

Belarus

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|---|-------|---|-------|
| Status Index (Democracy: 3.97 / Market economy: 4.96) 4.47 | | Management Index 2.75 | |
| HDI | 0.786 | Population | 9.9 m |
| GDP p. c. (\$, PPP) | 6,052 | Population growth² (in %) | 0.2 |
| Unemployment rate¹ (in %) | 3.1 | Women in Parliament | 30.1% |
| UN Education Index | 0.95 | Poverty³ (in %) | 2.0 |
| | | Gini Index (2000) | 30.4 |
| Source: UNDP: Human Development Report 2005. Figures for 2003. ¹ EBRD – Transition Report 2004. ² Annual growth between 1975 and 2003. ³ Population living below \$ 1 per day (1990-2003). Figure for 2000, source: EBRD – Transition Report 2004. | | | |

A. Executive summary

President Lukashenka took another step forward in consolidating his authoritarian regime with the 2004 referendum, by securing the option to serve another term in office, which could begin following the upcoming presidential election in 2006. At the same time, Lukashenka has been increasing pressure on democratic actors, ranging from administrative sanctions to violence after the referendum in October 2004, but has not broken all opposition. This reflects a continuation of the policy Lukashenka has followed since the mid-1990s of building and consolidating an autocratic regime in Belarus.

Belarus was initially characterized by relatively good conditions for transformation and cooperation with Western market economies compared to the other successor states of the Soviet Union. However, the Belarusian economy has been guided so far by Lukashenka's "social market economy" approach, which has resulted in very restricted liberalization and privatization. The government provides financial support to industry and agriculture, and future sustainable growth will therefore depend on the authorities' willingness to embark on market-oriented reforms.

Belarus is ethnically homogeneous and is not divided by entrenched conflicts. Sharing its western border with new EU member states Lithuania and Poland may open a window of opportunity in Belarus, with good prospects for systemic change. Thus far, however, there has been no genuine transformation management, and the Soviet-style command economy and totalitarian rule have instead pushed the limits of the country's economic capacity.

The government manages democratic rights restrictively, civic organizations are granted little room to maneuver, and civil actors are weak. In addition, the media is under the president's control. The economy is primarily controlled by the state,

though the government has succeeded in maintaining economic and social stability. Key to this success is Belarus' relationship with Russia, and particularly its almost total dependence on Russian energy supplies. Transition to a new system has not begun, and so far the necessary triggers have not emerged in Belarus, despite the fact that the Ukraine's "Orange Revolution" and Georgia's "Rose Revolution" are already perceived as windows of opportunity for initiating democratic change in the post-Soviet environment.

B. History and characteristics of transformation

During the final years of the Soviet Union, Belarus' elite did not propel liberalization. Although a national independence movement emerged, with a strong program based on liberalization and breaking away from Russia, this movement was unsuccessful due to the absence of a meaningful Belarusian national identity, as well the desire among some Belarusian decision-makers to continue enjoying the benefits of cooperation with Russia. National independence was not an active process but a result of the failed August putsch of 1991. The transformation of the Belarusian Soviet Socialist Republic into the Republic of Belarus did not lead to a fundamental change of the nation's elite, and institutional reforms were only carried out slowly.

An important institutional turning point was the adoption of a Belarusian constitution in March 1994, which created the office of president. With the help of a populist electoral campaign, Aleksandr Lukashenka succeeded in winning the presidency in the summer of 1994. Since then the country's development has been dominated by the president's autocratic power. Lukashenka has managed to consolidate his authoritarian regime with the help of a constitutional referendum in 1996 and referendum in October 2004 that allows him to seek a third term in office. Since the beginning of his tenure, Lukashenka has attempted to control and repress the opposition, the independent media, and the private sector.

As a result of the most recent parliamentary election in 2004, there are 12 representatives of political parties in the new House of Representatives. The remaining deputies received their endorsements from labor collectives; 100 elected deputies were nominated either solely by a labor collective or by combining a labor collective nomination with signature collection.

All members of parliament support the current government. The opposition is not represented at all. Apart from operating in a difficult and even dangerous environment, the opposition also suffers from structural shortcomings, such as a lack of unity and a key figurehead. OSCE evaluations rated the elections undemocratic.

Thus, Belarus has further isolated itself from the West and oriented itself almost exclusively toward Russia.

When Belarus became independent the initial conditions for transformation to a market economy were favorable. However, it is problematic that Belarus depends on the successor states of the Soviet Union, and especially on Russia, for 90% of its energy. Belarus also suffered considerably from the effects of the reactor accident in Chernobyl; 70% of the radioactive fallout hit Belarus.

