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## DEVALUATION OF THE "BELARUSIAN ECONOMIC MODEL"

Following the 2010 Presidential Elections, the economic situation in Belarus started to deteriorate. The first half of the year witnessed a tail-spin inflation that the authorities desperately tried to control. The long queues at the currency exchange offices, shortages of commodities and food in the shops, these were all signs of a tough economic period facing the country. Lukashenka's aggressive pre-electoral economic policy (sharp increases in wages and social benefits) was a significant factor that contributed to the current financial crisis. However, the causes of the crisis are more far-reaching. They are deeply rooted in the so-called "Belarusian Economic Model". To instigate a change of the "model" and to pave the path for economic sustainability means to launch processes of privatisation and economic liberalisation. Both constitute a threat to Lukashenka's "paternal" rule of the country implying that Lukashenka will search for other ways to save the country's economy. So far the foreign loans seem to be the only solution and the only country to provide them seems to be Russia.

In the first article, Siarhei Nikoliuk, an independent political analyst and sociologist, presents his insights into the current economic situation in Belarus. The author notes that certain discrepancies between the speeches of Lukashenka that were prepared by the speechwriters and those of his spontaneous improvisation can be observed. This might be

treated as a sign that some of the elite are dissatisfied with the President's economic policy. Even though this insight might be a subject to the debate, the rising social discontent with the current policy is obvious. All social indexes are in steep decline and soon might reach lowest levels ever. Without Russian energy subsidies and cheap loans, Lukashenka will have a hard time fighting social discontent and pushing the indexes upwards.

In the second article, Ahniya Asanovich, political scientist, analyses the integration projects with the Russian Federation in the light of the current Belarusian economic situation. These projects bring little hope for the improvement in the Belarusian economy. They make it clear that Belarus will no longer benefit from the revenues of re-exported Russian oil. Moreover, it will have to bear the economic consequences of the Customs Union. Likewise with the situation on the energy sector. The energy dependence on Russia will continue as the planned nuclear power plant will be constructed by Russian investors. In these circumstances, the Belarusian economy seems to be heading for a fall, which may only be prevented by bigger Russian investment, which in its turn would increase dependence on Russia and would obstruct the economic reforms in Belarus.

*Justinas Pimpè, Editor*

## WHOSE PIPE DOES THE "YOUNG SOVEREIGN STATE" DANCE TO?

*Siarhei Nikoliuk, political analyst*

In March 2002, at a seminar for staff of national and local state agencies, dedicated to theoretical substantiation of the "Belarusian model of economic development", Lukashenka made a statement which can be properly understood only now: "Everything what we have in the economy, in the social and other spheres, is the result of choosing our own path during all these years and living our own way. We have not listened to the "doctors" from the International Monetary Fund, prescribing the pills that are more dangerous than the disease".

In fact, we are observing a collapse of the financial system in the economy today. And fights in front of exchange offices are one of its indicators. Belarusians have to stand in long, many-hour lines in vain attempts to exchange rubles into dollars and protect their savings from the tail-spin inflation. According to the National Statistics Committee of Belarus, in Q1 the consumer prices grew by 6.1%, and during 20 days of April – by another 2.5%, which is already 8.5%, while the yearly forecast was 7.7-8.5%.

## Only in a handful of cases the electoral rating of any Belarusian top officials, including the prime-minister of Belarus, exceeded the margin of error.

The official version of the events of the end of 2010 – the beginning of 2011 was proposed by the architect of the “Belarusian model of economic development” himself in his annual address to the National Assembly on April 21st. It was not unexpected: “they want to “bend down” the young sovereign state with independent foreign and home policies, to make it dance to their pipe. Belarus is under massive pressure. In the beginning there were political threats – rejection of the recent presidential election results, visa ban lists, and economic sanctions. They were followed by rush and panic on the foreign exchange and consumer markers of the country, at the instigation of various local and foreign analysts”<sup>1</sup>.

In Lukashenka’s opinion, the main reason making the external and internal enemies “bend Belarus down” is that “they want to make us be like everyone around, be like them, after all”. At first glance, the logic of this statement is quite difficult to understand. “They” means “the West”, while the text of the address is full of statements about susceptibility to “universal European values”, and about the readiness to conceive “democratic ideas these countries are guided by”. According to Lukashenka, his ultimate goal as the head of the state is to bring the Belarusian life standards closer to the average European ones.

