CASE WORKING PAPERS

The evolution of Belarusian public sector: From command economy to state capitalism?

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No. 12(136)/2020

CASE

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This publication is a continuation of a "CASE Network Report" series. Previous works in this series are available on CASE website: **www.case-research.eu**

This work was supported by the National Science Centre of Poland
under Grant no. 2017/25/B/HS4/01103 'The Phenomenon of «The Return of State-Owned Enterprises» in Contemporary Economy: Identification, Characteristics, and Consequences for the Economic Theory and for the Theory of Economic Policy.'

Keywords: state-owned enterprises, post-communist transition, state capitalism, institutions, Belarus.
JEL codes: L53, O17 P21, P31

Graphic Design: Katarzyna Godyń-Skoczylas | grafo-mania
DTP: Campidoglio

ISBN: 978-83-7178-694-5

Publisher:
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Abstract

Belarus was among the few post-communist countries to resign from comprehensive market reforms and attempt to improve the efficiency of the economy through administrative means, leaving market mechanisms only an auxiliary role. Since its inception, the 'Belarusian economic model' has undergone several revisions of a de-statisation and de-regulation kind, but still the Belarusian economy remains dominated by the state. This paper analyses the characteristic features of the Belarusian economic system – especially those related to the public sector – as well as its evolution over time during the period following its independence. The paper concludes that during the post-Soviet period, the Belarusian economy evolved from a quasi-Soviet system based on state property, state planning, support to inefficient enterprises and the massive redistribution of funds to a more flexible hybrid model where the public sector still remains the core of the economy. The case of Belarus shows that presently there is no appropriate theoretical perspective which, in an unmodified form, could be applied to study this type of economic system. Therefore, a new perspective based on an already existing but updated approach or a multidisciplinary approach that incorporates the duality of the Belarusian economy is required.

1. Introduction

After the fall of the communism, Belarusian authorities built a very peculiar economic system which preserved many of the features of the Soviet period (e.g. the domination of state property and central planning) and combined them with the features of a market economy (e.g. the existence of private entrepreneurship and free prices in some areas). Until the global economic crisis of 2008/2009, the 'Belarusian economic model' proved to be quite successful, allowing the country's gross domestic product (GDP) to grow by 8%-10% each year. Belarusian enterprises, which, like in Soviet times, remain predominantly state-owned, actively exported advanced industrial products such as trucks, tractors, engines and electronic appliances, as well as fuel processed from Russian crude oil. However, in the last decade, the Belarusian economy has slowed down significantly, demonstrating the limits of the economic model chosen in the 1990s.

The task of the paper is twofold. First, we analyse the characteristic features of the Belarusian economy after 1990 and their evolution: from the perspective of both economic policy and real processes and outcomes. Special attention is paid to the role of the government in the economy, especially in the enterprise sector. Second, we try to find a theoretical perspective which would help to analyse the variety of economic models in transition economies, especially highly statised ones, as in Belarus. In particular, we check the applicability of the state capitalism approach – which has recently gained popularity – in studying post-communist economies, because it focuses on an above-the-norm state involvement in the economy.

We come to the conclusion that in this period the Belarusian economy has evolved from a quasi-Soviet system based on state property, state planning, support to inefficient enterprises and the massive redistribution of funds to a more flexible hybrid model where the public sector still remains the core of the economy. This system, however, can only partially be explained from the perspective of the state capitalism approach (in its present state); therefore, a new perspective based on an already existing but updated approach or a multidisciplinary approach that incorporates the duality of the Belarusian economy is required.

The structure of the paper is the following: Section 2 is devoted to the conceptualisation of the study. Section 3 presents a historical overview of the evolution of the Belarusian economy and economic policy. Section 4 discusses the main features of the 'Belarusian economic model'. Section 5 analyses the state-controlled enterprise sector in Belarus. Section 6 concludes.

2. Literature overview and conceptualisation

In studies on post-communist economies, the 'Belarusian economic model' – its genesis, main features, evolution and effects – is largely neglected, especially when taking into account publications written in English, i.e. those present in the world debate. Consequently, the Belarusian economic model still lacks a proper conceptualisation. In the literature from the West, there are only sporadic attempts to explain the logic of the functioning of the Belarusian economic model (Nuti, 2005; Korosteleva, 2007). Western-based researchers (e.g. Korosteleva, 2013; Ioffe, 2014; Dyner and Wańczyk, 2015) have mainly analysed the economic policy of the Belarusian government, concentrating on the sustainability of the Belarusian economic system without fully examining its genesis or fundamental principles. In Belarusian literature as well, most publications (e.g. Kizima, 2010; Krishtapovich and Lepeshko, 2010; Bibik, 2011; Grechneva, 2014) have focused on performance (achievements) and not the mechanisms or costs of the economic system. These studies were largely attempts by 'mainstream' experts to justify the economic policy of the government. There have been a few local authors (e.g. Dashkevich, 2005; Akulich, 2013; Yegorov, 2013) that have attempted to dig deeper and try to explain the logic of the Belarusian economic model, but their attempts are still only a partial examination. In summary, existing studies only focus on, at most, the essence of the model, concentrating on its manifestations rather than its structural logic.

Taking into account this knowledge gap, in this section of the paper we concentrate first of all on the literature which presents possible theoretical approaches towards studying the Belarusian economic system rather than the publications specifically devoted to the country.

Thus far, there is only one (relatively old) publication (Korosteleva, 2007) devoted specifically to the conceptualisation of the Belarusian economic system. The author discusses the possibilities for its analysis from the 'classical' (Hall and Soskice, 2001; Amable, 2003) perspective of the varieties of capitalism (VoC) approach. The author concludes that such analysis is impossible because the Belarusian economy does not fit the definitions of both a liberal market economy and a coordinated market economy. This was in line with the general conclusions on the applicability of the VoC approach to most post-communist economies made in the book in which Korosteleva's paper was published (Lane and Myant, 2007). Since then, the VoC approach has evolved, taking into account the much wider diversity of market economies, and now admits that there are more basic variants of capitalism than just the two. Farkas (2016) argues that in the European Union (EU) alone one can distinguish four models of capitalism, with a fifth model specific to some non-EU countries. However, despite the expansion of the VoC approach, most former Soviet republics, including statised economies such as Belarus, are still excluded from VoC studies.

An opposite approach, which was largely unknown to international academic circles until recently because the relevant studies were published in Russian only, rejects attempts to study the economies of many former Soviet republics in the same way that market economies are studied (Kordonsky, 2016). It stresses the peculiar non-market, resource-based and redistributive character of the economic systems which have formed in these countries. Bessonova (2006) writes about a 'distributive economy' which originated in the Soviet Union and is characterised by several basic features, among which are the abuse of property rights by the state, allocation based on the discretional redistribution of resources by the state and information feedback provided not by market prices and profit but by complaints to state authorities. Kordonsky (2008) applies a similar approach and calls such a system a 'resource-based state'. Its economy is not based on a market exchange, but on the centralised accumulation of resources from the population and its organisations with their redistribution according to the government's political and economic priorities. The system is also characterised by a lack of rule of law and the omnipotence of informal institutions. This perspective was used by Papko (2017a) in his analysis of the 'state' part of the duality of the Belarusian economy.

Another perspective is economic dualism, which lays somewhere between the two approaches described above. It draws attention to the coexistence of several economic systems within one economy (Boeke, 1953). From this perspective, some post-communist economies may be treated as hybrid systems where two sectors coexist: a profit-making private sector and a subsidised state-controlled sector. Most transition countries – where this dualism existed to some extent at the beginning of transition, especially in Central and Eastern Europe –gradually abandoned this model, while Belarus remains 'one of the paradigmatic cases where a sizeable backward sector of state-owned enterprises (SOEs) still coexists with a small and viable sector of competitive and modern companies, some of which are also controlled by the state' (Bonatti and Haiduk, 2014, p. 9). Thus far, this approach has been applied directly to the economy of Belarus only in this publication and in an unpublished thesis by Papko (2017a), where he also makes use of the distribution economy perspective in his analysis of the 'state' part of the economic system. However, sometimes the state-market duality of the Belarusian economic system is put under question by researchers. As Bekus (2010, p. 108) argues, it 'strives toward preserving state property in its old, prereform condition, slightly diluted by market elements, but in general it presupposes no real market system as it is'. It should be noted, however, that during the 14 years following this statement, the Belarusian economy has made several steps towards the market and there has been some expansion of private property.

The duality (hybridity) of the system may also be studied from the angle of the economic and political duality of patrimonial capitalism (Schlumberger, 2008). This approach has been applied towards non-democratic transition countries by Robinson (2013) as a form of capitalism which is 'created as much by external pressure as by the organic development of a country's economy, and where there are constraints on economic development because of rapacious elite behaviours' (p. 144). Despite looking quite promising, no analysis of the Belarusian case has been performed from this perspective.

