercise control over the largest and the most important entities (in the infrastructure and banking sectors) and be the main land owner.

- the respondents are ready to take part in privatization
- by buying some privatized state property, but the level of
- their readiness would depend on the transparency of the
- privatization process, the availability of financial resources,
- and of course on the individual company strategy, which
- may or may not include acquiring state property.

The most commonly expressed opinion is that there should be a free market (but only for domestic entrepreneurs) in which the state should actively support domestic companies and protect them from international competition.

It can be concluded that although Belarusian private owners and managers support the idea of the market in general, this support is

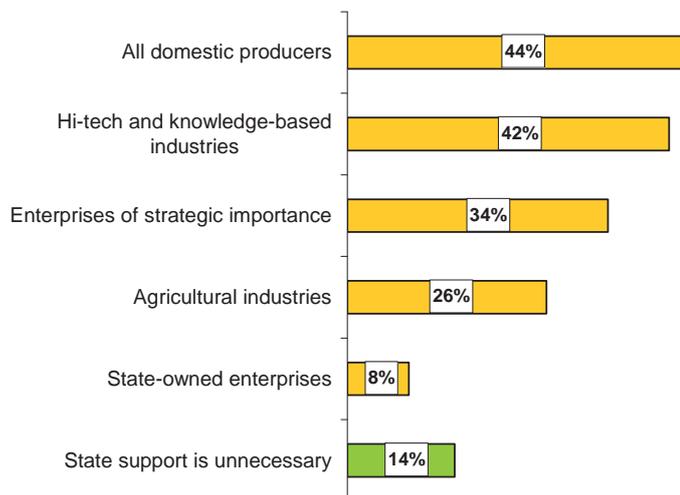
- not unconditional. The most commonly expressed opinion
- is that there should be a free market (but only for domestic
- entrepreneurs) in which the state should actively support
- domestic companies and protect them from international
- competition. In other words, Belarusians want a market
- which would only be free for them and which would be
- cushioned by the state's protectionist policy. In some
- respects, Belarusian private entrepreneurs are being
- rational here because they are aware of their low
- competitiveness due to the unfavorable and distorted
- institutional environment in which their businesses
- developed. Most of them are simply unprepared to
- compete on open markets.

Support for the Market is Divided

- However the attitudes of Belarusian entrepreneurs
- towards the market are not uniform. They can be divided
- into at least five groups. Only one of them (about 1/3 of the
- sample) manifest more or less consistent liberal market
- views. Another 1/3 of the sample is represented by two
- groups of entrepreneurs that support market principles,
- but at the same time think that certain forms of state
- intervention are necessary: in the functioning of market
- mechanisms or in ownership relations. The fourth group
- is also basically pro-market, but its representatives are
- hesitant about the balance between economic freedom
- and state intervention. It should be noted that even in the
- most 'liberal' group, at least some small role of the state
- in the economy is considered desirable. Finally, there is
- a small group of entrepreneurs which does not believe in
- the principles of market economy.

- The views of the respondents are influenced by a number
- of objective and subjective factors. On the one hand,
- their attitudes seem to be well-reasoned and mature,
- especially if we take into account the complicated and
- distorted nature of the environment in which they function.
- As a rule, they proved to be able to abstract from their
- short-term problems and needs and form their views from
- the perspective of the needs of the whole country. On
- the other hand, they naturally tend to see their personal
- experiences as universal. That is why respondents' views
- correlate with some characteristics of their businesses.
- In this respect, the type of markets in which a company
- operates is most important, especially the type of main
- suppliers and buyers, and the level of competition. A

Figure 2. Industries the state should support, according to Belarusian private entrepreneurs



Source: Own calculations

The research team noted that respondents had a similar approach towards the privatization of state-owned enterprises, which economists agree is one of the most important reforms that should be carried out. Private businessmen and managers support privatization almost unanimously, but the majority think that some restrictions (e.g. for foreign investors), as well as preferences and support (for domestic buyers) are necessary. Most of

firm's ability to stand this competition is also important in shaping the respondents' views on the principles of a market economy.