The paradox has a very simple explanation. Every big speech of Lukashenka consists of two parts: the text prepared by the speechwriters and “direct speech”. The liberal rhetoric can be found only in the prepared texts. Lukashenka, however, has not learned thinking in such categories as “democratic values”, “innovations”, etc. Furthermore, the deeper the country goes into economic liberalization, due to external and internal circumstances, the more discrepancy can be found in the formal and informal parts of the speeches of the state leader.

### “Paternal” Model of Power

Talking to his inner circle, Lukashenka has made numerous statements that he is the only politician in the country. Independent opinion polls prove his political mono-subjectness within the framework of the power “vertical”. Only in a handful of cases the electoral rating of any Belarusian top officials, including the prime-minister of Belarus, exceeded the margin of error.

Such archaic construction is not accidental. It has its grounds in the society, which is still far from completing its modernization processes. The Belarusian “majority” perceives the state as a patriarchal family, and the president -- as the father of the family (“paternal” model of power). There is no place for any management interagents, just as there is no place for the principle of separation of powers, in the minds of the citizens of the “family state”. That is the reason why no one of the top state officials, besides Lukashenka himself, has his or her own legitimacy.

This scheme explains why only Lukashenka is entitled to have political interests. All other Belarusian citizens, including the top representatives of the power “vertical”, do not have such a right. However, it’s quite a hard job to keep the people entitled to make large-scale management decisions in subjectless position. In fact, this is the main problem of the “only politician”.

The main objective the government was aiming to achieve in the year of the fourth presidential election was raising the average salary up to 500 dollars. This was a purely political task. Lukashenka was its exclusive potential beneficiary in the government. The country achieved the goal paying with the loss of the competitive edge of the national economy. Present currency crisis developing on the backdrop of 10.9% GDP growth in Q1 2011 compared to Q1 2010 is a direct consequence of Belarus-style “politics” winning over the economy.

It’s worth of attention that last year, no one from the government or the National Bank publicly criticized the efforts aimed at achieving the main objective that turned out to be so damaging for the economy. We still do not hear any criticism despite the snowball of problems growing in the conditions of complete uncertainty with the ruble exchange rate. Everyone is aware of the fact that devaluation is inevitable, in fact, it has already occurred. The only reason why the National Bank procrastinated with its official recognition was Lukashenka’s political interest. Official devaluation of the Belarusian ruble will score out all his efforts of achieving the “sacred figure”, and, eventually, put paid to the policy of “loyalty in exchange to growth in prosperity”.

There is one more explanation of Lukashenka’s frenetic urge to raise the average salary in the country. If average salary growth rates exceed the growth of the GDP, the resources left in the country are not enough for shaping powerful, Russian-like, oligarchic groups. Consequently, new, economically independent, figures in power are less likely to appear. This is also the aim of the country’s policy of privatization of state property – or its absence, to be exact. That is why references to the issue of social justice in Lukashenka’s speeches are not accidental. Here is just one quote: “Today everyone points out, that our income gap between the poor, roughly speaking, and the rich is 3 to 4 times. Just as in Sweden, which has the best income equality index in the world. While in Russia the gap between the poor and the rich it is 25-30 times. This is a disaster, pre-revolution situation”<sup>2</sup>.

So, why don’t Lukashenka’s minions oppose such an anti-elite policy? The answer to the question should be sought in the “paternal” power model, described above. It is the Belarusian majority that thinks that Lukashenka defends the people from the functionaries. In reality, he defends the functionaries from the people. Having no legitimacy of their own, they

1 Belarus Segodnia, by A. Lukashenka’s speech in parliament: <http://sb.by/post/115772>

2 Verbatim records of Lukashenka’s speech at the 6th Congress of the Federation of Trade Unions of Belarus [www.president.gov.by/press97887.html](http://www.president.gov.by/press97887.html) The case in point is the decile coefficient. It does not exceed 6 in Belarus. The Russian Statistics Committee says, it is 17 in Russia, but, in reckoning of a number of independent analysts it falls within the limits indicated by Lukashenka.

