

BTI 2012 | Belarus Country Report

Status Index	1-10	4.36	# 101 of 128	
Political Transformation	1-10	3.93	# 96 of 128	➔
Economic Transformation	1-10	4.79	# 87 of 128	➔
Management Index	1-10	2.81	# 116 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	9.5	HDI	0.756	GDP p.c.	\$	13928
Pop. growth ¹	% p.a.	-0.2	HDI rank of 187	65	Gini Index		27.2
Life expectancy	years	70	UN Education Index	0.776	Poverty ³	%	<2
Urban population	%	74.3	Gender inequality ²	-	Aid per capita	\$	10.1

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The presidential elections of December 2010 proved to be a turning point in the reporting period. After officially winning nearly 80% of the votes, incumbent President Alyaksandar Lukashenka was declared the winner. The OSCE later criticized the elections as failing to meet democratic standards. After poll stations closed, nearly 40,000 Belarusians mounted a protest in Minsk for free and fair elections, the biggest such demonstration since 2001. This unexpectedly huge crowd moved peacefully from October Square toward the Square of Independence, where it was met by security forces and brutally dissolved. Dozens of people were injured and over 600 detained, among them seven of the nine opposition candidates as well as journalists, intellectuals and artists. From December 2010 to February 2011, a severe wave of repression rolled across Belarus, with the regime clearly aiming to crush and discredit the opposition and civil society more broadly. On 31 January, 2011, the European Union announced the renewal of regime-focused sanctions, which had ceased in 2008 as a response to slight economic and democratic improvements implemented by Lukashenka.

Before the presidential elections, the country's political environment had looked much more promising for those who had hoped for a long-term, evolutionary regime change in the direction of the free market economy and at least a slight democratization. Beginning in 2008, the Belarusian government had made small steps toward economic liberalization, improving the conditions for private business and making some moves toward privatization. These came as the regime was feeling pressured by the effects of the global financial crises, as well as by increasing Russian energy tariffs. The country's relationship with the European Union improved significantly, while its relationship with Russia deteriorated dramatically. By 2010, liberalization could be felt in all spheres of life: not only in the economy, but also in civil society. Though no truly sustainable democratic reforms had been implemented, a light breeze of freedom was blowing through Belarus, associated particularly with the liberal conditions under which campaigns for the presidential elections were being conducted. For the first time, the regime

allowed televised debates with opposition candidates. However, almost no one from civil society or the opposition had any illusions about this “liberalization.” Most civic activists at the time called the improvements “democratic decorations” which could be reversed easily. In this, they were ultimately proven correct.

History and Characteristics of Transformation

In the final years of the Soviet Union, the Belarusian elite did not pursue liberalization. Although a national independence movement emerged with a strong program of separation from Russia, it did not ultimately succeed. This was partially due to the absence of a meaningful Belarusian national identity, and partly to the resolve of some Belarusian decision makers to continue enjoying the benefits of cooperation with Russia. National independence was not an active process, but rather the result of the failed August 1991 putsch against Mikhail Gorbachev. The transformation of the Belarusian Soviet Socialist Republic into the Republic of Belarus did not lead to a fundamental change in the nation’s elite, and institutional reforms were carried out only slowly. Because of the massive industrialization and modernization of Belarus during Soviet times, many people retained considerable nostalgia toward the Soviet Union.

An important institutional turning point was the adoption of the Belarusian Constitution in March 1994, which created the office of a powerful president. With the help of a populist electoral campaign, Alyaksandar Lukashenka succeeded in winning the presidency in summer 1994. Since that time, the country’s development has been dominated by the president’s autocratic power. Lukashenka consolidated his authoritarian regime with the help of a constitutional referendum in 1996, and another referendum in October 2004 that allowed him to be reelected to more than the two terms in office foreseen by the constitution. Since the beginning of his tenure, Lukashenka has increasingly monitored and repressed the opposition, independent media, civic society and the private business sector.

All members of parliament support the current government and are appointed by the regime. The opposition is not represented in the legislature at all. Elections have consistently fallen short of OSCE standards for democratic balloting.

Beginning in 2008, the Belarusian regime made some progress toward fulfilling democratic standards. The most public decision was the release of several well-known political prisoners, including Alyaksandar Kazulin, the most prominent figure. This led the European Union to suspend sanctions against Belarus for a period of six months, starting from October 2008. During the 2010 presidential elections, the regime allowed oppositional candidates to conduct election campaigns more openly than had previously been the case. But after having been declared the winner in elections deemed not free and fair by the OSCE, Lukashenka’s regime renewed a harsh level of repression. In response, the European Union reimposed sanctions against the regime.