Lukashenka ended the trend toward liberalization and privatization that had emerged in the wake of Belarusian independence. He tried to implement a model of economic reform similar to that of the successful transition economies in Asia, carrying out minimal liberalization of key economic sectors while enhancing the degree of state control. Unlike successful approaches to transformation in China and Vietnam, however, Lukashenka's "social market economy" is not based on dynamic factors such as extensive foreign direct investment, the growth of small- and medium-sized businesses, and agricultural reform. At the same time, Lukashenka is also striving to maintain and support social services and social policy.

Within this administrative straitjacket, macroeconomic reforms move forward in small increments. According to data from the European Bank for Reconstruction and Development (EBRD), private sector share in GDP did not change in 2004, remaining less than 25%. Despite its command economy policies, Belarus has managed to maintain roughly the same social and economic conditions that prevailed in 1991. Therefore, Belarus has not experienced either sweeping economic growth accompanied by modernization of its economy, or dramatic and uncontrollable economic slumps.

C. Assessment

1. Democracy

1.1. Stateness

In Belarus there is virtually no competition with the state's monopoly on the use of force. At the same time, the state is dominated both vertically and horizontally by the president's autocratic system.

All citizens have the same civic rights. Problems arise, however, from the failure to differentiate sufficiently between Belarusian and Russian identities. The official languages are Belarusian and Russian. The lingua franca is Russian, a state of affairs that is also supported by the government's cultural and linguistic policies. Some ethnic minorities like the Roma are denied certain basic civic rights, such as the right to education and freedom from arbitrary detention.

Among the country's religions only the Belarusian Orthodox Church, an offshoot of the Moscow-based Russian Orthodox Church, receives official government support. In January 2003, President Lukashenka described his state ideology not as Communist, but as "Orthodox Christian." He praised the Belarusian Orthodox Church for opposing "destructive forces," cooperating with the authorities, and contributing to stability. In return numerous benefits have been conferred on the church, and the state in return enjoys its cooperation. On June 12, 2003 Prime Minister Gennadi Novitsky and Metropolitan Filaret (Vakhromeyev) of Minsk and Slutsk signed a new agreement on cooperation between the state and the Orthodox Church.

The government imposes its authority throughout the national territory with a centralism reminiscent of the Soviet era, but the democratic elements of Belarusian federalism are too weak to establish a well-differentiated and capable administrative structure.

1.2. Political participation

Elections take place but they have only limited influence on the distribution of power. The 2003 local election made no progress toward democratization and transparency in the electoral process. Similar to the previous parliamentary elections, the elections of 2004 did not meet the standards of the Organization for Security and Cooperation in Europe (OSCE) for free and fair elections. Thus, the outcome cannot be regarded as democratic. The primary object of criticism is the inequality of baseline conditions, which favor President Lukashenka. The incumbent not only controls the executive branch at all administrative levels but the media as well. Because of the autocratic system that he has established and continues to dominate, President Lukashenka possesses total power to govern; however, the democratic legitimacy of his authority must be regarded as insufficient. The democratic opposition is, in end effect, excluded from the legislative structures of all levels.

According to the Central Election Commission of Belarus, 77% of registered voters approved amending the constitution to enable President Lukashenka to run for a third

term in 2006. This result would mean that 86.2% of those who turned out to vote cast their ballot in favor of a third term for President Lukashenka. It is doubtful that he could pull off such a landslide victory. For instance, the independent non-state Gallup Organization estimated support for President Lukashenka's referendum at 48.4% of eligible voters. As such, it is obvious that the ruler in Belarus is not elected under free and fair conditions.

Since 2003, President Lukashenka has been increasing the pressure on political and social groups. Opposition parties that pose any challenge to the government are prohibited or systematically disabled. The repertoire of repressive measures includes the “disappearing” of opposition politicians and journalists. Freedom of assembly is not assured by the state. The only exclusions are puppet NGOs acting as communication mechanism for official propaganda, and they are directly subsidized by the state. For instance, the Belarusian Patriotic Union of Youth regularly receives financial support from the government, including the provision of buildings that were handed over from state property to the Union.

It is thus clear that while rudiments of a public sphere and public opinion exist, they are subject to massive intervention by the regime. Russian television is often the only alternative to Belarusian state television. However, some Russian programs are not transmitted on the territory of Belarus. For example, Belarusians were not able to see the recent film made by Pavel Sheremet, a famous journalist who regularly criticizes President Lukashenka's regime. The film was meant to be shown on Russian Channel One but was cancelled due to “technical problems.” The spectrum of independent print media is somewhat broader than that of the broadcast media, but their scope of action is also compromised by interventions on the part of the state executive. Some newspapers are printed abroad, for instance in Lithuania, to avoid interference from the state.