It is the Belarusian majority that thinks that Lukashenka defends the people from the functionaries. In reality, he defends the functionaries from the people.

Variant of answers	04'06	06'06	12'10	03'11
Financial Situation Index (FSI)	12.3	10.5	8.9	-3.7
Expectations Index (EI)	29.9	32.9	13.4	6.2
Right Direction/Wrong Track Index (RD/WT I)	31.9	35.0	21.7	5.3

Table 1. Dynamics of social indexes

would betray the "Father" only if the worst comes to worst. This is not the case so far, and, judging by the absence of public criticism, the "only politician" is still in control of his inner circle.

### The Return of the Single Nation

The IISEPS opinion poll, held in March, registered the 10.1 pct. drop of Lukashenka's electoral rating.<sup>3</sup> We should highlight that the poll was held in the first part of March, before the currency crisis began. Dropping ratings after the end of electoral mobilization is quite usual. However, in 2006 the decline rate during the first three months was almost twice as less. Such "acceleration" is not accidental. Table 1 helps to understand the reasons. In 2006 two of the three basic social indexes, characterizing the state of the society<sup>4</sup>, grew during the first three months after the Election Day. By the first half of March 2011 all three indexes declined manifold. The right direction/wrong track index was the record-breaker. It reduced by 4.1 times. If the trend continues, the next poll (June) will register the negative value of the RD/WT Index. That has not been observed since 2003. (Table 1)

This way, the tense anticipation creeping over the society on the eve of the election began to assume material form. There are all grounds to believe that soon we will eye-witness the reiteration of the situation of the presidential election 2001. Back then, Lukashenka's electoral rating began to drop against the background of deterioration of the public moods. Its minimum (26.2%) was registered in March 2003. However, today we don't see the reasons that would prevent the process from going to its logical end.

The "Belarusian economic development model" has completely outlived its usefulness. Being non-competitive already on the stage of its formation in the end of the nineties, it was kept afloat by the Russian subsidies and relatively low level of social obligations. However, during the last five years the average salary (in dollar terms) doubled, while the level of Russian subsidies experienced a significant drop. Just one example: before 2007 Belarus paid 47 dollars per 1000 cubic meters of the Russian natural gas, while in Q1 of 2012 it will pay 225.

The behavior of the state leader becomes more and more inadequate, against a background of the accumulating problems. Let's take, for instance, his April statement about Jose Manuel Barroso, President of the European Commission: "On the subject of bastards<sup>5</sup> like Barroso and others - who is

Barroso anyway? There was a Barroso in Portugal. But they kicked him out and put him to work in the European Commission. The last thing I want to know about European officials is who said this or that. There are thousands of them".<sup>6</sup> Lukashenka sandwiches that kind of statements with the urges to intensify work on attraction of Western investment. No wonder that, with the annual task of 6.5 billion dollars, thousands of the Belarusian officials managed to attract only 0.06 billion dollars of direct foreign investment in January-February 2011.

The answer to the question in the title of the article is evident. The "young sovereign state" dances under the pipe of the interests of the country's "only politician". The result of the dance is damaging both for the state and the society. Independent analysts speculate about the reasons of such an inadequate behavior of the Belarusian leader. In our opinion, the answer is obvious. As a typical representative of the archaic "majority", Lukashenka does not fit in the present. There is nothing unusual in his behavior. The conclusion can be explained by the statement of the Russian culture expert Igor Yakovenko: "In the world that was falling down in the abyss, in the world where everything changed rapidly, where endless anxiety was a dominating feeling, when the eternal cosmos was collapsing, only unity of the archaic multitude around the Manichean fight of the light and darkness, unity in the ritual of the slaughter of countless enemies enabled the archaic people to survive. Slaughter of the enemies rebuilt the world anew. It explained it and united the "faithful", bore the energy of a frightful and mind-bending ritual, and renewed the cosmos".<sup>7</sup>

The text of the Message-2011 was published under the heading "We are the single nation!" This way, Lukashenka refused from recognizing the society split that he was forced to admit under the pressure of the mass protest on December 19. Recognition of the split in the society would have meant recognition of the "minority" with their own interests, different from the interests of the state leader. In its turn, recognition of the "minority" interests would demand real politics, i.e. coordination of various interests. However, Lukashenka proved to be unable to renew his "cosmos" to such an extent.