If we combine the types of entrepreneur mentalities with some vital characteristics of their firms, the Belarusian private sector can be divided into four major groups:

1. Business leaders: a rather small group that consists mainly of large older enterprises that were created in the pre- and early Lukashenko times. They operate on highly competitive markets (primarily foreign ones); their success and their ability to compete are so strong that they are not afraid of competition and functioning without state support. Such companies are objectively interested in maximum economic freedom. Therefore the views of their owners and managers are the most "liberal" of all Belarusian private businesses.

2. The vast majority of Belarusian businesses: these are 'middle aged' or 'young' small and medium-sized enterprises, which are rather successful (ranging from 'just floating' to 'quite successful'). Despite the fact that they usually function on less competitive markets, these businesses are more prone to an unfavorable economic environment and competition (or at least they consider themselves more vulnerable than the first group). Therefore, while supporting market principles in general, they prefer a more active state policy that would shelter them from intensive competition, especially from world markets.

3. A rather small group of unsuccessful businesses (objectively or in the opinion of their owners and managers): their representatives see their lack of success as a direct result of the interventionist policy of the state which makes them supporters of a truly free market economy.

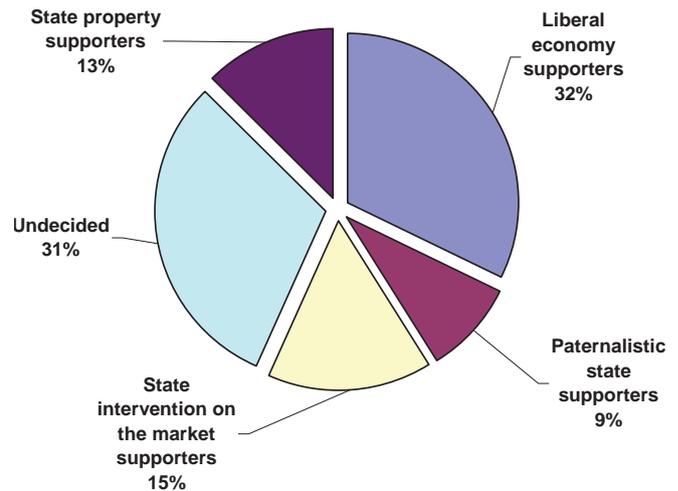
4. A peculiar group of supporters of state paternalism and interventionism: they see the market as a major threat to their companies and the state as the main factor that keeps their enterprises and the whole economy functioning. In fact, these respondents can hardly be described as entrepreneurs, because they prefer to trade in their economic independence in exchange for state protection. They are in a comfortable situation as the state removes their risk of doing business while they still receive profits.

Future Prospects for Support

Taking into account all of the above, one can try to estimate the strength of support that the Belarusian private sector would give to a team of reform-minded policy-makers. The CASE team expects that entrepreneurs would support quite radical reforms if the choice were between such reforms and no reforms at all. But if Belarusian society were presented with a choice of reform policies, the private businesspeople would be likely to choose a less liberal

- program that would ensure the gradual introduction of market principles with a high level of protection of domestic companies. In other words, if Belarusian entrepreneurs had to choose, say, between the economic policy program of Alexander Lukashenko and that of Leszek Balcerowicz, they would opt for Balcerowicz's; but if choosing between that of Leszek Balcerowicz and Vaclav Klaus, they would probably choose the latter.

Figure 3. Belarusian private entrepreneurs grouped according to their attitude towards basic economic principles



Source: Own calculations

The fact that the majority of private businesses in Belarus support free market principles makes us cautiously optimistic about the prospects for Belarus. In a situation where market reforms have become an objective necessity, they can be carried out with the support of private entrepreneurs and, although initially rather weak, the support of Belarusians employed in private enterprises. This support is expected to grow along with the development of the private sector, thus creating an increasingly strong pro-reform lobby in the Belarusian society.

For more on the problems of private business development in Belarus, as well as policy recommendations, please see CASE Network Studies and Analyses No. 357, P. Kozarzewski A. Chubrik, 'Private Business in Belarus: Market Values and Attitude towards Reforms' and No. 356 E. Rakova, A. Glambotskaya, and B. Tatarewicz, 'Small and Medium-sized Enterprises in Belarus: Factors of Success and Barriers' (both in Russian). Available at <http://www.case-research.eu>.

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