1.3. Rule of Law

Belarus' defining characteristic is the executive's formal and de facto monopoly on power. The National Assembly has extremely limited powers and virtually no control over the state budget, which can be “amended” in the middle of the year by presidential decree. According to the constitution, any bill that impacts the budget must be approved by the president or the government before being voted on. Only a small part of lawmaking is carried out in the parliament. The National Center for Legislative Activities, a state think tank responsible for preparation of the bills, is subordinate to the president.

While the judiciary is institutionally well differentiated, at the personal level it is directly subordinated to the president. Thus, President Lukashenka appoints six of the 12 judges of the Constitutional Court, the judges of the Supreme Court, as well as those of the Supreme Economic Court. The president appoints and dismisses the majority of judges. The appointment of judges is subject to a probationary period of five years during which judges remain uncertain about their tenure. As far as the Constitutional Court is concerned, the president not only appoints six of the 12 judges, but also the chairman. The chairman can recommend the names of the other six candidates to be appointed by the Parliament.

Generally speaking it is not completely impossible to receive a fair trial in Belarus. However, in particularly politically sensitive cases, juridical procedures are subordinated to the political representatives of President Lukashenka. Members of the democratic opposition continue to face arbitrary arrest and receive abusive treatment in jail.

Fighting corruption, including low-level corruption of officeholders misusing their position, is part of the political agenda. However, at the same time, the decision-making process lacks transparency as well as checks and balances. In addition, (independent) investigations are not encouraged and are perceived as a political attack against the regime.

Violations of human rights and fundamental freedoms as well as the lack of pluralist democracy continue to be a sensitive issue in Belarus. Whereas some human rights, such as the right to education, are being respected in Belarus, civil and political rights are severely constrained. The more directly and energetically civil rights are utilized to protest against President Lukashenka, the more quickly and forcefully the state executive limits those rights.

1.4. Stability of democratic institutions

Belarus' institutional structures are undemocratic in formal terms and in practice. The existing institutions are heavily dominated by President Lukashenka. As a result of the constitutional amendment to extend his term in office, the president succeeded in further institutionally cementing his power. However, despite the inequality of the starting conditions, the opposition regards the few possibilities that do exist as genuine opportunities to exercise influence and improve public access to information. In this spirit, the opposition attempted to take up the unequal contest against the government in the parliamentary election in 2004 and will most likely do so in the upcoming presidential election in 2006.

1.5. Political and social integration

The political party system can be characterized as being organized around the opposition and the pro-government parties. The latter ones are represented by the Agrarian Party, the Communist Party, the Belarusian Patriotic Movement, the Liberal Democratic Party of Belarus and the Social-Sports Party. As a Soviet legacy the broad spectrum of regime parties serve above all as “transmission belt” for the president’s policies. The main opposition parties are the Belarusian Popular Front, the Social-Democrat Party (chairman: Nikolay Statkevich), the Social-Democratic Party Hromada (chairman: Stanislav Shushkevich), the United Civic Party or UCP (chairman: Anatoly Lebedko), the Women's Party "Nadezhda" (chairperson: Valentina Matusevich) and the Belarusian Party of Labor, which was officially liquidated in August 2004 but remains active. The opposition parties are focused either on nationalist ideologies or on general democratic reforms. The high number of opposition parties illustrates an unstable party system marked by extensive fragmentation.

There are three different kinds of interest groups: initiatives run by the opposition concentrating on human rights issues, associations and actors in favor of supporting economic interests or humanitarian aid – the latter one to a high extent supported by Western donors – and pro-government interest groups driven by the Soviet idea to broaden the social support of the running state apparatus. Overall, there are still many important interests are either underrepresented or restricted by the regime.

The referendum which was conducted on October 17, 2004 on whether President Lukashenka should be permitted to amend the constitution and run for a third term in office can be perceived as a litmus test of the citizens’ consent to democratic norms and procedures. Officially, 77.3% voted to allow President Lukashenka to run again. As a result, the referendum overrode democratic norms written in the constitution. In a survey conducted in late September 2004, the Levada Center in Moscow found out that no more than 37% of those polled intended to back the changes to the constitution. At the time, only 60% of the electorate declared its intention to participate in the referendum on Charter 97 held on October 16. An exit poll by the Gallup Organization/Baltic Surveys suggested a yes vote of 48.4%. Despite the pressure of the authoritarian regime of President Lukashenka, democracy enjoys a high degree of approval among the population, which implies a critique of both the system and President Lukashenka.