With respect to economic matters, initial conditions for a transformation to a market-based economy were favorable at the time of independence. It is problematic, however, that Belarus depends on Soviet Union successor states – especially Russia – for 90% of its energy. Belarus also suffered substantially from the effects of the 1986 reactor accident in Chernobyl, in which 70% of the radioactive fallout hit Belarus.

In general, Lukashenka's rise to power halted the trend toward liberalization and privatization that had emerged in the wake of independence. He tried to implement a model of economic reform similar to that of the successful transition economies in Asia, restricting the liberalization of key economic sectors to a minimum while enhancing state control. However, unlike the Chinese and Vietnamese models, Lukashenka's "market socialism" is not based on dynamic factors such as extensive foreign direct investment, the growth of small and medium-sized businesses, and agricultural reform. Lukashenka has also maintained resource-intensive social services and other social policies.

Within the regime's administrative straitjacket, macroeconomic reforms have moved forward in small steps. According to the Economist Intelligence Unit, Belarus' 2008 fiscal and monetary policies were more sustainable than in past years. However, this improvement was initially based on favorable external conditions, and more recently on loans from Russia and revenues from the sale of a controlling stake in a natural gas pipeline network. Despite its command-economy policies, Belarus has managed to maintain roughly the social and economic conditions that prevailed in 1991. The country experienced neither a sweeping economic boom accompanied by economic modernization nor dramatic and uncontrollable economic slumps. Until January 2007, Belarus profited from cheap subsidized energy imports from Russia, which were resold to Western Europe at high prices. This decreased the pressure on the country's Soviet-style industries to modernize and allowed for expensive social programs. Russia's recent policy of bringing energy prices for Belarus to world market levels may result in a slowdown in economic growth in the years to come. Belarus was also affected by the effects of the global financial crisis in late 2008. To stabilize the country's currency, the government signed an agreement with Russia in November 2008 for a \$2 billion stabilization loan, followed by a \$3.5 billion standby agreement with the IMF in January 2009. As a reaction to worsening conditions, Belarus has undertaken some economic reforms and improved business conditions for private entrepreneurs. However, a major privatization drive, though announced many times, has not yet taken place.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Belarus' political system is completely dominated by the executive, embodied by the presidential administration. Within the horizontal and vertical state power structures, there is virtually no competition to the state's monopoly on the use of force, which is dominated by the authoritarian government of President Alyaksandar Lukashenka.

The constitution grants equal rights to all citizens. But in an autocratic state like Belarus, equality is defined by the government, which abuses its power in order to discriminate against and oppress certain minorities, social and interest groups if they are not in accord with state policy. For instance, even though the language situation has improved slightly in recent years, people who speak Belarusian (the official language together with Russian) still face political and social discrimination. The Polish minority and its institutions are often targets of governmental repression.

Lukashenka's rule is not based on religious foundations. The president describes himself as an "orthodox atheist." But in a country with a strong orthodox tradition, he tends to use the Orthodox Church (which is a part of the Russian Orthodox Church) as a "moral pillar" of his rule from time to time. The Orthodox Church therefore received financial contributions from the government for a long time. In 2006, Lukashenka awarded the "Hero of Belarus" medal to the head of the Orthodox Church in Belarus, Metropolitan Filaret of Minsk and Sluzk, who is known for being a strong supporter of Lukashenka's politics. But since 2009, relations between the government and the Belarusian Orthodox Church, whose main leadership is in Moscow, have cooled. This is probably due to the overall deterioration in Belarusian-Russian relations. In 2009, Lukashenka visited Pope Benedict XVI to prove his readiness to give appropriate attention to the interests of the Catholic Church in Belarus, the second largest confession in the country.

Question

Score

Monopoly on the use of force

10

State identity

8

No interference of religious dogmas

9

As an authoritarian regime, the Belarusian government is able to use the administration as an effective device to impose its authority throughout the national territory in a centrally dominated way based on the structural heritage of the Soviet Union. Democratic elements granted by the constitution have been abolished or weakened by the government's centralism. Principles and institutions of self-government as a means of administrative modernization have not been applied in Belarus. Due to the overcentralization of power, experts and authorities have (indirectly) acknowledged a crisis within the administrative system and its efficiency over the past two years.

Basic
administration
7

2 | Political Participation

Elections as such in Belarus are not meant to be a means of democratic control of power, but are rather instruments used by the regime to legitimate itself symbolically and strengthen its power. Parallels with the role of elections in Soviet times are obvious. All elections held under Lukashenka's rule have been judged by the OSCE to be non-democratic, including the presidential elections of December 2010 (which OSCE observers stated had made progress, however). In this 2010 balloting, the government created a "democratic façade" in the pre-election period, giving more freedom to the presidential candidates. This façade was torn down as early as the evening of election day itself.