Another possibility – which is explored in this paper – is the use of the state capitalism (SC) approach. More than a decade ago, it was suggested by Korosteleva (2007) as an alternative to the VoC perspective; however, she hasn't explored this possibility in detail. Furthermore, at that time, studies on SC typically covered only one post-communist transition country – Russia (e.g. Lane, 2008). Studies examining China in this context should be also mentioned (although China, while it may be a transition economy, can hardly be called post-communist), beginning with the seminal work by Bremmer (2010). Since then, we have witnessed a growing body of literature on SC, which reflects a wider use of state interventionist policies than before, including in developed market economies where in many cases the state played an active role in combating the global financial crisis of 2008-2009.

Recently, transition countries have enjoyed more attention in SC studies because, in some of them, the tendency towards state interventionism has increased, even to the point of inducing changes in the their development paradigms. To start with, this applies to Poland and Hungary. Bałtowski, Kozarzewski and Mickiewicz (2020) attempted not only to study growing state capitalism tendencies in these two countries, but also to contribute to the conceptualisation of the state capitalism approach, especially when it is applied to transition economies. Previously, the term 'state capitalism' had many different interpretations, and researchers applied it in a number of different perspectives. Furthermore, there were even some authors that applied the term state capitalism to differing approaches in their own research papers. The existing definitions may be divided into broad and narrow ones. In the broad approach, SC is regarded as a market economic system[1] where state intervention in the economy is much higher than in developed capitalist countries and plays a key role in meeting political and developmental goals (Bremmer, 2010; Spechler, Ahrens and Hoen, 2017). In the narrow approach, SC is regarded as a set of policies allowing the government to have a strong and arbitrary impact on the enterprise sector (Musacchio and Lazzarini, 2012; Kurlantzick, 2016).

Bałtowski et al. (2020) propose to merge these approaches in analysis and put forward a concept of six basic features of state capitalism. These features each have specific goals, tools and core groups of beneficiaries who are chosen by the government (in market capitalism, the main beneficiaries are set by market mechanisms). The authors believe that their approach may be used for studies on other Central and Eastern European countries, and probably on other post-communist transition countries as well. These features are the following:

1) politicisation of SOEs: the government and political elite use the state-controlled enterprise sector as a source of rents;
2) politicisation of SOEs *à rebours*: the state-controlled enterprise sector (their staff, executives and affiliated trade unions, among others) is the main rent-seeker itself;
3) cronyism: the main beneficiaries of SC are private agents from outside the public sector;

1 An entirely different approach exists where state capitalism does not assume the existence of the market; rather, the state dominates the economy, which is essentially a planned socialist system (Mises, 2009; Fabry, 2019).

4) oligarchy (a consolidated form of cronyism): very powerful private agents have a very significant influence on economic policy;
5) economic populism (clientelism): a patronage system where the political elite transfers goods to clients in chosen social groups expecting their political support in return;
6) economic nationalism: the state exerts an impact on the economy the declared objective of which is to enhance, in the long run, the state's political capacity, military power or international importance. The state itself may be treated here as the major beneficiary.

The authors also describe the main tools of state capitalism in Poland and Hungary: impact through enterprises fully or partly belonging to the state, restricting the ownership rights of private businesses, regulatory tools and persuasion (pressure, threats) measures.

This approach towards studying state capitalism in transition countries seems to be the most developed thus far. Therefore, we believe that despite all the specificity of Belarus' economic system and economic policy, it is worth making an attempt to apply this approach in studies on this country, if only as a first step for further conceptualisation efforts.

3. From command economy to reluctant reforms

3.1. The ‘Belarusian economic model’: From rise to the crisis (1991-2006)

The economic structure of contemporary Belarus was formed long before the country gained independence in 1991 (Zaleski, 2002, p.11). It was built in the 1960s and 1970s as a result of rapid industrialisation, initiated by Soviet authorities. Belarus was known as an ‘assembly shop’ of the Soviet Union. Its economy was based on large enterprises in the machine building, electronics, chemical, petrochemical and agriculture industries destined to supply the entire Soviet Union. The industrial giants of Soviet Byelorussia critically depended on a supply of raw materials and spare parts from other Soviet republics (Yanchuk, 2007, p. 51).

Thus, the disintegration of the Soviet Union severely affected the Belarusian economy. In 1995, the country’s GDP fell by 34.7% as compared to 1990. The income of the population decreased by half and the number of people living below poverty line rose from 5% to 80% (Yanchuk, 2007, p. 52). The government tried to support enterprises by money emission. As a result, the inflation rate in 1994 reached 2200%[2].

As several researchers (Havrylyshyn, 2007; Rovdo, 2009; Olechnowicz, 2010) argue, a comprehensive process of market transition never started in Belarus. The government never fully liberalised prices or the exchange rate; privatisation was slow, hesitant and did not include large enterprises. In 1994, amidst a deep economic recession, the first presidential elections were won by Alexander Lukashenko – an authoritarian politician with a strong anti-market rhetoric.

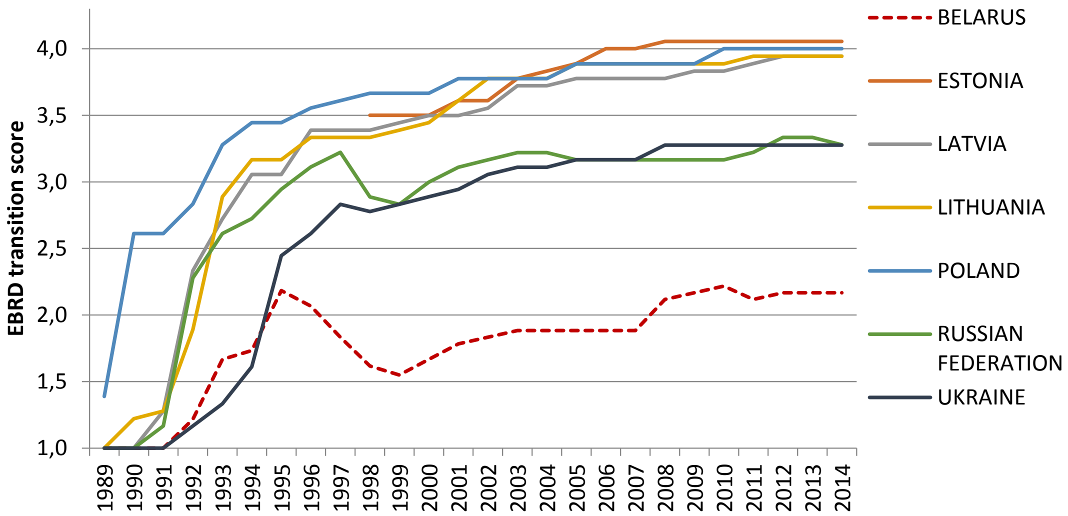
By November 1996, Lukashenko dismantled the separation of powers and consolidated control over the state in his hands. He also managed to restore non-market exchange with Russia and re-launch production capacities remaining idle since the dissolution of the Soviet Union. In April 1996, April 1997 and December 1999, the Belarusian authorities concluded a series of treaties the goal of which was to establish a common state with Russia. It was never created, but these agreements guaranteed Belarus generous economic preferences from Russia for many years ahead. Belarus was given unrestrained access to the Russian market; it was allowed to buy oil and gas at the same prices as Russian consumers, which were twice below market prices (Silicki, 2001, p. 64).

Such a policy brought quick results. In 1996-2001, Belarusian GDP grew by an average of 6.1% (World Bank, 2005, p. 5). After obtaining large preferences from Russia, Alexander Lukashenko openly contested market transition, reversing those few shallow and inconsistent reforms

2 http://databank.worldbank.org.

which had been introduced by his predecessors. The regress started in 1996 (Figure 1) and was observed in every single domain of economic transformation assessed by the European Bank for Reconstruction and Development (EBRD).

Figure 1. Market transition progress in selected post-communist countries, 1989-2014



The advancement of reforms in each country is measured by the average of six EBRD transition indicators (large scale privatisation, small scale privatisation, governance and enterprise restructuring, price liberalisation, trade & forex system and competition policy).

Source: Own calculations based on EBRD, 2015.

In 1996, Belarusian authorities took control of the biggest commercial banks and re-introduced tight price controls (Silicki, 2001, p. 60). Privatisation was virtually stopped. In March 1995, Lukashenko by his decree (*dekret*)[3] cancelled the results of the first voucher auction. Since the summer of that year, he made every privatisation deal subject to his personal decision (Silicki, 2001. p. 47). Additionally, privatisation deals usually kept the controlling stock in the hands of the government. One of the most anti-market decisions was the Presidential edict (*ukaz*)[4] – which came into effect in January 1998 – granting the state a 'golden share' right of any former state-owned enterprise which had been privatised (EBRD, 1999, p. 154). Enterprise restructuring was also frozen. By the end of the decade no single enterprise was declared bankrupt under the 1991 Bankruptcy Law (EBRD, 1999, p. 154).

3 In Belarusian law, a Decree (*dekret*) is a normative act issued by the President in exceptional cases, having the force of law and aimed to regulate the most important social, political and economic issues.

4 A Presidential Edict (*ukaz*) it is a normative act having the force of law, issued by the President in order to implement his mandate and setting (changing, cancelling) certain legal provisions.

A huge blow to the development of the private sector was the adoption of new business regulations. In May 1996, the President issued a decree requiring the re-registration of all private enterprises in accordance with recent changes in the national legislation. As a result, the number of private firms dropped by 30% due to the administrative burden this re-registration entailed (EBRD, 1999, p. 155).