Although the legal and financial conditions for civic engagement could not be worse, and in extreme cases opposition activities are countered by repression, civic

engagement is on the rise, and there are more than 2000 officially registered NGOs in Belarus. Civic self-organizations are favored by the democratic opposition, oriented toward humanitarian issues and often devoted to supporting victims of the Chernobyl disaster, and provide social support for the regime. In 2004, NGOs continued to be confronted with systematic attacks from the state. In several important cases NGOs were shut down for technical or arbitrary reasons. Civic organizations have to operate within the area of conflict between a solid trust of the population on the one side and hard pressure from the regime on the other side.

2. Market Economy

2.1. Level of socioeconomic development

Compared to the other post-Soviet states – with the exception of the Baltic states – Belarus has a relatively high level of socioeconomic development. According to the EBRD (European Bank for Reconstruction and Development) Transition Report of 2004, less than 2% of the population was living in poverty in 2000. A value of 34.3 on the GINI index from 2001 points to low levels of income inequality. At the same time, however, it also reflects the fact that in Belarus a transformation has not yet begun, and the fact that for the regime, socially compatible policies are an ideological priority.

2.2. Organization of the market and competition

Market competition operates under a weak institutional framework. President Lukashenka pursues a policy of pervasive state involvement in the economy. The authorities discourage private enterprises through a combination of high taxes, excessive regulations and arbitrary state interference. Roughly 75% of all industry remains in state hands and the industrial base has become obsolete. According to EBRD data some 30% of all industrial enterprises were reported to be operating at a loss during the first half of 2004. The emphasis of large-scale privatization is limited to corporatization. Belarus is the only country in the world where the government has the right to introduce a golden share (like the institution of eminent domain in Western countries) after a firm has been incorporated and privatized.

Formation of monopolies and oligopolies are regulated by law, such as the "Law of the Republic of Belarus on Natural Monopolies," which was adopted December 16, 2002). State actors are not interested in privatization.

About 60% of the Belarusian GDP comes from exports. Significant progress has been made in improving the economic law and methods of regulating the foreign

trade with the aim to bring them in line with World Trade Organization (WTO) rules. But there are still significant problems to be solved including the need to strengthen customs procedures and abolish non-tariff barriers. The pressure to join the WTO is also influenced by Russia's WTO accession and the progress of negotiations on forming a single economic sphere with Russia, the Ukraine, and Kazakhstan.

The banking system is largely in state hands, and the state uses various measures to control the private banking sector. For example, the government has announced that four of the main banks will remain in the public sector until 2010. Excluding some minor banks, most banks are largely state-owned.

2.3. Currency and price stability

In the last five years, the government has placed its priority on holding prices stable, which has had a negative impact on the stability of the currency. From 1994 to 2003, Belarus' weighted average annual rate of inflation was 42.55%. In addition to the burdens imposed by high inflation and persistent trade deficits, businesses have been subject to pressure on the part of central and local governments, such as arbitrary changes in regulations, numerous rigorous inspections, retroactive application of new business regulations, and arrests of "disruptive" businessmen and factory owners. According to the Economist Intelligence Unit, the central National Bank of Belarus has been reduced to a being a conduit of the government's economic policy by being forced to strengthen its supervisory policies, increase domestic credits and reduce the refinancing rate during the first half of 2004.

Besides the state wage and price controls, which are perceived by President Lukashenka as the most important instrument of the government's price policy, there are serious problems in setting objectives and achieving a consistent policy for economic modernization. In 2004, policies continued to be directed at improving living standards through wage increases, higher pensions, and support for enterprises through the budget as well as off-budget financing. Extensive budget subsidies are required to maintain the country's agriculture sector, dominated by Soviet-era collective farms. The government has issued licensing to a number of private banks and has relinquished some of its holdings in state-owned banks. In general, the government continues to exert enormous control over the banking sector, which included 28 commercial banks as of May 2003, and affecting the allocation of credit. Commercial banks, nominally independent, have also frequently been pressured by the government into providing loss-making loans to selected industries and purchasing government-issued securities.

2.4. Private property

Belarus does not have an adequate framework for private property. As during the previous years, there was no specific privatization program in 2003-2004. The government has not yet completed the privatization of large enterprises. Small and medium-sized businesses that are insignificant in terms of their contribution to GDP find their economic activities hampered by the inadequacy of the legal and institutional framework on the one hand and excessive state regulation on the other. Cases of confiscation of property and/or goods from private enterprises and entrepreneurs without court decisions are widespread in particular for customs and tax offences.