Free and fair
elections
2

A major reason for complaint was the composition of the electoral commission, on which opposition candidates made up only a 0.25% share. In addition, observers criticized the examination of signatures for a lack of transparency, and spotlighted the inequality in campaigning opportunities associated with Lukashenka's very significant use of administrative and state mass-media resources. Elections in Belarus have been persistently accompanied by the repression of independent media and civil society organizations. The administration has urged workers and students to cast their votes during the early voting period, a time range experts believe is being used by the regime for the most severe manipulations and falsifications. There is also no efficient mechanism through which to make complaints during the election campaign, and no way to appeal the results to the Supreme Court.

As described by political analyst Vitali Silitski, the presidential administration is the country's "decision making epicenter" or "shadow government," dominating and controlling the political system of Belarus on all administrative levels. Senior representatives of the presidential administration appear as politicians in public, even though they are unelected. All political bodies are dependent on the presidential executive, including the national parliament. These bodies lack pluralism, independence and transparency, and have little influence on central decisions. The state media, especially TV stations, provide an effective means of manipulating, regulating and controlling the process of public opinion-shaping, and

Effective power to
govern
2

of legitimating the executive's decisions. The opposition is totally excluded from all political bodies and has been effectively blocked and isolated from the sphere of political opinion-shaping and decision-making. It exists in a "parallel world" within Belarusian society, relying on a handful of small independent media outlets and the Internet.

Lukashenka's base of support has changed in recent years. Rather than being dominated by elderly people, his voter base is today peopled in addition by youngsters without nostalgia for Soviet times. The president can also number well-educated people from big and medium-sized enterprises among his supporters. However, his support has decreased among workers, low and mid-level office employees, people with secondary education, and the rural population. During the 2010 presidential elections, a strong grip on power, media falsifications and manipulations during the balloting process seemed to take on a higher level of importance than in previous such exercises.

Freedom of assembly is theoretically assured by the constitution, but is tolerated only insofar as political goals do not interfere with the Lukashenka regime. Granting of the right is liable to arbitrariness and manipulation by governing bodies. Unregistered groups and parties which (dependant on the political climate) are tolerated by the authorities face severe penalties. Violations of the regulations governing the freedom of assembly are the regime's device to control political space and opinion. In this vein, authorities banned the Slavic Gay Pride March which was scheduled to take place in May 2010 in Minsk.

Freedom of association is significantly limited by regulations constraining the appropriate environment (rules include the obligatory registration of any external funding, and limited access for NGOs to schools, universities and other institutions). The regime does not encourage free political participation or self-organization. Groups that oppose the regime are exposed to harsh repressions and restrictions. For instance, the officially registered Belarusian Association of Journalists (BAJ) lives with the constant threat of being shut down.

NGOs still have difficulties in registering themselves. In 2010, the situation for NGOs and political groups reached a new low for the Lukashenka era, despite the presence of a liberalizing trend that could be identified in many spheres of social life. Public debate clubs were allowed to take place, and opposition parties and presidential candidates were able to conduct meetings and campaign activities without visible obstacles or interference by the authorities. The NGO environment did not change significantly even during this time of announced "liberalization," however, and even these cautious signs of thaw vanished after the presidential elections of December 2010.

Association /
assembly rights
3

The state does not encourage dissenting thought or discourse. Public debate does exist, but is controlled and vulnerable to distortion and manipulation by state intervention. The electronic media is dominated by the state. Independent media and journalists are regularly harassed by the state and the KGB. Today, the Internet provides the greatest opportunity for freedom of expression. Consequently, Internet forums are dominated by opponents to the regime. With Presidential Amendment No. 60 of 1 February 2010, the regime set strict rules regulating the Internet. Beginning in 2008, a trend toward a slight liberalization for independent media was evident. A required re-registration for media outlets led to fewer problems than expected. But the state has blocked fundamental improvements. Throughout 2010, independent media and journalists in particular faced considerable pressure. After the elections, the offices of independent media outlets were searched by the KGB, computers were confiscated, Internet sites were blocked by hackers, and 26 journalists were arrested, among them the famous journalist Iryna Khalip (the wife of presidential candidate Andrej Sannikau).

Freedom of
expression

3

3 | Rule of Law

The executive has a de facto monopoly on power within the Belarus political system. The presidential administration sits at the top of a strict, vertically organized power dynamic that encompasses all levels of administration, institutions and political bodies. This enables the authorities to manage, regulate and control the rule of law and official politics. The National Assembly and its members, often called a “puppet parliament,” have virtually no power to control the executive. Parliament has almost 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 portion of lawmaking is carried out in the parliament. The National Center for Legislative Activities (a state think tank responsible for the preparation of bills) is subordinate to the president. The presidential administration has the power to intervene in the activities of other ministries or political bodies.

