Clawless Tiger, Lurking Dangers

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Lukashenka's economic system is neo-Soviet spiced with a little "goulash communism," independent but also dependent on Russia.

by Taras Kuzio

TORONTO, Canada--In the 1990s, Belarus's President Aleksandr Lukashenka liked to claim that his country was the "economic tiger" of the CIS. It was an assertion as inaccurate as the inflated growth figures produced by his statisticians. Look beyond the privately owned restaurants in Minsk and the economy looks as tigerish as the late Soviet economy.

And the Soviet Union is the closest parallel of the Belarusian economy. They are not carbon copies, though. Like his political system, Lukashenka's economics are a curious hybrid of neo-Soviet tendencies spiced with the "goulash communism" allowed in Soviet satellite states.

It is neo-Soviet because, though, it combines Soviet-style control, Lukashenka's economic system is not meant to be a stage on the path to communism, as it was in the USSR. It is "goulash communism" because it allows some forms of small-scale private activity, such as restaurants, just as Poland and Hungary permitted in the later communist era.

In the CIS there are only two other places which have gone down this path, and both are in Moldova. Since 1992, the separatist Transdniester enclave has used Soviet symbols and ideology to inculcate a sense of regime legitimacy. Unlike Belarus, however, its Soviet ideology has embraced more stridently the Russian nationalism, anti-Westernism and pan-eastern Slavism all present in "Soviet internationalism." Economically, the Transdniester regime has retained the facade of collective farms and state enterprises. Behind the façade, though, it had become, by the late 1990s, an enclave that survived only by becoming a black hole for all forms of illegal activity.

In Moldova itself, the Communist Party, headed by President Vladimir Voronin, has since 2001 shown itself more ideologically committed to Communism than either Lukashenka or Transdniester President Igor Smirnov. At the same time, Voronin has adopted a highly pragmatic line. Like Belarus, he does not aim to take Moldova towards a communist utopia.

THE ECONOMICS OF CONTROL

Whatever the exact nature of the economy, it is certainly not a free economy. In its annual Index of Economic Freedom, the (conservative) U.S. think tank the Heritage Foundation placed Belarus 151st out of 157 countries. Only the communist regimes of Laos, Cuba, North Korea, and Angola, along with the neo-socialist systems of Libya and Zimbabwe, are less liberal.

Large state enterprises dominate the economy, and those plants that have been turned into joint-stock companies are majority-owned by the state. In areas where small-scale private firms are allowed to operate, such as the service sector, the state regularly exerts direct pressure, obliging companies to pay salaries set down in government guidelines, pay heavy taxes, and to sell forty percent of their hard currency earnings to the National Bank at artificially low rates of exchange.

The cost of all this is heavy. Roughly 2,000 bankrupt or semi-bankrupt enterprises are kept afloat by injections of state credits. This stokes inflation, and Belarus now has the highest inflation rate in the CIS. In the retail sector, price and wage controls create shortages, leaving shops looking as bare as they did in the late Soviet era.

None of this makes for a tigerish economy. Even official Belarusian figures now show declining growth rates. Meanwhile, since 2000 Russia and Ukraine have been experiencing genuine high growth for the first time since 1989.

Economic difficulties prompted Lukashenka to promise, after his re-election in 2001, to allow some controlled liberalization, including lower taxes and less restrictive licensing. Part of the aim was to make Belarus more attractive for foreign investors (currently it has one of the lowest rates of foreign investment in the CIS).

Both the effort to open up the market and to find investors has been unsuccessful. Indeed, according to the Heritage Foundation’s measure, the degree of economic freedom has continued to fall. In early June, an ambitious privatization programme was to be launched with the sale of stakes in the four largest Belarusian petrochemical companies. However, not a single offer was received. That was unsurprising. Only 10 percent stakes were offered, no guarantee of a future majority holding was given, and the prices asked were too high. The same was true of the sale of the

Beltranshaz gas transportation and distribution network. The $2 billion price tag was too high and the conditions too tough to attract any strategic investors.

The only positive side to these neo-Soviet economic policies is the low level of corruption in Belarus and the absence of a parasitic oligarch class. Transparency International's 2002 Corruption Perceptions Index placed Belarus 36th out of 102 countries surveyed. This gave Belarus the same score as Lithuania and placed it above Greece (44th) and Poland (45th). Compare that with the rankings of Russia (77), Romania (77), and Ukraine (85).