State authorities finished the process of taking control over the economic system by the end of 1996, when the main elements of central planning were re-introduced. The government adopted a programme entitled 'Main directions of social and economic development for the years 1996-2000'. It set targets for economic development including, among others, the GDP growth rate, the increase in industrial and agricultural output, the inflation rate, the unemployment rate and the national currency exchange rate (Silicki, 2001, p. 50). On the basis of this document, various targets for each state enterprise were designed. Enterprises were obliged to meet targets concerning, among others, output growth, exports and wage growth (EBRD, 2008 p. 105).

By the end of 2002, the effects of stimulating factors such as privileged access to the Russian market and export subsidies were exhausted (World Bank, 2005. p. 6). However, a rapid increase in global oil prices as well as a revival in the Russian market re-launched economic growth in Belarus (World Bank, 2012 p. 4). In 2001-2008, average annual GDP growth was 8.3%, while in 2003-2008, the Belarusian economy grew by an astonishing 9.4% a year[5].

However, Minsk did not manage to use the extremely positive external environment to restructure its industry and increase the competitiveness of its products on foreign markets. Belarus became more dependent on exports of petrochemical products to the West and more attached to the Russian market in regard to the export of other products. The possibilities to increase exports were limited; therefore, the Belarusian government found a new source of economic growth. Since 2005, about two-thirds of GDP growth is generated by the increase in domestic consumption (World Bank, 2012, p. 9).

The authorities forced SOEs to increase wages, independent of labour productivity. At the same time, state-controlled commercial banks provided loans to SOEs with interest rates below the market level or even below the inflation rate (World Bank, 2012. p. 29, 36). The main recipients of these loans were SOEs in the agricultural sector, industry and construction. Nevertheless, such generous lending did not help SOEs to work more efficiently. Economists have proven that the bulk of loans were provided to inefficient enterprises and that this money was simply lost (Kruk and Bornukova, 2014, p. 4). To compensate for non-payable loans, the state regularly re-capitalised commercial banks through money emission (World Bank, 2012, p. 36).

By the end of the decade, this economic model formed as a result of President Lukashenko's ad hoc activity had already exhausted its potential. A new period in the economic development of Belarus was triggered in 2007 by the significant reduction of Russian energy subsidies.

5 http://databank.worldbank.org.

3.2. Limited attempts of market reforms (2007-2015)

The second stage of the evolution of the Belarusian economic system was triggered by growing economic problems caused by its inefficient economic model and by the decision of the Russian government to cut energy subsidies as a response to the policy of the Belarusian government, which evidently did not want to fulfil its promises on establishing a common state with Russia (Sokolov, 2007) and which would make the economic situation even worse. In this situation, in order to prevent a crisis, the Belarusian government decided to modify its policy in two areas: introduce some market elements into the economy in order to increase its efficiency and restore Russian economic preferences.

Within the first area, the government partially re-launched market reforms. In 2007, it simplified procedures for the registration of small and medium enterprises (SMEs) and for real estate transactions and granted concessions and tax exemptions for IT firms. In the area of ownership policy, in 2008, it abolished the 'golden share' rule and announced a privatisation programme which included selling the state-owned stakes in 147 industrial and agribusiness enterprises during 2008-2010. Several Belarusian industrial giants, including MTZ, which produced tractors, and MAZ, a truck factory, were corporatised. In 2011, the Belarusian government approved further plans for the privatisation of 245 SOEs and the corporatisation of 134 SOEs; however, most of these were medium-sized communal enterprises with low profitability.

In 2009, the Belarusian government liberalised all prices except for a limited number of 'socially important goods' (e.g. basic food staples, pharmaceuticals, medical services and children's goods). A progressive personal income tax with the highest rate of 30% was replaced by a flat tax of 12%. Considerable progress was made in the area of deregulation: wage control was abolished and in February 2009, the government introduced a policy of one-day registration for enterprises and individual entrepreneurs and simplified registration procedures. As a result of its deregulation reforms, Belarus radically improved its position in the World Bank's Doing Business ranking, rising from a ranking of 129 in 2007 to 58 in 2010[6].

However, most of these reforms were either inconsistent or short-lived, especially privatisation, where plans were fulfilled only marginally. And many policies remained unchanged, such as the stimulation of internal demand and financial support to SOEs as well as its fixed exchange rate policy.

In the second area – attempts to bring back Russian energy preferences – Belarus engaged in new economic integration projects initiated by Russia, such as the establishment of the Customs Union of Belarus, Kazakhstan and Russia in 2009 and the Single Economic Space, which came into force in 2012. This activity proved to be successful, gradually restoring the preferential regime in oil and gas trade with Russia, and was Russia's way of buying Belarus' support for the its integrationist policy among ex-Soviet republics. Among others, Russia abolished export duties on oil exported to Belarus and introduced a generous gas price discount. In 2012, Russia also provided Belarus with a USD 3 billion stabilisation loan. However, part of the deal was the full

6 http://www.doingbusiness.org/.

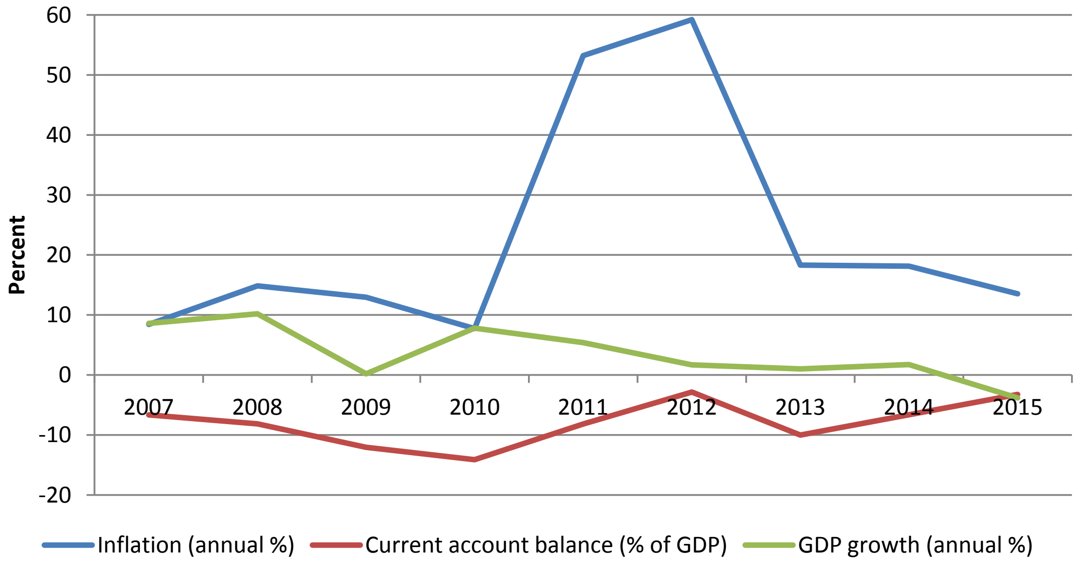
transfer of ownership rights of Beltransgaz, the Belarusian national gas transporting company, to Russia's Gazprom. It should be noted, however, that by the end of the discussed period, the value of the subsidies started decreasing again.

Despite the substantial success of Belarus' relationship with Russia and some progress in market reforms, the ultimate goal of increasing the growth potential of the Belarusian economy was not achieved. After Russian energy subsidies were increased in 2011-2012, the Belarusian government apparently lost its motivation to continue the hesitant and partial reforms it started four years earlier, especially in the enterprise sector. In May 2012, the government abolished its previous privatisation plans and declared that new privatisation deals would take place on ad hoc basis (EBRD, 2012, p. 101). By the end of 2012, however, the privatisation process had been reversed, with two large enterprises that had been previously privatised being taken over by the state (EBRD, 2013). Belarusian authorities boosted the practice of wide-scale support for internal demand through the increase of salaries and the massive emission of credits to SOEs. Until 2011, the internal demand factor indeed helped the Belarusian economy to grow, but it led to a rapid increase of imports and, as a consequence, to the increasing current account deficit (up to 15% of GDP in 2010) and inflation, which skyrocketed to 53-59% in 2011-2012 (Figure 2). Together with the fixed exchange rate policy, it created the grounds for the series of financial crises in 2009-2015, which eventually led to stagnation and even recession in 2015 – for the first time since 1995. An important role was also played by external conditions, for example, the falling prices of major Belarusian export commodities, and the stagnation of the economy of its major trade partner: Russia.

The reaction of the authorities to these crises was the successive devaluation of the national currency (by 25% in 2009, 56% in 2011 and 36% in 2015), which was aimed at stimulating exports and avoiding the depletion of international reserves, and was accompanied by some austerity measures such as the temporary tightening of fiscal policy and limiting the growth of salaries. However, between the crises, the government kept returning to its previous practice of emission lending and forced wage increases (EBRD, 2009; World Bank, 2012; Naviny.by, 2015).

In 2015, when the Belarusian economy faced a recession, high macroeconomic disbalance, stagnation in main export markets, a continuous reduction of Russian energy subsidies and several failed attempts to re-launch economic growth, it became obvious to the government that such practices were no longer sustainable and that a more substantial revision of its economic policy towards one that was more market-oriented was imminent.