Separation of
powers

2

The country’s administrative structure poses a severe obstacle to the realization of accountability, administrative independence and transparency. Among other issues, the president appoints and dismisses members of the electoral commission, members of the cabinet including the prime minister, and the heads of the Supreme Court, the Constitutional Court and the Supreme Economic Court. He also appoints six out of 12 judges of the Constitutional Court, as well as all other judges in the country. In addition to exercising power granted under the constitution, Lukashenka bypasses the institutional system and governs directly by means of decrees and directives.

The judiciary is able to perform on an institutionally well-differentiated level, though it is constituted to serve an authoritarian regime. The president himself appoints and dismisses the majority of all judges, most of whom are directly subordinate to the president. The president also appoints six out of 12 Constitutional Court judges, including the chairman, who has the power to recommend the names of the other six candidates to be appointed by the parliament. The judiciary depends heavily on the executive on all regional and national levels. The head of the referring executive branch is entitled to take over a trial, intervene and even influence a verdict if he identifies the case as socially, politically or economically important or as bearing on the interests of the regime.

Independent
judiciary
4

The regime abuses judicial power, wielding it as a tool of punishment and repression against opponents. Members of the democratic opposition and independent media continue to face arbitrary arrest and to receive ill treatment in jail.

After December 2010, advocates for the interests of detained politicians and civic activists faced unprecedented pressure. Some even lost their licenses, typically for far-fetched reasons. However, it needs to be emphasized that in “non-political” cases it is possible to receive a fair trial in Belarus.

Before Lukashenka was elected president of Belarus in 1994, he was the chairman of the anti-corruption committee in the country’s parliament. The promise to fight corruption was at the heart of his successful election campaign. Today, he continues to take significant steps against corruption. Fighting corruption, including the abuse of position by low-level officeholders, is thus a superficial part of the official political agenda and state propaganda. But de facto, the abuse of position is to a certain extent tolerated by the regime as part of its policy. When it comes to internal conflicts with officeholders, the regime has an effective instrument to replace or indict “unwanted elements.” Moreover, corruption charges are a common instrument for settling political conflicts with figures inside the political apparatus who develop oppositional views. Independent corruption investigations are not encouraged, and are perceived as a political attack against the regime.

Prosecution of
office abuse
4

The constant defiance and violation of fundamental freedoms and human rights, along with the lack of pluralist democratic norms, is a consistent theme in the history of the Lukashenka regime. Belarus is also the only European country that still allows the death penalty. Whereas some human rights (such as the right to education) are respected, civil and political rights are heavily curtailed. It is an unwritten rule of the Belarusian regime that anyone can live happily in Belarus as long as he or she does not become involved in politics. The ferocity of the violations comes in waves reflecting the political climate. Presidential candidate Uladzimir Njakljaeu, for example, was brutally attacked by special forces staff prior to the protests on 19 December 2010. In the hospital, he was kidnapped by the

Civil rights
2

secret service, and subsequently denied adequate medical treatment while in jail. Andrej Sannikau, another presidential candidate arrested on the same day, is said to have been tortured in jail. The same was claimed by presidential candidate Ales Michalevych after his release from a KGB jail.

In general, the more directly and energetically people make use of civil rights to target Lukashenka, the more quickly and forcefully the state executive limits those rights.

4 | Stability of Democratic Institutions

The Lukashenka regime tries to evoke the image of a state governed by democratic institutions and rules. During a visit by the German and Polish foreign ministers in November 2010, for example, Lukashenka claimed that all elections in Belarus have been held under democratic rules. In practice, however, formally existing democratic institutions and procedures have little reality. The whole system is crucially influenced and dominated by Lukashenka himself and the head of the presidential administration, Uladzimir Makei, who was appointed in July 2008. Makei is thought to be one of the main authors of the politics that favors the balancing of the regime between Russia and the EU. In the period under review, the regime provided unwilling to make fundamental changes based on the principles of democratization. The unexpected escalation in December 2010 supports the conclusion that regime hard-liners have for the moment retaken control.

Performance of
democratic
institutions
2

From a formal perspective, the authoritarian system has retained “democratic institutions,” but has perverted their function according to the needs of the regime. Influential actors and interest groups within the regime dominate these institutions and bodies. The democratic opposition, which suffers from structural shortcomings, has almost no impact on or influence over state institutions. It has to act in a dangerous “parallel world,” tolerated by the regime but constantly monitored, repressed and attacked by the authorities and the state’s quite effective propaganda. The main focus of the political opposition is the struggle against Lukashenka. As a result, all ideological differences between the political parties are minimized.