2.5. Welfare regime

Belarus' highly developed welfare regime is one of the priorities of the unique Belarusian model of a "social market economy." However, it is very cost intensive. This is because the government gives priority to social services that are both too indiscriminate and increasingly closely associated with ideological rather than social goals. Nevertheless, the amount of social benefits does not cover the cost of living. For instance, it is almost impossible for retired people to survive solely on pensions. The fragmentation of society remains within tolerable limits. At more than 50%, the employment rate for women is high. Women are underrepresented in top positions and over represented in poorly paid occupations. Poverty is predominantly female in Belarus, but it also affects families with two or more children as well as the rural population. Representatives of the Belarusian women's organizations are reporting on the issues of domestic violence and the problematic position of NGOs in Belarus. Sexual violence in both the home and workplace has increased substantially.

2.6. Economic performance

Per capita GDP is again growing at a medium-income level. After the 1998 crisis, it had dropped to \$1,039 in 2000, but increased to \$1,767 in 2003. The accompanying macroeconomic statistics are only moderately positive, but considering all circumstances the situation seems to be under control. However, the relative stability of prices and the persistently low budget deficit receive artificial support from energy supplied by Russia. Moreover, the state budget is also subsidized by loans from the National Bank as well as by compulsory loans from private banks. The relatively strong performance of the Belarusian economy – at least according to official

statistics – is based on the framework of state enterprise without a market economy orientation.

2.7. Sustainability

Especially in the areas of energy supply and utilization, Belarus occasionally tries to reconcile economic growth with concern for the environment, and it also makes qualified attempts to reflect that concern in its institutions. At the same time, the reactor accident in Chernobyl is having lasting effects.

In addition to state educational institutions, private educational institutions are also developing which are more international in their orientation. However, the public educational sector suffers from the country's self-imposed international isolation. Since 2003, the Lukashenka regime has been closing Western-oriented institutions for secondary education, such as the Yakub Kolas National Humanities Lyceum. The European Humanities University in Minsk, a post-secondary institution, was also closed. This was the only private higher-educational institution in Belarus financed by Germany, France, the European Union, and private funds. The closure seriously restricts the opportunities to have access to education beyond the state influenced sector.

3. Management

3.1. Level of Difficulty

The individual factors that determine the level of difficulty vary considerably. According to information from the Heritage Foundation, the per capita GDP stood at \$2,095 in 2004, a middle-income level. In 2004 UNDP ranked Belarus 62nd in the ranking list of the Human Development Index (HDI), similar to Russia at 57th, and higher than the Ukraine's 70th rank. Again, these values show the country's transformation has yet to begin.

Among the country's other advantages are its ethnic and religious homogeneity and its low disparities in income. By January 2004, 5485 cases of HIV had been officially recorded in Belarus, making 55.41 cases per 100,000 of the population. The number of new HIV cases in 2003 was 713. The leading mode of infection transmission remains needle sharing, which accounts for 73.89% of cases. Referring to the UNDP Education Index, the amount of educated labor force in Belarus remains high. However, the well-educated Belarusian labor force is an ambivalent legacy of the Soviet system. The average Belarusian citizen has a high level of education, but has

been trained to serve the needs of centrally planned economies. This marks an obstacle for the development of a market economy in Belarus.

Educated labor force

| | 2000 | 2001 | 2002 |
|--------------------|--------------|--------------|--------------|
| Population | 10.020 | 9.990 | 9.951 |
| Labor force | 4.537 | 4.520 | 4.511 |
| % | 45,3 | 45,2 | 45,3 |

Quelle: IMF Country Report No. 04/139 (May 2004), p. 5 (in thousands)

Belarus possesses negligible or at best, weakly developed civic society traditions. However, since the collapse of the Soviet system in 1991, there have been numerous developments in civic activities. During the reporting period, activities of organizations of the civil society have been seriously restricted by attacks from government agencies, especially if the activities were run by the opposition. The stable institutions of the state, which are oriented less toward the separation of powers and democracy than toward the consolidation of Lukashenka's power are an obstacle to, and not an achievement of, transformation.

Although there are no ethnic or religious conflicts, the Belarusian society remains divided over the legitimacy of Lukashenka as the president.