Figure 2. Inflation, current account balance and GDP growth in Belarus, 2007-2015



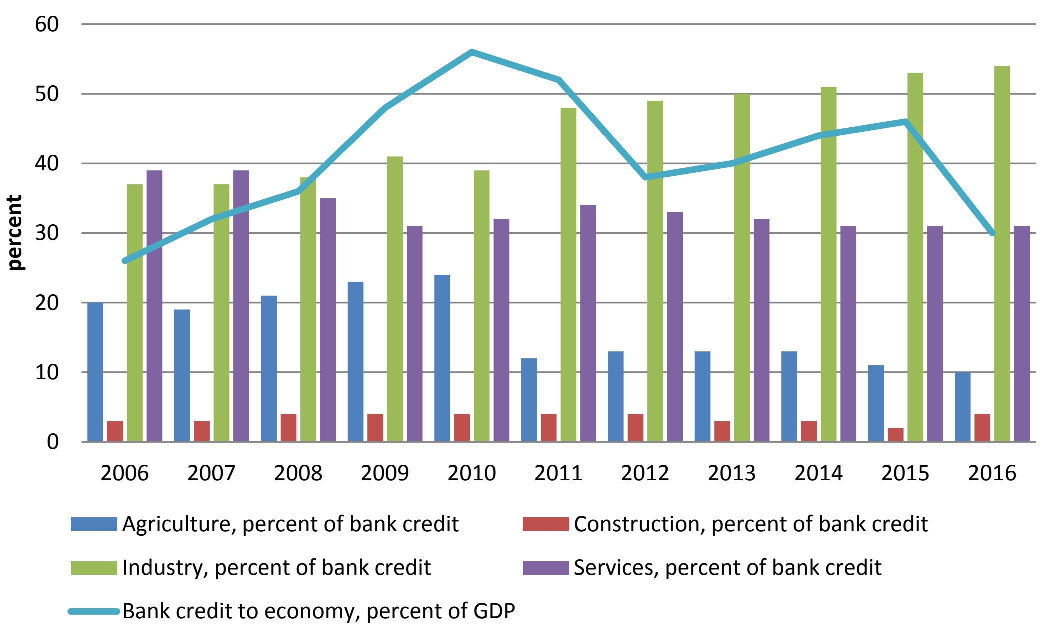
Source: World Development Indicators (WDI) Database.

3.3. Towards stability based on market mechanisms (since 2015)

The major change to Belarusian economic policy occurred in 2015 with the government's refusal to stimulate GDP growth at any cost. The government began to prioritise macroeconomic stability over increases in output and wages. The Council of Ministers appointed at the end of December 2014, as well as their successors appointed in August 2018, included several moderate reformers with liberal views. They immediately tightened monetary policy in order to reduce inflation. The National Bank increased the interest rate well beyond the inflation level. In 2015, for the first time in the history of independent Belarus, the National Bank liberalised the exchange rate regime and refrained from interventions in the market. A flexible exchange rate ended the persistent problem of the depletion of foreign currency reserves, which had previously resulted in shock devaluations (Alachnovič, 2015).

Another important decision was reducing credit to the national economy (Figure 3). However, the structure of the credit supply remained almost unchanged. The government continued to support mainly SOEs in construction, industry and services through state-controlled commercial banks. But the volume of this lending decreased by one-third. After 2014, the government continued to reduce its support to state-owned farms, as the loans to the agricultural sector proved to be the most inefficient (World Bank, 2018, p. 23).

Figure 3. Credit supply to the economy: growth and sectorial composition, 2006-2016



Source: World Bank, 2018.

These measures allowed for the stabilisation of the national currency and the reduction of inflation from 18.1% in 2014 to 4.3% in 2018. However, the decrease in inflation was coupled with stagnation in real wages and quite anaemic economic growth. The external debt accumulated in previous years reached 73.4% of GDP in 2017 and generates a constant need to refinance it (EBRD, 2018)

In order to stabilise public finances, Belarusian authorities undertook several unpopular measures. In 2016, the authorities increased household tariffs for the supply of water, electricity and heating considerably and made a commitment to phase out all subsidies to communal services for households by 2019. Another unpopular measure aimed at balancing public finances was the increase of the retirement age for men from 60 to 63 and for women from 55 to 58 by 2023.

Austerity measures were combined with some liberalisation steps. In January 2016, the government abolished price controls on socially important goods and eliminated volume output targets for SOEs (EBRD, 2016). In 2017, a favourable taxation and regulation regime was created for IT firms and supporting services (EBRD, 2018).

Decreasing state support of SOEs negatively affected their functioning and caused their employees to search for better salaries in the private sector, mainly private SMEs. This inclined the government to start perceiving SMEs as the main absorber of the released labour force and to liberalise the regulatory environment for them (Sekhovich, 2018, p. 262). In 2017, the authorities radically reduced the formalities needed to open a business in 18 industries (e.g. retail, hotel and tourist businesses and catering). However, in the opinion of business, the credibility of the liberalisation initiatives was undermined by the initiation of criminal cases against several well-known businessmen accused of corruption and tax avoidance (Sekhovich, 2018, p. 263).

At the same time, the Belarusian authorities demonstrated no interest in decreasing the share of the state sector and reducing the role of big enterprises. Unlike in 2011, no plans of privatisation were declared. The political elites are still trying to keep the economy under their 'manual control'.

As before, economic policy measures were accompanied by attempts to gain as many Russian energy preferences as possible. The Belarusian government engaged in intensified disputes with Russia over the price of gas and crude oil with rather unsatisfactory results (Zajac, 2016; World Bank, 2017; Stepanova, 2018). Eventually, Belarus managed to preserve a certain level of preferential treatment, but it became obvious that this resource for the Belarusian economy had lost its importance: first, because of the diminishing political will of Russia to subsidise their neighbour's economy and second, because the economic base for such treatment has been shrinking since 2015, as Russia has gradually increased oil prices in the domestic market in an attempt to make oil trade more transparent and increase tax revenues. The President of Belarus declared this policy will incur the economy of Belarus losses equal to USD 10.6 billion (Belta, 2019a).

There are also other factors which decrease the attractiveness of Russia for the Belarusian authorities. First, due to stagnation in the Russian market, it cannot absorb as many Belarusian goods as before. Furthermore, Russia is becoming more and more insistent about full integration between the two states, which in fact would mean the incorporation of Belarus by Russia – and President Lukashenko strongly opposes this perspective (Belta, 2019b). In this situation, the conditions for obtaining Russian support become politically inacceptable.

It may be argued that this reversal of the role of Russia from a source of hope to a source of threat is additional motivation for the Belarusian government to move towards cautious but pro-market reforms.

4. State sector in Belarus: Data and analysis

4.1. How big is the state? The share of the public sector in the Belarusian economy

A real assessment of the private sector's role in the Belarusian economy is extremely difficult. Official statistics do not allow for drawing clear boundaries between the private and the state-owned sectors. According to the National Statistical Office (Belstat), only communal or state unitary enterprises (*unitarnoye predpriyatie*)[7] belong to the public sector. At the same time, Belstat classifies all joint stock companies as private, even those where the state remains the only shareholder. State-controlled joint stock companies are very common in Belarus, with truck factory MAZ or MTZ tractor plant being the most prominent examples.

This leads to significant discrepancies in estimations of the size of the Belarusian state sector. According to the EBRD (2015), it remains one of the largest among all post-communist countries: about 70% of Belarusian GDP. At the same time, Belstat argues that the Belarusian economy is mostly private[8]: in 2017, only 27.5% of the national value added was generated by communal and state unitary enterprises, whereas an additional 18.5% was produced by the corporations where the state controlled over 50% of the shares.

The real role of the state in the enterprise sector may be even bigger than the EBRD estimations. First, there are many opportunities for state authorities to intervene in or assume control of enterprises. Second, there are strong doubts about the independence of many formally purely private companies subordinated to Belarusian state institutions which significantly restrict the property rights of the owners. Within the bundle of rights (Alchian and Demsetz, 1973), the authority to use property is most commonly violated. Good examples of such enterprises are Amkodor JSC, a large producer of road building, municipal and forestry equipment and Milavitsa JSC, the biggest Belarusian lingerie producer. Both of these companies are privately owned. However, they have to report to the state authorities the results of their business activity and follow government guidelines to meet the goals set by the state authorities. Amkodor JSC is directly subordinated to the Ministry of Industry, whereas Milavitsa JSC, alongside 85 other private and state-owned enterprises, belongs to the Bellegprom state consortium. In practice, it