The "only politician" failed when he faced politics. He began feeling sick, and confessed to that to the members of the National Assembly: "Before the elections we became so democratic that it made you and me, making this sort of decisions, giddy," he said. "There was so much democracy, it was just nauseating."

<sup>3</sup> The electoral rating (answer to the question "if the presidential elections were tomorrow, who would you vote for?") was 53% in December, and 42.9% -- in March.

<sup>4</sup> For more detailed analysis of indexes see article "Waiting in Tense Anticipation", Bell Issue, 2 (23), < [http://www.eesc.lt/public\\_files/file\\_1299673355.pdf](http://www.eesc.lt/public_files/file_1299673355.pdf) >

<sup>5</sup> Lukashenko used the word "kozyol" - literally meaning 'goat' but with a more vulgar force in colloquial usage -- translator

<sup>6</sup> <<http://www.charter97.org/ru/news/2011/4/26/38064/>>

<sup>7</sup> liberal.ru > articles/5108



The Union State secures Russia's political image of an integrator, provides for emotional consolidation of the Belarusian and Russian people, and employs Russian and Belarusian officials.

## RUSSIA DIVIDES "EMOTIONS" AND "BUSINESS" IN ITS GEOPOLITICAL PROJECTS WITH BELARUS

*Ahniya Asanovich, political scientist*

Although the prospects of Belarus incorporation are not feasible for the Kremlin any more and the "level-up" in Russia for the Belarusian president is feasible neither, the official Moscow and Minsk continue playing the Union State.

On the one hand, the playground is made of the two politically independent countries with their own governments, legal systems and legal practices, national currencies and territories. The Russian Federation is a managed democracy, while the Republic of Belarus is an authoritarian state; the Russian Federation has one official language, while the Republic of Belarus has two. Taxes in Russia and Belarus are levied by different bodies and allocated in different budgets.

The agenda of the Union State parliamentary meetings is focused on intergovernmental programs and projects in such spheres as agriculture, technology, pharmacy, education, and security issues. Despite the fact that the state media present the Union State as a really existing and successful structure, its officials can't but admit the drawbacks of the Union State and its institutions.

The Union State secretary Pavel Borodin, along with the head of the Russian Audit Chamber S. Stepashin and the chairman of the State Control Committee of the Republic of Belarus Z. Lomats, expressed great concern regarding low application of the funds of the Union State budget<sup>1, 2, 3</sup>.

In 2011 deputy chairman of the Parliamentary Assembly's Commission on security, defense and crime fighting A. Rozuvan concluded during the meeting of the Assembly that the proposed creation of the single Criminal Code of Belarus and Russia was not reasonable, as Russia and Belarus often have different laws and different law enforcement policies<sup>4</sup>...

On the other hand, there is common historical past, non-visa regime, military cooperation, and legal equality of the Belarusian and Russian citizens in the spheres of social security, medical assistance and employment. The Union State secures

Russia's political image of an integrator, provides for emotional consolidation of the Belarusian and Russian people, and employs Russian and Belarusian officials. Furthermore, the Union State is a perfect framework for advanced relations between the two countries in economic and military spheres, which actually constitute the basis of Russian and Belarusian foreign policies.

Russia has oil, gas and a big market. Belarus has oil- and gas-pipes, military, technical and processing enterprises, and serves the strategic needs of Russia providing the military and border infrastructure.

That is why the complimentary projects of the Customs Union and the Common Economic Space were elaborated. The "brotherly nations" approach remains with the Union State; while business is to be done within the CU and the CES. And, from now on, the success of the Union State of Belarus and Russia will depend on development of the Customs Union and the Common Economic Space projects. The governments have already presented the signing of the CU and CES' documents as a proof of the Union State's "well-being", regardless of the factual absence of any jointly coordinated policies.

Despite the attractive prospects of European scientific and technical investment into the Belarusian economy, Belarus would rather play the cards of "Russian business" and integration of the post-Soviet space under the auspices of Russia than introduce systemic changes in political and economic spheres to meet the EU standards.