Commitment to
democratic
institutions
2

5 | Political and Social Integration

Belarus’ political party system is highly fragmented and unstable. The parties are high in number and small in size. Many have a head but no body. Reminiscent of the Soviet era, they are not regarded positively by the broader society. Many parties lack stable social roots or well-working regional structures. The spectrum can be divided into opposition and pro-government parties. The latter are represented by the Agrarian Party, the Communist Party of Belarus, the Belarusian Patriotic Party,

Party system
3

the Liberal Democratic Party of Belarus, the Party of Labor and Justice, and the Socialist Sporting Party. In 2007, Belaya Rus was founded as a public association supporting Lukashenka, and consistent rumors speculate that this 50,000-strong group will ultimately be transformed into the main Lukashenka party. The pro-government parties do not have substantial impact on the state's politics. Rather, they serve above all as a "transmission belt" for Lukashenka's policy.

One of the main parties within the oppositional spectrum is the United Civic Party, headed by Anatol Lyabedzka. This party, promoting liberal free-market policies, was represented by well-known economist Jaroslav Romanchuk in the 2010 presidential elections. The Belarusian Popular Front (BNF), founded in 1988, is the oldest and biggest of the opposition parties. The BNF appeals to nationalist and conservative interests. It has the best organization in rural areas, and is headed by the young and pragmatic Alyaksey Yanukevich. Hramada (the Belarusian Social Democratic Party, BSDP) is one of several left-wing opposition parties, a group that is very much divided. Also well known is the Belarusian United Left Party, or Fair World, led by Sergey Kalyakin. One relative newcomer is the as-yet-unregistered Belarusian Christian Democracy. Za Zvabodu (For Freedom), an association founded by former presidential candidate Alyaksandr Milinkievich, is more a movement than a true party. All oppositional parties exist in a very difficult environment, harassed by state security forces and state propaganda.

Generally, it is difficult to assess the real influence or social basis of political parties because of the lack of transparency in vote counting during elections.

In recent years, the activity of a number of interest groups has become more apparent. According to the Belarusian think-tank Center for European Transformation, civil society organizations have initiated increasingly articulate and coordinated efforts to advocate and lobby for their interests. Deserving particular mention is the active policy work of the National Platform of the Eastern Partnership Civil Society Forum, which resisted the intensive efforts of the authorities to establish a pro-governmental "civil society vertical" in late 2010. Nevertheless, there is a high risk of polarization and underrepresentation of certain interests due to the regime's dominance. Pro-governmental interest groups still concentrate on a "social dialogue" model reminiscent of the Soviet era, supporting the idea that the state apparatus serves its people. Others are more interested in economic and cultural matters. Initiatives run by politicized groups typically focus on human rights or freedom issues, or on specific economic interests. A growing share of these groups deals with very specific issues of self-organization, the environment, culture and history, eco-tourism or regional projects. Most independent interest groups are unable to work efficiently in the country's political environment.

Interest groups

4

There is no reliable survey data available on the population's general approval of democracy. Some assumptions can be drawn from the events surrounding the presidential election of 19 December 2010. Some experts assumed that Lukashenka had in fact lost the elections, which could explain the authorities' overreaction. Exit polls, studies and experts put Lukashenka's vote between 40% and 50% of the whole. IISEPS (an independent Belarusian sociological institution in exile) claimed that Lukashenka received 51.1% of the vote.

Approval of
democracy
n/a

One of the most notable features of the 2010 demonstrations in Minsk – probably the biggest rally since 2001 – was that people mainly demonstrated against the undemocratic election process, rather than in support of any particular candidate. It is possible to postulate decreasing support for the Lukashenka regime, yet very difficult to say anything definitive as to increasing support for democracy.

Democratic bodies have recourse only to weak social capital in Belarus. Citizens typically know very little about civil society organizations or political parties. Self-organized civic groups can be characterized as a) being in favor of democratic ideas and human rights, b) oriented toward nonpolitical but socially important activities and changes (education, culture, environment), c) offering pure humanitarian aid and social assistance (often in support of victims of the Chernobyl disaster or other charities) or d) providing social support for the regime. The Law on Public Associations bans foreign assistance for NGOs supporting any activities related to elections, referendums or meetings which could alter the present constitutional regime. In several important cases, NGOs have been shut down for technical or arbitrary reasons. The new version of this law, which contains some improvements and some new bans, is now undergoing a semi-closed process of public discussion initiated by the Ministry of Justice.

Social capital
4

Although the legal and financial environment is hardly conducive to producing an active civil society, and opposition activities are met with repression, civic engagement is on the rise. Founded by the European Union in 2009, and formally accepted by Belarusian authorities at the Prague Summit in May 2009, the Eastern Partnership Initiative gave new impulse to civil society organizations to reach out to their target groups. The new level of activity is also reflected by the fact that in 2009 and 2010, Siarhei Mackevic and Ulad Vialichka, representatives of Belarusian civil society groups, were elected as speakers of the Civil Society Forum within the Eastern Partnership.