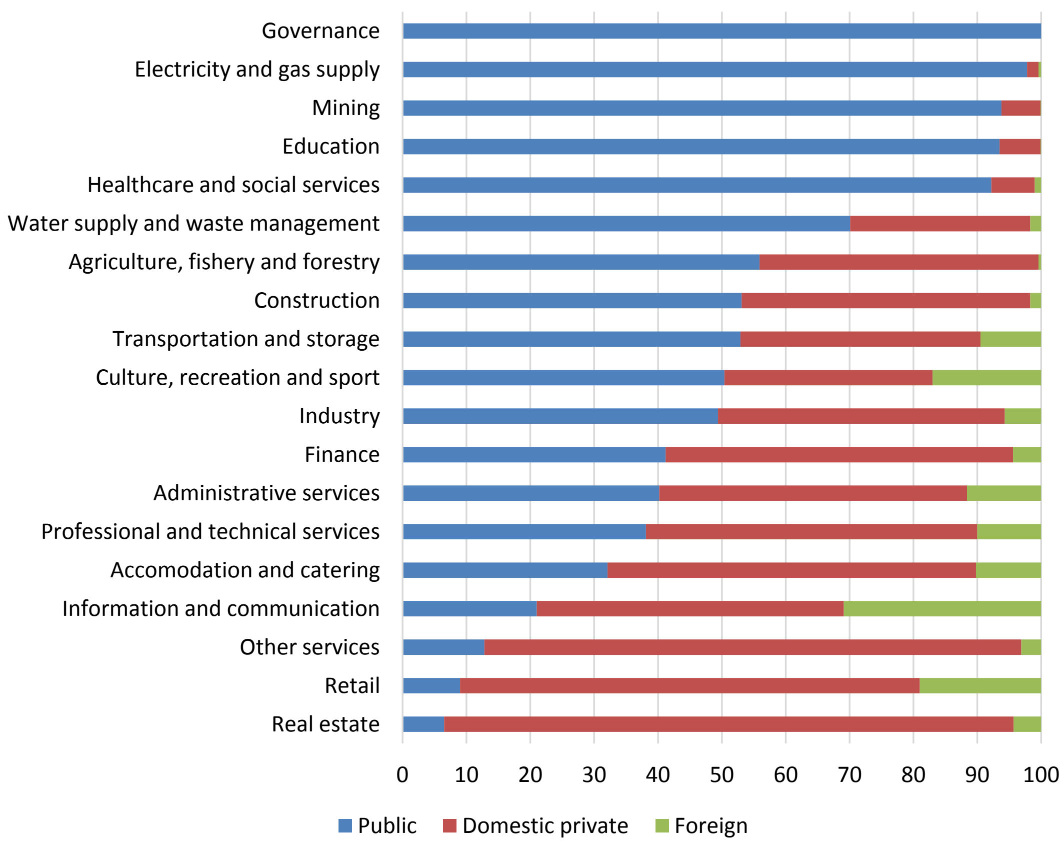
7 According to Art. 113 of the Belarusian Civil Code, a unitary enterprise is a business entity which has no ownership rights to the assets it uses in operations. It is a very common form of enterprise which operates state or municipal property.

8 Data provided on the authors' request.

means that the government may impose on these companies output volume, prices, salary levels and other indicators.

In our study, the notion of state-owned enterprise, state-controlled enterprise or simply state enterprise refers to an enterprise of any legal form where the significant share of assets remains in the hands of the state or municipality and where the managers are heavily controlled by public authorities. One needs to keep in mind that Belarusian authorities exercise a disproportionally strong power over the enterprises where they have only minority stakes, which is leveraged mainly by the reporting requirements towards the relevant branch ministry and the right of the state shareholder to interfere in the business decisions of the companies. Therefore, in Figure 4, all enterprises having public authorities among their shareholders are considered as state controlled.

Figure 4. Share of gross value added produced by the public sector in various economic activities, 2017



Source: Belstat, own calculations.

Based on Belstat data, one may conclude that the state sector in Belarus produces over 48% of the gross value added and employs over 57% of the labour force, which seems to be a quite conservative estimation because according to another study (Akulova, 2015), the state sector may produce 74-75% of the total production volume and employ up to 69-82% of the workforce. SOEs dominate in industry, mining, construction, transportation and agriculture. They form vertically integrated corporations composed of a big enterprise assembling final products and a multitude of smaller units producing intermediate goods. This type of structure allows loss-making enterprises to avoid bankruptcy by attaching them to more efficient producers (World Bank, 2012, p. 43-44). Among SOEs, big firms prevail. For instance, an average industrial SOE in Belarus employs 525 workers, while a private enterprise in industry – only 28 (Belstat, 2018b, p. 37).

In a developed market economy, an SOE usually has objectives other than just profit generation for its owner and it pursues a general goal of maximising value for society through an efficient allocation of resources (OECD, 2015). In Belarus, the functions of SOEs are set even wider and include the direct provision of social services regardless their main area of operation. Like in Soviet times, SOEs maintain hospitals, childcare and sport facilities, and even restaurants and museums (Ehrke, Shymanovich and Kirchner, 2014, p. 11).

Therefore, the Belarusian economy is no longer just a simple copy of the Soviet economic system. The private sector produces a substantial part of Belarusian GDP, although its distribution across sectors of the economy is highly uneven. Such an ownership structure of the economy is a clear result of delayed privatisation and the discriminative policies applied to the private sector. Belarusian authorities have managed to keep control over the overwhelming majority of 'old' enterprises inherited from the Soviet period. This domination of state ownership in industry, construction and transport, combined with hundreds of thousands of people employed in public administration, state-owned education and the healthcare system, allowed the government to keep direct economic and political control over the majority of population. Private enterprises, in their turn, had to develop in new niches, which emerged after the fall of communism and were not occupied by Soviet industrial giants. Private business has also taken control of the few spheres from which the state has withdrawn, most probably, due to high control and maintenance costs (e.g. road transport and retail). Private firms, which are predominantly domestic, are mainly concentrated in services and the information industry – e.g. in retail, public catering, consulting, advertising and computer programming (Pelipas et al., 2014, p. 49).

Foreign direct investments (FDI) form just a tiny part of the Belarusian economy: foreign-owned companies contribute merely 3.5% of the gross value added. According to National Bank of Belarus data[9], by the end of 2018, the total amount of FDI was only USD 13.1 billon. The biggest foreign investor in Belarus is Russia (USD 4.0 billion, 30.1% of total FDI) and the second biggest investor is Cyprus (USD 2.3 billion, 17.6%). Taking into account that Cyprus is widely used as an off-shore investment platform for Russia (Repousis, Lois, and Kougioumtsidis, 2019) and other former Soviet republics including Belarus (Sidoruk, 2017), Cyprian investments may

9 http://www.nbrb.by/statistics/foreigndirectinvestments.

largely be of Russian descent with many of them simply domestic investments that have taken a round trip for tax avoidance purposes. The highest shares of foreign-owned companies (Figure 4) are found in IT and communication (Belarus became popular for outsourcing IT services for European countries) and retail, with big chain stores entering the Belarusian market, whereas the highest volume of FDI was directed to industry (40.1% of the whole FDI inflow) (Mukha, 2019).

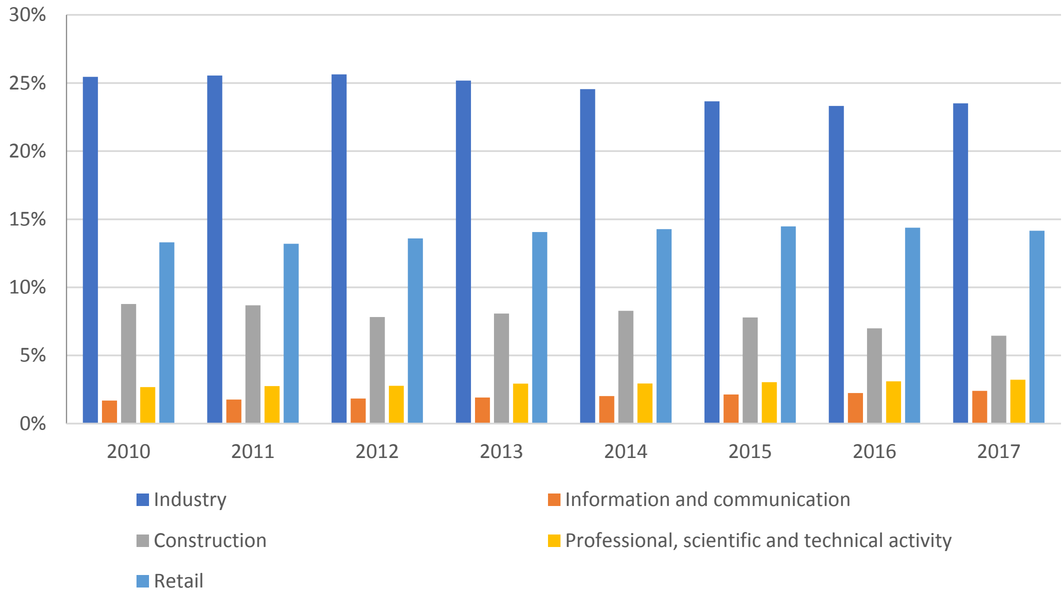
4.2. Away from the command economy? The evolution of the public sector since 2007

SOEs still dominate in the Belarusian economy; however, since the beginning of the 1990s, their share in the economy has slowly but constantly declined. In the last decade, this process has taken a new dynamic. According to official data, the contributions of SOEs to the value added declined from 61.4% in 2007 to 48.1% in 2017 while employment in the public sector fell from 68.3% to 57.7% during the same period. The most significant 'losses' occurred in construction – one of the sectors with the highest presence of the state. The contribution of state-owned construction enterprises to GDP contracted almost by half (both in relative and absolute terms), while the number of employed decreased by one-third. It is important to note that the output of state-owned construction firms has shrunk much more than the output of private enterprises. This faster decline of SOEs has allowed private business to increase its share from 35% to more than 47% (Belstat, 2015, p. 332; Belstat, 2018a p. 323).