Profile of the Political System

| | | | |
|------------------------|-------------------------------|---------------------------------|---------------------------|
| Regime type: | <i>Autocracy</i> | Latest parliamentary elections: | <i>13-17 october 2004</i> |
| | | Effective number of parties: | <i>1.3</i> |
| 1. Head of State: | <i>Aljaksandr Lukaschenka</i> | Cabinet duration: | <i>10/01-07/03</i> |
| Head of Government: | <i>Hendz Navitski</i> | | |
| 2. Head of Government: | <i>Sergei Sidorsky</i> | Cabinet duration: | <i>12/03- present</i> |
| Type of government: | <i>oversized coalition</i> | Parties in government: | <i>4</i> |
| | | Number of ministries: | <i>25</i> |
| | | Number of ministers: | <i>25</i> |

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i . Number of ministries/ ministers denotes the situation on 1 January 2005.

3.2. Steering Capability

The political leadership claims to pursue long-term aims, but these are regularly replaced by short-term interests of political bargaining and office-seeking of President Lukashenka. Based on the passing of the 2004 referendum, the president has strengthened his ability to shape strategic priorities for his own interest.

Belarus has seen little structural reform since 1995 when President Lukashenka launched the model of the “social market economy.” In keeping track with this policy, Lukashenka re-imposed administrative controls over prices and currency exchange rates and expanded the state's right to intervene in the management of private enterprises.

There has been little change during the reporting period. At the time of writing, almost no reform policy exists other than the strengthening of the authoritarian regime. That does not mean that the liberal political and economic actors share the same perspective. On the contrary, they have been developing reform scenarios for Belarus.

3.3. Resource efficiency

There is little transparency with regard to the national budget. According to EBRD data, government debt was estimated at 10.5% of GDP in 2003. The government balance was estimated at 1.8% of GDP and the general government expenditure was 46.1% of GDP in 2003. The comparatively small state budget deficit combined with the government's efficient utilization of the budget might at first seem to indicate an efficient use of resources by the government. However, despite these positive indicators, the Belarusian national budget has considerable fiscal problems. The state in general and President Lukashenka's executive power, in particular, intervene directly in the granting of loans, the setting of interest rates and the evolution of prices. This involves not only the extension of loans to the public sector but also the forced extension of loans by commercial banks, for example, to subsidize the sensitive agricultural sector. This policy eases the burden on current state budgets, but in doing so the deficit spending is only delegated to the banking sector. If these quasi-fiscal activities were no longer shifted to the banking sector, the state budget deficit would be substantially higher.

The constitutional amendment of 2004 strengthened President Lukashenka's extremely dominant position in the government's administrative structure. Among his other powers, the president appoints and dismisses members of the electoral

commission, appoints and dismisses members of the cabinet, including the prime minister, and appoints the chiefs of the Supreme Court, the Constitutional Court and the Supreme Economic Court. He also appoints six of 12 justices on the Constitutional Court, as well as all the remaining justices of the country. In addition to exercising power granted under the constitution, President Lukashenka bypasses the institutional system and governs directly by means of decrees and directives.

President Lukashenka's dominance within the Belarusian system of government extends to the municipal and regional levels as well. The local elections in 2003 were dominated by the government and held mostly without alternative candidates. Of 2,346 deputies in local councils, only 107 belong to the democratic opposition. Additionally, the president appoints the leaders of regional and municipal administrations. Legislative bodies in the administrative regions as well as in the cities and towns have only very limited opportunities to participate in decision-making processes. This is especially the case with respect to Belarus' weakly developed financial federalism and the circumscribed political decision-making processes that prevail at the regional level. On the whole, President Lukashenka compels the government to utilize its financial and administrative resources in order to preserve his power. Thus, goals are set primarily with the preservation of power and the perpetuation of the existing system in view, not with transformation.

Guidelines for the future "transformation" – or more correctly, for President Lukashenka's policies – are summarized in the "Foundations of the Socioeconomic Development of the Republic of Belarus 2001–2005." This document continues to place priority on the creation of a "social market economy." In this regard, the government seems to be quite aware that in the medium term the maintenance or improvement of the social situation will require structural economic reforms.

The government is trying to keep its future annual budget deficit below 1.5%. At the same time, however, it also plans to reduce the tax burden by 5 or 6% by 2005; it is currently at 36.2% of GDP. In addition, the government seeks to improve the conditions for small and medium-sized companies by dismantling the administrative hurdles that stand in the way of registering businesses, to simplify tax law and reduce the tax burden, and to reduce checks and inspections, which are often politically motivated.