Altogether, there are more than 2,000 officially registered NGOs in Belarus. According to international estimates, there are another unregistered 500 to 700 NGOs that work either underground or on the premises of registered groups. Civic organizations are forced to operate within an area of conflict, caught between the solid trust of the population on one side and pressure from the regime on the other.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

6

Compared to other post-Soviet states – with the exception of the Baltic states – Belarus has a relatively high level of socioeconomic development. According to the World Bank, the country has the lowest poverty rate within the Commonwealth of Independent States (CIS), and one of the world’s lowest Gini coefficients. However, this comparatively flat distribution of GDP has been achieved at the cost of highly regulated labor and pricing policies. The country’s score in the UNDP’s 2010 Human Development Index was 0.732, reflecting a structural disadvantage for women with respect to income. There is no structural economic disenfranchisement for Belarus’ minorities (mostly Russians and Poles). However, these indicators also reflect the fact that despite a slight liberalization beginning in 2008, no fundamental economic transformation has yet begun in Belarus. For the regime, social policies still take ideological priority to issues of efficiency or sustainable growth. Due to the global crisis and the growing Russian pressure on the highly unprofitable Belarusian state economy, this policy shows an increasing risk of failure. The relatively undeveloped state of economic reform means that the social and economic spheres have been defined by political means and mechanisms.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	45275.7	60763.5	49271.3	54713.1
GDP growth	%	8.6	10.2	0.2	7.6
Inflation (CPI)	%	8.4	14.8	12.9	7.7
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	3.9	3.6	3.8	2.6
Export growth	%	5.6	2.1	-7.8	7.1
Import growth	%	7.3	16.5	-9.1	11.9
Current account balance	\$ mn.	-3032.2	-4988.1	-6177.8	-8316.8

Economic indicators		2007	2008	2009	2010
Public debt	% of GDP	11.5	11.5	20.0	22.4
External debt	\$ mn.	10340.8	12266.4	17490.1	25725.9
Total debt service	\$ mn.	1079.7	1206.8	1179.1	1410.9
Cash surplus or deficit	% of GDP	0.4	2.4	0.2	-
Tax revenue	% of GDP	23.7	25.4	19.3	-
Government consumption	% of GDP	18.5	16.5	16.9	16.1
Public expnd. on edu.	% of GDP	5.2	5.1	4.5	-
Public expnd. on health	% of GDP	6.2	5.6	5.8	-
R&D expenditure	% of GDP	0.96	-	-	-
Military expenditure	% of GDP	1.6	1.5	1.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework in Belarus. President Lukashenka has pursued a policy of pervasive state involvement in the economy. Even though the regime has initiated some reforms in the post-2007 period aimed at paving the way for a more market-oriented economy, private enterprise is still massively discouraged and often outright blocked by the authorities. A lack of legal security hinders the operations of private business and discourages foreign investment.

Lukashenka's will to undertake serious privatization efforts evidently came almost to a standstill in 2010. A reform of the financing system for public programs also failed. Emphasis on large-scale privatization has been limited. Belarus still limits investment freedom, requiring that the majority share in any investment or privatization project remain in state hands.

In order to meet all tax requirements, businesses currently must pay 117.5% of profits. Although this percentage decreased at the beginning of 2009, it remains a significant hindrance to any form of entrepreneurship. Government price regulation is widespread. In the Heritage Foundation's Index of Economic Freedom 2010, Belarus' economic freedom score was 47.9 (rank: 155).

Nevertheless, according to the World Bank, Belarus was a global leader in 2009 in terms of regulatory reforms aimed at easing the conduct of business. The country

Market-based
competition
4

created a one-stop shop for property registration and introduced a broad administrative simplification program that set strict registration time limits and created a computerized records system. As a result, the time required to register property in Belarus fell from 231 days to just 21. Belarus also eased the tax burden by abolishing the “Chernobyl tax” (3%) and unemployment tax (1%). A simplified tax system for small businesses has been amended.

The state’s share of GDP sunk below 70% at the end of 2010. Yet though the number of small businesses almost doubled between 2007 and 2009, 80% of all industry and business remains in state hands.

The formation of monopolies and oligopolies is regulated by law. The Law on Counteraction to Monopolistic Activity and Competition Development is the basis for the prevention, restriction and suppression of monopolistic activity and unfair competition. However, as state actors have shown little interest in privatization, the state is in effect the biggest monopolist blocking the progress of the free market, competition and commercial initiatives.