Very similar changes occurred in some branches of industry. The share of SOEs in the output of the whole industrial sector has decreased only slightly: from 73.9% in 2011 to 70.4% in 2017. At the same time, in the production of vehicles and machine tools and in the woodwork industry, the share of private firms has increased by more than 10 percentage points. It may signify that private firms demonstrated higher efficiency and resilience to the crisis caused by the decrease of state support and stagnation in the Russian market, which was the main destination for Belarusian exports (Belstat, 2016; Belstat, 2018b).

While the contribution of state entities to the Belarusian economy since 2007 has evidently shrunk, the contribution of economic sectors dominated by private firms (retail, business services and scientific activities) has remained at least stable (see Figure 5). The IT sector even managed to double its contribution to GDP both in relative and absolute figures (although its share is still modest – about 5%).

Figure 5. Employed by spheres of economic activity (% of total)



Source: Belstat.

Very interesting changes occurred in the biggest sector of the Belarusian economy controlled by private firms, namely in retail. Since 2010, big enterprises have increased their share from 40% to 56% of the total turnover.

On the one hand, one may see a natural process of concentration in retail. The big chain stores are winning the competition with smaller and less efficient shops. On the other hand, such concentration corresponds to the interests of the Belarusian authorities. They do not see SMEs as the backbone of the national economy and thus try to establish good relations with big private firms. The government already makes such attempts, giving more space to the larger private domestic and foreign investors in food production, machine building, transportation, retail and IT (Belarus.by, 2019).

For instance, the largest employer in Belarus is no longer a Soviet industrial giant, but the private retail company Eurotorg LLC, which is registered in Cyprus. In 2015, it employed more than 30 thousand people, while the biggest state-owned enterprise, Minsk truck factory MAZ, employed 18.6 thousand (Probusiness.by, 2015). Other examples of private investors who managed to 'build into' the centralised and state-regulated economy of Belarus are Stadler Rail AG – a large Swiss manufacturer of trains which opened its factory near Minsk in 2014 (Yaroshevich, 2016), and VMG Group – a Lithuanian woodwork company producing furniture for IKEA, which opened its factory in Mogilev in 2013 (Melekhovets, 2018). Since the beginning of the

2010s, the Belarusian government has made substantial efforts to attract Chinese investors to the construction, chemical, automotive, energy, electronics and agriculture industries. However, the results are yet to come (Manionok, 2018).

If the official figures are correct, the share of the private sector in Belarus in the last decade is growing mainly due to the expansion of big domestic and foreign companies. One can draw such a conclusion from the fact that the share of (predominantly private) SMEs in employment remains unchanged since 2009, while the share of the public sector in employment is declining. In 2011, almost 63% of all employed were working in the public sector, whereas in 2017, this share decreased to 57.7% (Belstat, 2018a). A simple economic structure based on large private enterprises may be considered by state authorities as the ideal solution, allowing for the reduction of subsidies to whole sectors and keeping businesses under political control. For the government, it is much easier to deal with several big players, even those of foreign descent, than with a large number of small private businesses.

As it has already been mentioned, the influence of the state authorities over the Belarusian economy is not related to the share of the state sector alone. It is also related to the written and unwritten rules of the game imposed by the state, which restrict the private sector and give the advantage to SOEs. How Belarusian authorities manage SOEs and ensure their domination in the national economy will be described in the next section.

5. Written and unwritten rules: The state as a main actor in the Belarusian economy

5.1. Ownership function of the state

According to Belstat (2019) data, Belarusian authorities exercise ownership of over 14.3 thousand enterprises (p. 34). As it has already been mentioned, the legal form of SOEs in Belarus is either a unitary enterprise, which operates the assets belonging to local or central authorities, or a joint stock company, which has public authorities among its shareholders. The State exercises its ownership function according to a decentralised model (Vagliasindi, 2008). This means that SOEs in Belarus are not placed under the responsibility of one body but rather under several entities: relevant sectoral ministries, government committees and local authorities. Their ownership functions are not separated from management functions and are mixed with regulatory functions. The government and local executives perform ownership functions, influence production process and have the power to modify the regulatory environment where SOEs operate (Avtushko-Sikorskii, Burak, and Miroshnichenko, 2016, p. 29).

De jure, the main owner of state assets in Belarus is the governmental State Property Committee (SPC). In practice, ownership functions are given to nine ministries (e.g. the Ministry of Transportation, Ministry of Healthcare, Ministry of Transport and Ministry of Communication, among others.) as well as to regional and local executives (Avtushko-Sikorskii et. al., 2016, p. 21). Other managers of state assets are five state consortiums the origins of which can be traced back to the 'branch ministries' of Soviet times (Lavnikevich, 2015). Each consortium unites several dozen large enterprises from five different industries: petrochemicals, light industry, food, timber and woodworking, as well as wholesale trade. State consortiums do not have the status of ministries but perform very similar functions. They have an impact on economic policy, issue legal acts and help to achieve the economic targets established by the government. The membership of private enterprises in state consortiums is not obligatory, but state authorities often force private companies to join (Avtushko-Sikorskii et al., 2016, p. 20).

In the last decade, the Belarusian government has established a second, lower level of this ownership hierarchy. Since 2010, it has gathered about 800 SOEs into 102 state holdings (Ministry of Economy of the Republic of Belarus, 2016). The goal was to decrease the number of entities under the direct supervision of the government (the SPC) and facilitate the process of property management. The authorities also wanted to improve the financial conditions of the loss-making enterprises by attaching them to more profitable entities. Avtushko-Sikorskii et al. (2016, p.33) point out that by concentrating SOEs in state holdings, the authorities expanded the management practices previously used in state consortiums onto the broader range of enterprises.

The managers of unitary enterprises are appointed directly by government bodies or local authorities. The system of appointment in the biggest state-controlled joint stock companies is not very different. The functions of the board of directors in the majority of such companies have been significantly constrained by the regulations issued by the ministries and state consortiums. They do not act as independent supervisory and managing bodies, but as a channel to receive government instructions. Therefore, the boards of the majority of the state-controlled joint stock companies have been abolished and supervision over these enterprises has been transferred directly to government bodies (Avtushko-Sikorskii et al., 2016, p. 37).

5.2. State planning system

One of the fundamental features of the Belarusian economic model is the planning of economic activity by state authorities. Every five years, the Council of Ministers adopt long-term (15-year) and mid-term (5-year) plans for the social and economic development of the country. All economic development plan are prepared by the Ministry of Economy in cooperation with the Ministry of Finance, the National Bank, other ministries and state consortiums.

The National Strategies designed for 15 years establish general priorities in economic and social development. Despite their long-term character, these documents provide detailed information about the goals which the government expects to achieve in social, economic, ecological and regional policies. For instance, the National Strategy for the years 2015-2030 in its chapter on the economy describes the industries the state will promote (such as IT, high-tech and export-oriented industries). It provides targets for each industry (such as output growth, productivity of labour and export growth, among others) and describes the way in which these targets will be achieved. More precisely, the strategy specifies the investment projects, production practices and policy reforms which are expected to bring success (Ministry of Economy of the Republic of Belarus, 2014. p. 45-69).

The five-year plan for social and economic development is very similar to the long-term plan. It sets economic targets (GDP growth, export growth, increases in the productivity of labour, fixed capital investments and population income, among others) and specifies the policy reforms and projects to be implemented on a mid-term perspective (President of the Republic of Belarus, 2016). On the basis of this document, the Council of Ministers drafts an Action Plan which contains a long list of precise measures to be implemented in each aspect of social and economic policy. This Action Plan includes dozens of quantitative indicators the government expects to achieve (Council of Ministers of the Republic of Belarus, 2017).

Finally, each year, the President of Belarus by his decree approves a Prognosis of Social and Economic Development containing several growth targets (in such areas as GDP and exports, population income, inflation and FDI, among others). Basing on these indicators, the government composes 'a comprehensive list of targets in financial and export activities' (President of the Republic of Belarus, 2018). It is important to note that in recent years this list has been reduced from 19 to 7 goals. Meeting these targets is obligatory for all SOEs, firms participating in state consortiums and especially for the group of 'GDP-forming enterprises'. The latter group includes approximately 100 of the largest state-owned Belarusian firms. They are named on the list of enterprises where the implementation of state plans is 'a subject of the government's special control' (Council of Ministers of the Republic of Belarus, 2005). Such particular attention to these enterprises results from the fact that they produce more than half of the country's industrial output (Zayats, 2010). In fact, these 'national champions' are the key element of the economic planning system. They are the main agents implementing the government's plans and the achievement of the targets specified in these plans is impossible without them.