Furthermore, the government intends to carry out structural and institutional governmental reforms that are supposed to entail an overall reduction of 10% in the government workforce. The government coordinates its policies effectively by using all possible mechanisms to support the acting president.

Fighting corruption is a priority in Alexander Lukashenka's "reform program." During the period under review, the government again adopted a legal act on fighting corruption. On May 26, 2003 the law No. 199-3 entitled "On ratification of Convention on criminal responsibility for corruption" was put into force. On November 5, 2003 the Council of Ministers passed the Resolution No. 1471 entitled "On adoption of the plan of activities to counteract corruption in state bodies." In addition, the president launched several decrees concerning the fight against corruption: No. 122 of March 1, 2004 entitled "On signing by the Republic of Belarus the Convention of the United Nations against Corruption" and No. 75 of February 13, 2004 entitled "On adoption the state program of strengthening fight against corruption in 2004 – 2005." In practice, Lukashenka often utilizes the anti-corruption campaign merely as a means of eliminating political opposition and keeping a tight rein on private enterprise. Thus, various opponents of the regime were sentenced to multi-year prison terms in anti-corruption trials.

3.4. Consensus-building

The major political actors are essentially forced to agree on Lukashenka's path of "social market economy." Without loyalty to the president, members of the state government in Belarus have limited possibilities to make political and economic decisions. The current consensus surrounding reforms and their objectives is enforced from above.

Because the central political and economic actors are directly appointed by President Lukashenka, their reform activities are structurally and personally tied to the president's program. The opposition's posture is marked by hostility to the government's policies. The opposition distinguishes itself more by its rejection of President Lukashenka than by its positions on substantive questions concerning reform and the path toward democracy and market economy. The relevant political and economic actors who might be able to promote reform fail because the president blocks reform attempts in general.

The political leadership successfully controls conflicts across potential dividing lines with the opposition.

In January 2005, President Lukashenka appointed a new chief of the State Security Committee (KGB), replaced his deputies and the heads of KGB regional directorates. The Belarusian KGB is now led by Major General Stsyapan Sukharenka, who was the first deputy chairman of the KGB in 2000-2004 and acting KGB chairman following the dismissal of leader Leanid Yeryn in November. According to

assessments from the Belarusian democratic opposition, this is a signal of increased political repression in the country before the 2006 presidential election. These policies do not reflect a fight against corruption or transnational crime so much as a struggle to stay in power. Furthermore, one might also assume that the personal decision of the president to strengthen connections with Moscow is based on personal networks of President Lukashenka.

The political leadership suppresses and excludes civil society actors from the political process. During the parliamentary election in 2004, opposition parties were undermined by the arbitrary non-registration of prospective candidates, and by groundless de-registrations. Due to the legal framework for the electoral campaign, each candidate was restricted in publishing not more than two typewritten pages of material in a State-funded national or regional newspaper and to one TV and one radio presentation not exceeding five minutes. As a result of these regulations, the election campaign in the media did not permit a genuine debate.

Belarus is geographically and culturally close to Europe. This became an even more important factor since Poland and Lithuania, the country's immediate neighbors, joined the European Union. However, stateness is underdeveloped in Belarus in a way that the union of the country with Russia poses a threat to the Belarusian nation state as such. It is difficult to separate the identity of the elites or the population from the Russian and Soviet past. For this reason, President Lukashenka deliberately affirms the continuity of the Soviet heritage and does not exploit the country's European potential. Thus, Belarus' political elite does not address past acts of Soviet injustice and has not initiated a process of reconciliation.

3.5. International cooperation

International cooperation is largely prevented by the self-imposed isolation of the Lukashenka regime. The reporting period again was dominated by a stumbling block of complicated relations between the official Minsk and the West. To start with, according to the official OSCE statement the parliamentary elections in Belarus on October 17, 2004 felt significantly short of OSCE commitments. Just before the election, the U.S. Senate endorsed the "Belarus Democracy Act." The act authorizes assistance for democracy-building activities, such as support for non-governmental organizations, independent media, and international exchanges. It also prohibits all U.S. government agencies from providing loans or investments to the Belarusian government unless it is for humanitarian goods and agricultural or medical products. The decision to prevent the head of the German Friedrich Ebert Foundation's regional office for Ukraine, Belarus and Moldova from entering Belarus on November 8, 2004

has to be perceived as another negative signal from the Belarusian authorities against grass roots cooperation with the West. Besides preventing democratic cooperation with the West, the official Minsk is nevertheless interested in economic and trade relations with the West. The political leadership cooperates with individual bilateral or multilateral international donors but it does not use international aid to improve its politics.