Anti-monopoly
policy

6

In 2010, Russia remained Belarus’ main trading partner, accounting for 39.4% of exports and 54.1% of imports, according to the Belarusian Ministry of Economy. Trade growth with countries outside the Commonwealth of Independent States (CIS) has been much slower than the regional average. In 2008, the share of exports to the EU-27 was already higher than Russia’s share (43.9% as compared to 32.1%). In 2009, the government initiated the “Kuplayce Belaruskae” (Buy Belarusian) marketing campaign, seeking to support products of Belarusian origin. In general, trade is hindered by licensing requirements, extensive import restrictions and non-transparent, arbitrary regulations.

Liberalization of
foreign trade

6

Until January 2007, the country profited from cheap subsidized energy imports from Russia, which were resold to Western Europe at high prices. This decreased pressure to modernize the country’s energy-intensive industries, and allowed expensive social programs to be maintained. However, Russia’s has recently instituted a policy bringing energy prices for Belarus to world market levels, raising expectations of a slowdown in economic growth over the years to come. Some experts predicted that this change in energy policy might indicate a enough of a failure for Lukashenka regime that it could threaten the government’s stability. But so far – despite global crisis and rising energy prices – Belarus’ economy has shown one of the highest growth rates within the CIS.

Belarus’ banking system is still largely controlled and dominated by the state. The state uses various measures to control the private banking sector, which plays only a minor economic role. State banks grant loans as the government demands, reducing the banking system’s transparency, liquidity and efficiency. Loss-making state-

Banking system

2

owned companies, for example, receive huge loans from state-owned banks. These loans are typically granted according to political rather than economic considerations.

8 | Currency and Price Stability

Controlling inflation is in principle an objective of the economic system, but this goal is institutionally and politically subordinate to President Lukashenka's concept of "market socialism" and "stabilization of power." Belarus' central bank (the National Bank) is formally independent in terms of monetary and credit policy. It is one of the most competent and professional institutions in the state system. As a rule, the central bank manages to avoid government interference. However, it executes its most important decisions in consultation with the government.

Anti-inflation /
forex policy

4

Inflation during the review period averaged around 10% per year, but is likely to rise further, as monetary and fiscal policy were weakened in 2010. Export demand has rebounded since the global financial crisis, but the ability to finance current account deficits has become a problem. A rapid increase in real wages during the review period triggered rising deficits in current account transactions (the current account deficit was estimated to be 11.3% in 2010).

In 2009, policy-makers had already implemented a devaluation of the ruble by 20%. Following the fiscal weakening and rising current account deficits of 2010, the IMF's resident representative in Belarus called for a tightening of fiscal and monetary policy in 2011, as well as a slowing of credit growth in order to reduce the demand for foreign currencies. As a first measure, the central bank pegged the Belarusian ruble to a basket of currencies with a band of allowable fluctuation (+/- 8%), aimed at creating a flexible exchange rate policy.

Driven primarily by external pressure associated with the global financial crises and rising tariffs for Russian energy imports, Lukashenka has sought to open the economy slowly while retaining enough control to avoid major economic distortions. However, adverse terms of trade, falling demand from trading partners, and problems with accessing financial markets have combined to drain foreign currency reserves, put the country's currency under pressure, and force authorities to seek financial assistance from the IMF, Russia and China. Though the economic situation stabilized somewhat in 2010, Belarus still faces huge challenges. The 2010 budget deficit amounted to \$900 million. The country's dependence on Russia as main energy provider and biggest trading partner could become a trap undermining Lukashenka's political power. The loss of the European Union as a partner for investments that Belarus desperately needs to modernize its economy is a particular problem.

Macrostability

3

9 | Private Property

Belarus has become one of the top-10 reformers worldwide with respect to property registration. The country has created a one-stop shop for property registration, introduced a broad administrative simplification program with strict time limits for the registration process, and computerized its records. As a result, the time required to register property in Minsk has fallen from 231 days to just 21. Nevertheless, private property is not fully protected by the legal system. President Lukashenka has continued to resist anything more than limited privatization. Although in early 2007 Belarus finally succumbed to Russian pressure to sell a controlling stake in Beltransgaz, which operates one of the two major pipeline networks, this sale was an exception. In 2010, the government approved a plan to sell some public companies as a privatization pilot project, fulfilling one of the conditions for receiving an IMF standby loan. However, the pilot project failed because the authorities were dissatisfied with the mechanisms demanded by the IMF.

Property rights
3

In July 2008, the Belarusian government adopted a two-part privatization plan for 2008 – 2010. The plan's first part listed 519 national enterprises, both small and large, which were supposed to be incorporated as joint-stock companies within the next three years. The second part listed 147 open joint-stock companies. In practice, one can assume that privatization will be carried out in the form of direct deals with state institutions. However, the failure of privatization deals in 2010 offer little hope that privatization plans will in fact be carried out.

Private enterprise
2

Though it has become easier to establish and run a business in Belarus, private companies are still permitted largely as exclusive enclaves in an economic system dominated by the state.