This small boost to the country's image is obscured by its lack of moral objections about whom it sells arms to. It sells to rogue states partly because there is little foreign competition and partly to make a ideological point by supporting anti-Western regimes. Even now, inside Iraq, there have been British reports--later confirmed by the United States--that coalition forces have found Belarusian arms, military contracts, and Belarusian passports issued in Syria for high-level Baathist regime leaders.

As in Ukraine and Russia, arms sales are opaque and corruption is probable. (A major deal with Peru in the late 1990s for fighter aircraft was proven to be marred by high-level corruption on at least the Peruvian side.) Where Belarus differs from Ukraine and Russia is that the proceeds may possibly be less likely to be channelled to the presidential administration, since as far as we know Lukashenka does not have offshore accounts like Ukrainian and Russian (and Kazakh) leaders.

THE CONTROL OF ECONOMICS

Keeping the state's hands on the economic system in this way is essential for two reasons. First, the dominance of large, Soviet enterprises ensures that Lukashenka maintains political control. Through his control over the former Soviet Belarusian Trade Union Federation (now Trade Union Federation of Belarus) Lukashenka can thwart political mobilization against his regime, drum up fake support for his policies, and manipulate elections. This enables Lukashenka to claim, as he did in a 2003 conference assessing the performance of the interior ministry and other law-enforcement bodies, that "the authorities in Belarus are the people's authorities." In neo-Soviet speak, that means his regime represents the will of the Belarusian people.

Allowing private enterprise to flourish would lead to businessmen funding the opposition, a problem faced by President Leonid Kuchma in neighboring Ukraine. In Ukraine, the authorities' response, say opposition members, has been to send tax inspectors after the businessmen who support Viktor Yushchenko's Our Ukraine, the leading opposition group. The Belarusian opposition United Civic Party (UCP) accused the Belarusian authorities in March of a similar ploy, branding it a "politically authorized campaign to exert psychological pressure" on businessmen who contributed to the party.

Second, control over the economy enables Lukashenka to control Belarus as if it were his personal fiefdom. Unlike Russia and Ukraine, he has therefore been averse to borrowing heavily from international financial organizations. The World Bank has offered to finance projects, but Minsk has refused to accept its condition that it liberalize its monetary and pricing policies. Relations with the IMF have been frozen since 1996 and the government failed to meet IMF targets in order to obtain an IMF standby loan in 2002. The result is that Belarus has a comparatively low level of state debt.

His attitude towards Russia is similar. Just as Belarus has been more hostile than neighboring Ukraine towards Russian television, radio and newspapers (demonstrated again on 8 July when NTV's bureau was forced to close), Lukashenka has been far more unwilling to accept Russian strategic control over businesses (though Russian subsidies are welcome). His fear is that privatizing enterprises into the hands of Russian oligarchs or Russian state-owned companies would reduce his power over what he believes is his territory, Belarus. It is this desire for control that is leading to uncertainties about the proposed monetary merger with Russia in January 2005, a move that could lead to the loss of sovereignty over monetary policy.

But, while Lukashenka can act independently of the IMF and the World Bank, he is dependent on Russia. Russia remains, as in the Soviet era, the destination for most Belarusian goods. More critically, though, Lukashenka looks to Moscow, just as non-Russian republics did in the USSR, as a source of subsidies and credits. Even more than other states, he receives those subsidies: Russia supplies energy to Belarus at prices that are higher than its domestic rates, but only one-third of the prices charged to Ukraine.

It is a dependence that comes with any demand for liberalization, privatization, and the restructuring of inefficient enterprises. Russian subsidies and the Russian market, coupled with a passive population willing to tolerate high inflation and shortages, allows the economy to muddle along.

Unless Russia demands change or unless Russia withdraws its subsidies, something that there is no sign of, there is unlikely to be political or economic liberalization in Belarus. Ultimately, it is only Russian subsidies that keep the economy afloat, and only Russian subsidies that save Lukashenka from the challenge of maintaining political control while the economy underperforms like the Soviet system that it is modeled upon.

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