On the basis of the prognoses adopted by the government, all SOEs are obliged to draft their own development plans for both five- and one-year perspectives. The plans of the 'GDP-forming enterprises' must pass through a long line of approvals. They are consulted and adopted by the heads of regional (*oblast*) administrations, state consortiums' boards of directors and ministries (Council of Ministers of the Republic of Belarus, 2005). The implementation of these plans is supervised by the Ministry of Economy and the heads of the state consortiums (Council of Ministers of the Republic of Belarus, 2004).

The performance of other non-'GDP-forming' state enterprises is supervised by lower level authorities. However, this does not mean that they have more freedom in their economic activity. Economic development plans drafted by 'ordinary' companies with state participation (though not necessarily with majority state stock) are consulted and adopted by the executives of *rayons* (districts) – administrative units of the lowest level (Vitebsk District Executive Committee, 2007). The implementation of these plans is supervised by the vice-heads of the *oblast* (region) administration who are responsible for economic matters and by their analogues on a district level (Vitebsk Regional Executive Committee, 2005).

Belarusian law clearly states that if a state enterprise fails to achieve its expected targets, its director should be 'brought to administrative responsibility' and the 'irregularities' should be immediately corrected (Council of Ministers of the Republic of Belarus, 2005). Failure in plan implementation can have negative consequences for state officials on all levels. Final responsibility for the realisation of the Prognosis of Economic Development is the Prime Minister. Every four months he reports to the President regarding the fulfilment of indicators provided in the state plan (Zlotnikov, 2009, p. 72).

Such a rigid planning system makes it harder for these enterprises to adjust to the changing economic environment, especially in times of crises. Until recently, they had to meet output targets and maintain production levels even when demand was falling. This resulted in growing stocks of unsold goods. State plans also require SOEs to increase salaries even when productivity stagnates, waste money on unnecessary equipment to meet investment targets, and retain excessive labour force because it is forbidden to worsen employment statistics (Zayats, 2010). However, the recent economic problems have caused the authorities to reduce the list of economic targets and start looking at ways to make enterprises more flexible.

5.3. Discrimination of the private sector: Subsidies, trade protectionism and formal and informal barriers

The state in Belarus remains the main source of income for the majority of the population. To start with, it pays salaries to those working for the public sector, which is nearly 60% of total employment. Additionally, state contracts provide revenues for a large part of private firms, and the policy of public authorities strongly influences the profitability of the rest. It is the state which defines the rules of the game in the Belarusian economy; the private sector is clearly subordinated to the state-owned sector. Such domination is ensured due to the system of legal and extra-legal barriers protecting the Belarusian public sector from domestic and foreign competitors.

The conditions established by the state authorities for private business significantly differ from the conditions for SOEs. The majority of private enterprises work under hard budget constraints, i.e. the state does not bail them out or support them in another way if they incur losses. State enterprises, in contrast, benefit from various types of support and do not have to fit into hard budget frameworks (Yegorov, 2013. p. 78; Ehrke et al., 2014, p. 3).

As it has already been mentioned, subsidised credits given by state-owned commercial banks are the main instrument to support loss-making enterprises in Belarus. The adverse effect of the cheap money given to SOEs is the expensive credit given to the private sector. The banks try to compensate for the losses produced from supporting state companies by increasing the price of loans to private firms (Yegorov, 2013, p. 78).

The toolkit for state aid is much larger than simple financial support. As Valery Yanchuk (2007) explains, state support may take the form of tax exemptions, the sale of raw materials and energy at reduced prices, the refund or remission of debt, the leasing of equipment at preferential terms and preferential treatment during participation in public procurement contracts, among others (p. 60). Private enterprises are deprived of all these benefits.

A very powerful tool helping the state to keep private enterprises out of the market is the rigid vertical integration of SOEs and the non-market exchange among them. For instance, state-owned farms are obliged to sell almost all their products to food processing SOEs at very low prices set by the government. As a result, these farms do not receive enough funds for development and become entirely dependent on state support (Babitski, 2003, p. 692). On the other hand, the low prices of the raw materials stimulate food-processing enterprises, many of which sell their products abroad and receive high export revenues (Yegorov, 2013, p. 79). Therefore, food processing SOEs have no need to buy more expensive products from private farms. As a result, private farms have very little space to develop. The situation of private food-processing enterprises is not much better because they can hardly compete with SOEs benefiting from cheap raw materials. This discriminatory pricing policy is widespread in other export sectors, e.g. in the machine building industry (Yegorov, 2013, p. 79).

However, the state authorities do not always reward successful 'national champions' with generous state aid. The SOEs the government considers as 'highly profitable' have to pay an additional lump sum payment to the National Development Fund. Such a policy discourages SOEs from undertaking potentially promising activities. State giants are afraid to find themselves in the category of 'highly profitable' and bear additional costs instead of making profits (Ehrke et al., 2014, p. 20).

This policy of profit redistribution does not only help to ensure the dominance of SOEs, but it produces a chronic illness of the Belarusian economic system: high shares of loss-making enterprises and enterprises with low profitability (Pyko, 2007, p. 22). About 50% of all enterprises in Belarus have negative or low (less than 5%) profitability of sales. This figure has remained stable since the beginning of the 2000s (Yegorov, 2013. p. 79).

The government ensures the dominance of SOEs on the Belarusian market not only through generous subsidies and profit redistribution, but also through trade protectionism. The volume of imports to Belarus is regulated by the decisions of the Council of Ministers and Presidential decrees. The President regularly orders domestic enterprises to replace imported goods with domestically produced ones. Each year, the government approves a long list of 'import substituting goods'. The Council of Ministers gives tax breaks to the Belarusian enterprises producing these goods and prevents foreign analogues from coming to the Belarusian market (Daneyko, 2012; Akulich, 2013).

The Belarusian market remains difficult to penetrate even for products from Russia and other members of the Eurasian Economic Union (EEU). Due to the Customs Union existing within the EEU, Belarus cannot set high tariffs on imports from Russia and other EEU member states. Therefore, the Belarusian government has to regulate the volume of imported goods by administrative measures. Among the greatest obstacles on the Belarusian market, the Russian Ministry of Economic Development (2019) mentions the Presidential edicts and the government's decisions obliging SOEs to buy only domestic agricultural equipment, trucks and buses. The 'product range lists' issued by the Council of Ministers of Belarus oblige shops, supermarkets and restaurants to sell a 'minimal number' of domestic brands. These lists include all kind of goods produced in Belarus – from dairy products to textiles and electronics. A similar measure is introduced in the pharmacy branch. Imports of popular consumer goods such as alcohol and tobacco are reserved to several dozens of firms annually appointed by the President.

It is important to note that some of the powerful tools to apply pressure on the private sector cannot be found in the official laws and regulations. Recent studies of Belarusian SMEs (Papko, 2017b) have shown that Belarusian authorities have developed a broad set of informal ways to extract resources from private firms and control the expansion of the private sector:

1) fiscal and criminal repressions;
2) forced corporate responsibility;
3) restricting market access;
4) abuse of property rights.

Regarding fiscal and criminal repressions, this occurs when local authorities and state agencies routinely use real or alleged violations of the complex regulations to blackmail private enterprises and extract resources from them. Regular fines imposed on SMEs perform the function of informal taxes (Papko, 2017b, p. 112). Owners of large enterprises often face criminal prosecution on tax avoidance charges. Belarusian experts point out that the persecution of big business increases in times of crises. In such a way, state authorities punish those who are reluctant to provide resources to the state. Repressions also help to discipline others and make them more ‘cooperative’ (Smok, 2017). These practices aimed at entrepreneurs are not hard tasks because the exaggerated legal requirements make full compliance virtually impossible, which exposes firms to pressure from law enforcement bodies and inspections.

Forced corporate responsibility is another extractive practice, namely, forcing private enterprises to finance or directly implement public projects. Afraid of sanctions, private enterprises provide public authorities with unpaid goods and services. They must finance the construction of public facilities such as schools, hospitals, stadiums and roads and they are required to sponsor cultural and sports events or support loss-making enterprises – for example, collective farms. As one of the richest Belarusian entrepreneurs has recently confessed, ‘If you want to develop your business, once asked, you will build an ice hockey arena’ (Marcinovič, 2015). This forced corporate responsibility results from the insufficient amount of resources that local authorities have at their disposal as well as from the authoritarian traditions of the post-Soviet administrative apparatus. If local authorities do not have enough resources for the realisation of their tasks, they perceive taking these resources from SMEs as fully legitimate.

Restricting market access to private companies began with the attempts of public authorities to support local SOEs. The authorities may ban ‘outsider’ private enterprises from entering the local market. Local private firms competing with SOEs may be removed from the market under the pretext of non-compliance with technical standards or sanitary requirements. Local authorities may informally forbid both private and state-owned shops to buy products from other regions. These monopolistic practices are especially visible in rural areas where there are much fewer jobs than in cities (Papko, 2017b, p. 116).

Abuse of property rights also hampers the development of private enterprises. State bodies may confiscate the property of private firms and/or put them under the control of state officials (Papko, 2017b, p. 114). Since 2010, the Belarusian media has mentioned at least seven cases where large enterprises were taken over by the state (Loyko and Zayats, 2018). In the majority of these cases, the government or President issued legal acts under various pretexts that suspended the managing and supervisory boards of the enterprises. This happened even to companies where the state had no shares at all. After appointing new managers, the authorities initiated the issue of stock which allowed them to buy the controlling stake. Filing a lawsuit to the court by the shareholders had little effect, because the judges were always taking the side of the government (Loyko and Zayats, 2018). The courts cannot ensure the protection of private property rights against the state because they are not independent: judges at all levels are appointed and revoked by the President and their decisions are highly influenced by the executive power.