Members of the democratic opposition and economic reformers are interested in cooperating with single neighbor states as well as with regional and international actors. Polish, Lithuanian, Slovakian and other projects driven by the new EU member states to strengthen transition in neighboring Belarus might develop toward a driving force of future oriented development.

4. Trend of Democratic and Economic Development

4.1. Democratic Development

The current regime in Belarus can hardly be assessed as meeting minimum requirements concerning the rule of law.

As a result of the referendum on constitutional amendments proposing to adopt the removal of the two-term limit on the office of the president, the regime has succeeded in further consolidating its power by harming democratic standards.

4.2. Market Economy Development

Belarus' level of development has slightly improved during the last several years according to UNDP's HDI, which rose from 0.775 in 2000 to 0.790 in 2002.

The country's development as a market economy has not changed significantly. There has been little progress on structural economic reform and market liberalization. The emphasis of large-scale privatization remains limited to the amount of 80% of all industries. The majority of industries are still state-owned. Overall, the institutional framework has also not changed significantly. The economic development has essentially stagnated during the reporting period. According to the data of the Heritage Foundation, the Belarusian economy has been categorized as "repressed" since 1998. Only in 2005 was it ranked as "mostly unfree" but with little progress in economic development.

Table: Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|--------|--------|--------|--------|--------|
| Growth of GDP in% ¹ | 5.8 | 4.7 | 5.0 | 6.8 | 6.0 |
| Export growth in % ² | 12.7 | 11.0 | 10.1 | 5.6 | Na |
| Import growth in % ² | 13.4 | 9.5 | 9.9 | 2.9 | Na |
| Inflation in % (CPI) ¹ | 168.6 | 61.4 | 42.6 | 28.5 | 19.3 |
| Investment in % of GDP | 22.8 | 22.2 | 22.2 | 24.1 | Na |
| Tax Revenue in % ² | 48.4 | 48.6 | 42.4 | 27.7 | Na |
| Unemployment in % ¹ | 2.1 | 2.3 | 3.0 | 3.1 | Na |
| Budget deficit in % of GDP ¹ | 15.0 | 11.6 | 10.6 | 10.5 | Na |
| Current account balance in billion \$ ¹ | -0.338 | -0.394 | -0.311 | -0.527 | -0.670 |

¹ Source: EBRD – Transition Report 2004. ² Source: World Bank – Belarus at a glance.

D. Strategic perspective

Regime change has not yet occurred in Belarus, which would first require stripping Lukashenka of his power. The possibility that Lukashenka would “simply” resign by accepting the constitution ended when the president extended his term based on a referendum held under undemocratic conditions. Lukashenka will use almost any possible measure to remain in power, and is unlikely to commit to Western democratic values.

Relations with Russia will have a decisive influence on Belarus’ development, not least because Lukashenka’s “social market economy” model for domestic economic development is highly dependent on cooperation with Russia, especially in the energy sector. The Belarusian government is constantly unhappy about Russian gas prices. Based on the 1999 Belarusian-Russian Union State Treaty, Russia is required to supply Belarus with gas at its domestic prices, but in December 2004 Belarus and Russia's Gazprom concluded a gas-supply contract for 2005 establishing the price at \$46.68 per 1,000 cubic meters, the same price level as in 2004. However, Belarusian customers will be expected to pay higher gas prices following the adoption of the country-of-destination principle, which will result in the collection of an 18% value-added tax on Russian gas as of January 1, 2005.

Belarus is an attractive market from an economic perspective, particularly since 80% of Belarus’ property remains in state hands, and is therefore potentially open to influence from Russia’s large economic and financial groups. However, beyond sharing the Belarusian market, President Putin has limited interest in Lukashenka’s

kind of authoritarian regime and the Kremlin lacks the mechanisms to successfully influence post-Soviet integration on a democratic basis.

As soon as Lukashenka steps down – whether in response to increased domestic pressure, pressure from Moscow or Western engagement – a system change must still be undertaken, with all its associated economic, social and political tasks. In addition to its generally positive baseline conditions, Belarus might also benefit from its neighbors’ experiences with transformation processes. In view of the course of post-Soviet development thus far, special attention should be paid to the social aspects of systemic change. The most promising prospects for change include either a successful opposition party and/or strengthening of democracy and the market economy driven externally by neighboring countries. Although Lukashenka declared in January 2005 that “there will be no pink, orange, or banana revolutions in Belarus,” the recent democratic change in Ukraine provides additional incentive to increase transition in Belarus, assuming that Europe is devoted to democratic values and market economy.