*With the loss of the incorporation prospects through the Union State, Russia has refused to support Belarus with more subsidies. Both parties are well aware of the fact that no equal integration is ever possible between Belarus and Russia. However, for the image sake, the governments of the two states prefer presenting their relations at home and abroad as the "integration process between Russia and Belarus".*

**In 2011 Russia runs the show on energy resources delivery to Belarus and strategically is two steps ahead of the Belarusian government.**

That is true, in terms of international relations, it is not serious for Russia and Belarus to refer to "brotherly nations" rhetoric in business matters and cultivate lies and eternal irrational obligations to each other. The vicious circle should once be stopped. But the question is, how Belarus can leave it without getting into the trap of one-sided dependence.

- 1 Budget of the Union State adopted for 2008: [http://newz-eu24.ru/Prinyat\\_byudzheta\\_Soyuznogo\\_gosudarstva\\_na\\_2008\\_god](http://newz-eu24.ru/Prinyat_byudzheta_Soyuznogo_gosudarstva_na_2008_god);
- 2 Stepashin: The Union of Belarus and Russia spends the budget money inefficiently. (08.12.2006): <http://volozhin.com/news/economic/stepashin-soyuz-belarusi-i-rossii-neeftivno-tratit-byudzhetye-sredstva.html>
- 3 Joint session of the board of the Committee of State Control of Belarus and the board of the Russian Audit Chamber took place in Minsk (2009): <http://www.kgk.gov.by/news/b82ed6f3cc5b-b1a6.html>
- 4 The Union State might introduce single Criminal Code and new security concept (24.03.2011): <http://www.pravo.ru/news/view/50830/>

In 2011 Russia appeared to be wise enough to disarm the Belarusian authorities in their development of alternative ways to receive and process energy supplies.

In this respect, Russia left less space for Belarusian eccentricity in 2011. On the one hand, the Russian government made a public gesture towards the Belarusian authorities by recognizing the election results and introducing duty-free oil export to Belarus. On the other hand, 100% of oil products' export revenues made by Belarus are to be transferred to the Russian budget plus bonus earnest of 45 USD to Russian suppliers to Belarus. Besides that, the RF intends to use the duty-free approach to cover the Belarusian needs of 6,3 million tones of oil per year, and impose duties on what exceeds this limit.

*Belarus won't profit from selling the processed Russian oil in European markets, and will establish oil export duties according to the Customs Union rules (in favor of Russia)*<sup>5</sup>.

In 2011 Russia appeared to be wise enough to disarm the Belarusian authorities in their development of alternative ways to receive and process energy supplies.

Considering the fact that the RF imposes duties on all oil products supplied to Belarus not from Russia, the supply of Venezuelan oil via Lithuanian port and swap—supplies of Azerbaijan light oil via Odessa-Brody to Belarus (which will as well lead to under purchase of obligatory minimum of oil from Russia (21,7 million tones), are not reasonable for Belarus in 2011. The conditions Russia put forward make oil supplies from Kazakhstan not really attractive to Belarus either. Belarusian oil production in Venezuela can be repaid through selling it in the markets of the South America.

Nuclear Power Station construction in Belarus, initially supposed to reduce energy dependence on Russia, should be totally reviewed in 2011. It is actually Russia that will construct the NPS and its infrastructure. Hence, Belarus increases its external debt to Russia and creates jobs for the Russian workers.

The NPS project has been approved, and the documents on the Customs Union have been signed. However, no public discussions or referendum have been held, regardless of the fact that these projects concern the well being and future of the Belarusian citizens. Decisions, which are later referred to as "made in the name and will of the people", are discussed and made behind the closed doors.

*Public discussions of such issues are not typical for Belarus, and the Belarusian population is used to be presented with a fait accompli, sometimes not predictable.*

Objection, as far as NPS construction in Astravets is concerned, is more feasible outside the country rather than inside (the greens from the Ukraine, Lithuanian authorities, Polish experts, etc.). Local activists, in their turn, fail to gather the required amount of signatures, establish a steady communication channel with the authorities on the issue and provide adequate feedback to them. The

tradition of public discussions is not cultivated in the country, while critical evaluation of the governmental practices is not something typical for the grassroots. That explains why a referendum on the issue is impossible in Belarus<sup>6</sup>.