5.4. Interests in relationships between the state and enterprises

Although state officials in Belarus have vast power over economic agents, relations between them are not permeated by corruption and rent-seeking, as can be seen in many other post-communist countries, including those which were regarded as transformation leaders, e.g. Poland and Hungary (Bałtowski et al., 2020). The study performed by Papko (2017a) shows that the majority of resources extracted from businesses do not go into state officials' pockets. This does not mean that patron-client relationships do not exist; they are just of a quite unique kind. From the governmental side, they are largely fuelled not by the private interests (especially financial) of bureaucrats, but by their search for resources for the realisation of the goals defined by the state.

This preconditions, first, the selective approach towards enterprises of different resource-extracting potentials, which makes larger enterprises more attractive as clients of the state authorities. Second, the relationships of different levels of the state apparatus with enterprises are different. Two patterns can be identified here.

The first pattern covers the relationships between local authorities and SMEs. Their resource-extracting potential is limited, so they do not attract the attention of the central level of the state administration. But for the local administration, SMEs are still attractive and are used as a milking cow to obtain resources for implementing the socioeconomic policy of the government. The peculiarity of this pattern is that it is seldom based on patron-client relationships. Local authorities use every pretext to extract resources from SMEs, mainly through repressions such as fines (or threats to impose fines), giving nothing in return. Local bureaucrats usually refrain from breaching the law if they are asked to give favours to entrepreneurs because they are tightly controlled and may easily become the subject of a criminal prosecution. It is very important to note that in Belarus, contacts with state officials are a necessary but not sufficient condition for business success. Indeed, the entrepreneurs who want to expand their business have to enter into cooperation with local authorities and provide them with the resources they request. However, local authorities almost never give them a monopolistic position on the market. Even in exchange for regular extraction, these 'cooperative' SMEs do not receive enough protection. Moreover, local authorities are just not able to guarantee protection in case of serious problems with law enforcement.

The second pattern describes the relationships of bureaucrats with large firms. This is the domain of the central authorities that are interested in relationships with big business only, but there are also many more possibilities (and much greater will) to reciprocate than with local bureaucrats. If a firm managed to grow under the conditions of regular extraction, it has a chance to enter into a long-term beneficial relationship with the central government. The government gives large companies significant preferences in exchange for regular 'help' and the realisation of 'socially important projects'. Pavel Topuzidis, one of the richest entrepreneurs in Belarus, is the unique representative of big business who openly admits having such kind of relations with Belarusian authorities (Marcinovič, 2015). The core of his business is the Tabak-Invest company – one of the two firms producing cigarettes in the country and the only private tobacco producer in Belarus.

But the examples of big private firms benefiting from a monopolistic position and having special relations with state authorities are much more numerous (Sekhovich, 2019). A private Swiss company, Stadler, the only train producer in Belarus, was allowed to enter the Belarusian market under the condition that it would bail out Belkommunmash JSC – a state-owned manufacturer of trolleybuses. President Lukashenko demanded Stadler invest in its modernisation and produce trains in cooperation with this company (TUT.BY, 2014). Mikhail Gutseriyev – a Russian businessman who was given the right to build the only private potash mining company in Belarus, invested about USD 350 million in 'socially important' infrastructure projects. His companies have built a terminal in the Minsk airport, a luxury hotel, a school in the capital, a church and residential houses in the Minsk region, and even a residence used by President Lukashenko (TUT.BY, 2017).

Nevertheless, even proximity to power does not guarantee that beneficial relations will last forever. A clear example would be the prosecution of Yury Chyzh – one of the richest entrepreneurs in the country and a member of Alexander Lukashenko's inner circle. Chyzh, who owned a large construction company which also helped to realise state projects, was arrested in 2016 under tax avoidance charges. Even after repaying the damages and being pardoned by Alexander Lukashenko, he never returned to the upper positions of Belarus' richest people rankings (Sekhovich, 2019).

All this represents a very interesting case of state-organised informality. It was borne neither from the initiative of private actors nor from individual state officials. It originates from the specificity of the Belarusian economy, based on interventionism with weak formal enforcement mechanisms, where in order for the system to function, written rules must be supplemented with unwritten ones.

6. Conclusions and discussion

During the last decade, the Belarusian economy has evolved from a quasi-Soviet system with strong state planning, generous support to inefficient enterprises and the massive redistribution of funds within and across the sectors, to a more flexible model where the public sector still remains the core of the economy. Several tendencies have become particularly visible in the last decade.

The first one is towards the reduction of subsidies, deregulation and attempts to make the state sector more efficient. The second one is the growing role of private enterprises, especially in the new sectors which expanded after the fall of communism and were not dominated by SOEs (services, catering, IT). The share of private firms has also increased in some sectors severely hit by the fall of demand on the domestic and Russian markets (construction, woodwork industry). Private enterprises proved to be more adaptive to the changing economic conditions.

The third tendency is the increasing concentration of the emerging private sector. This sector has not developed due to the expansion of SMEs, but due to the development of large private firms. It seems that the government perceives the attraction of large private domestic capital as a way to increase the efficiency of the Belarusian economic system and preserve its 'manageability' at the same time. State authorities may give large private enterprises a monopolistic position on the market in exchange for profit sharing with the state (going far beyond ordinary taxation).

However, the state sector does not seem to lose its dominant position in the economy in the foreseeable future. The state has set a wide array of written and unwritten rules which secures this domination through the means of a state planning and control system over the entire corporate sector and formal and informal discrimination of the private sector. The latter is regarded by authorities not as a foundation of the country's economic development, but rather as a milking cow which provides resources for the central and local governments.

The chances for large-scale market reforms in Belarus remain extremely low because the Belarusian authoritarian regime does not want to lose control over the economy and population. Privatisation and de-monopolisation of the economy and the emergence of thousands of small independent economic actors would extremely complicate the extraction and redistribution of resources. SOEs will remain the foundation of the Belarusian economic system, although some stabilisation role may be given to a number of large private enterprises.

Regarding the second task of this paper – an attempt to find the proper theoretical perspective to describe the Belarusian economy, at this stage of the research, we conclude that the concept of state capitalism is only partially applicable to the Belarusian reality. First of all, we must answer the question of whether an economic system where the state dominates both in the ownership structure and regulation of economic activity can be called capitalistic. At first glance, it does not, because the most popular definitions of SC in the 'broad sense' assume that the economic system is still market based. In fact, the Belarusian government severely restricts market mechanisms even in non-monopolised sectors and where private businesses dominate. Furthermore, the state, being the largest owner, acts not as an entrepreneur, but rather as an administrator who pursues mostly political goals.

However, if we look at SC in the 'narrow sense' – as a set of features and specific policies (as defined by Bałtowski et al., 2020), many of its manifestations can be found in the Belarusian economy. One can witness the politicisation of SOEs, their role being a source of resources to be distributed for meeting political goals. The politicisation of SOEs *à rebours* is paramount, their rents originate from their privileged position set up by the state – although SOEs seem to play a passive part here (unlike, e.g. in Poland – Kozarzewski and Bałtowski, 2017), being mainly an object of the state's economic populism actions. The latter seems to be one of the cornerstones of Belarusian economic policy, with the authorities trying to create the widest possible clientelist base. At least at the discourse level, economic nationalism is clearly visible as notions of a strong and independent economy and a state that supports local producers. Cronyism exists in the case of the (not numerous) big private companies which enter 'mutually beneficial' relationships with public authorities. One should note however the peculiar character of rents and rent-seeking in Belarus compared to other countries which manifest elements of state capitalism: due to the limited scale of outright corruption, rents in Belarus are also limited in form and scope, seldom leading to substantial personal enrichment. Basically, only one feature – oligarchy – is virtually non-existent in Belarus (but it also does not exist e.g. in Poland which clearly heads towards state capitalism). Besides, all the tools of state capitalism described by Bałtowski and al. (2020) are present in Belarus.

It seems that this apparent contradiction between the lack of full-fledged capitalism (i.e. a market economy) in Belarus and the existence of numerous manifestations of state capitalism in this country may be resolved through different ways. One is further development of the SC concept, maybe within the wider perspective of the VoC approach. However, the fruitfulness of this way may depend on whether the Belarusian case is not unique and represents some pattern found in other countries as well – and this requires further investigation. Another possible solution is to apply a multidisciplinary approach which takes into account the duality of the Belarusian economy, where market mechanisms and institutions exist but are not the core of the system. In this case, the state capitalism perspective would be used only as one of several tools of analysis, together with other perspectives which have yet to be chosen, e.g. those dealing with resource-based and redistributive economies. Theories of hybrid regimes (Wintrobe, 2018) may be of help as well.

Another important direction of further research (which will be facilitated by choosing the appropriate theoretical perspective discussed above) is identification of the main driving forces of the Belarusian system, including those that ensure its high sustainability (regardless of all the obvious flaws) – because only partial explanations exist so far.

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