Instead of the referendum, the authorities held symbolical public hearings in Astravets on the issue of NPS construction<sup>7</sup>. The hearings were held in the cinema hall with restricted seating capacity in 2009. There was also a "Q&A" (not even "proposals & objections") section created on the site of the "Management of the Nuclear Power Station Construction"<sup>8</sup>. This rather has to deal with some kind of the information support for the citizens, but has nothing in common with the joint decision making.

As far as the «September fever» is concerned, meaning the launch and use of BTS-2 and Nord Stream, alternative to oil-pipe "Druzhba" and gas-pipe "Jamal-Europe", respectively, one can suppose that transit via Belarus might be reduced, but won't be stopped, and Russia will lose nothing in it.

Firstly, stopping supplies to Europe via Belarus would contradict the principles of the newly established Customs Union between the countries. Furthermore, within the framework of the Customs Union the parties agreed to reach equal profits in gas pricing by January 2015.

Secondly, the European demand for gas is rising, and, thirdly, the volumes of oil taken from "Druzhba" for BTS-2, can present a threat to operation of the European plants.

According to the rhetoric of the Russian authorities and "Gazprom", supplies via Belarus won't be stopped. But, in case of oil under extraction by Russia and rise of fractional oil content to be processed in the country, part of oil will be taken from "Druzhba" to fill BTS-2; also Kazakhstani oil might be involved<sup>9</sup>.

### «Information blows» between Russia and Belarus will continue

The Customs Union serves as a legal and institutional guarantee for real business relations between Belarus and Russia, which is interested in the positive image and competitiveness of its integration project. However, Russian TV criticism, pushing Belarusian authorities to certain concessions, as well as revenge attempts of the Belarusian side, will continue to take place. Russia won in energy issues but still has not received any positive answer from

5 From March 1 Belarus raises export duty rates on oil and oil products ... (28.02.2011): <http://www.soyuz.by/ru/?guid=98854>

6 Constitution of the Republic of Belarus/ Chapter III / Election System. REFERENDUM: <http://www.rec.gov.by/zakon/constitution03.html>

7 Public hearings in Astravets – chronicle and experts' comments (12.10.2009): <http://atomby.net/Obschestvennyie-slushaniya-v-Ostrovtsse-hronika-i-komentarii-ekspertov.html>

8 Board of the Nuclear Power Station construction: <http://www.dsae.by/ru>

9 "Gazprom" head: gas transit via Belarus will not reduce with the launch of Nord Stream. (17.02.2011): [http://www.belta.by/ru/all\\_news/economics/S-vvodom-truboprovoda-Severnoy-potok-tranzit-gaza-cherez-Belarus-ne-sokratitsja---glava-Gazproma\\_i\\_543006.html](http://www.belta.by/ru/all_news/economics/S-vvodom-truboprovoda-Severnoy-potok-tranzit-gaza-cherez-Belarus-ne-sokratitsja---glava-Gazproma_i_543006.html)

We can't but suppose that Russia, at last, decided to abandon unreliable means of forcing Belarus to be loyal.

Belarus regarding privatization of the Belarusian enterprises.

On the one hand, Belarus, as well as the other Customs Union members, gets an opportunity to increase its sales turnover and the number of investment projects. As the goods produced on the territory of Belarus and Russia are mostly competitive at the CIS market, creation of the Customs Union was a wise decision of the Russian and Belarusian authorities in this respect.

On the other hand, the Customs Union keeps the one-sided dependence of Belarus on Russia and does not prevent possible problems with re-division of the market and import-export duties competition between the members of the Customs Union.

Looking at Russia's gains and losses within the Customs Union project, its main "misfortune" is the prospects of having to deal with the cheap run-of-the-mill goods from third countries, for instance from China, coming via Belarus and Kazakhstan. That can bring certain damages to the Russian small and medium enterprises.

Nevertheless, we can't but suppose that Russia, at last, decided to abandon unreliable means of providing Belarusian loyalty, which stimulated not only "dependent recipient" mood, taking subsidies as for granted, and trade of loyalty, but also created for Belarusian authorities a space for diplomatic manoeuvre.

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