10 | Welfare Regime

Belarus inherited its extensive welfare system from the Soviet era. Formally, it is one of the priorities of the Belarusian “social market economy” model. The government places a high priority on social services that are not well targeted, and which are increasingly closely associated with ideological rather than social goals. The Lukashenka regime uses the welfare system as an ideological foundation because the economic system remains fragile. Nevertheless, social benefits do not cover the cost of living. For instance, in 2008, less than half of the unemployed persons qualified for benefits, which themselves were equivalent to less than 10% of the average wage. To a large extent, the social orientation of the Belarusian economy is a myth that is actively cultivated by state propaganda. A 2007 study by

Social safety nets
6

the IPM Research Center in Minsk showed that budget expenditures for social affairs are in fact comparatively modest. The recent crisis has revealed that the regime is in urgent need of reforms to maintain its power.

Societal fragmentation remains within tolerable limits. At more than 50%, the employment rate for women is relatively high, but women are underrepresented in the top echelons of business and government, and overrepresented in poorly paid occupations. However, women play a huge role in NGOs and within civil society. Poverty is predominantly female in Belarus, but is also felt by families with two or more children and the rural population. Representatives of Belarusian women's organizations have documented the issues of domestic violence and the problematic position held by NGOs in Belarus. The incidence of sexual violence both at home and at work has risen substantially.

The issue of equal opportunities has a specific connotation in closed societies such as Belarus. The spectrum of problems with equality is much broader here. It ranges from profession bans and mobbing to prohibitions on taking part openly in social and political life.

Equal opportunity
5

11 | Economic Performance

Belarus' economic performance during the review period showed one of the best growth rates in the post-Soviet world. The IMF estimated that real GDP growth rose from 10% in 2007 to 8.6% in 2008, and up again to 10.2% in 2009.

The total number of registered unemployment people varies between 1.1% and 1.5%. The preliminary results of the latest census, published in February 2011, contain an official unemployment rate of 0.7%. In the case of non-registered unemployment, existing data is sporadic and non-systematic. Some studies state that registered unemployment accounts for only 30% of real unemployment. This proportion has not changed significantly in the past 10 years.

Investment in Belarus is necessarily selective. Though it has announced a more investment-friendly policy, the government still wants to keep economic control in its hands. This keeps a many Western actors from actively investing in Belarus. National debt doubled during the review period, largely due to the consequences of the global economic crisis and the lost opportunity to earn arbitrage profits by selling cheap Russian oil and gas to the European Union. The state budget is subsidized by loans from the central bank as well as compulsory loans from private banks.

Output strength
6

12 | Sustainability

Belarus has occasionally attempted to reconcile economic growth with environmental concerns, particularly in the areas of energy supply and utilization. The government has made some limited attempt to reflect these concerns in its institutions. However, the environment remains heavily threatened by nuclear and chemical pollution associated by industrial sources. The 1986 reactor accident in Chernobyl continues to have an effect. The lack of governmental accountability and transparency makes evaluation of the lasting ecological damage difficult. In this context, President Lukashenka's December 2006 announcement that his country would launch a nuclear power plant project in order to decrease energy dependency on Russia came as a surprise. Between 2016 and 2020, two reactors are slated to be constructed near the Lithuanian border. In 2009, the government made some investments aimed at improving Belarus' renewable energy capacity.

Belarus has signed the Aarhus convention on free access to ecologically important information. Nevertheless, individuals and environmental organizations face significant difficulty in claiming these rights. The most prominent example of this was provided by the so-called public hearings on the nuclear power station projects. Many environmental organizations were banned from this event.

Overall, tertiary enrollment in education has been growing, currently standing at about 72%. Government education expenditure represents about 5.2% of GDP. Nevertheless, the public educational sector still suffers from the country's self-imposed international isolation. Institutions lack the ability to engage in international exchange. Since 2003, the Lukashenka regime has been progressively closing Western-oriented institutions for basic and advanced education, forcing them into exile. For example, the European Humanities University, formerly of Minsk, now operates in Vilnius. The Belarusian Lyceum, founded in 1995 by the oppositional elite to promote critical thinking and the Belarusian language, has been forced to take its operations underground. In 2010, President Lukashenka ordered the country's institutions to follow the provisions of the Bologna Process, though Belarus is the only European country still not a member. It is unclear whether this plan will in fact be implemented.

Education is one of the sectors where sporadic reforms have been implemented since independence. The latest changes, initiated by the presidential administration in 2009, aim at streamlining education in such a way as to solely serve the economy. As a result, the quality of secondary and higher education is falling. Many young people with high potential prefer to leave the country and study in universities in neighboring countries (such as Russia, Poland, Lithuania or the Ukraine).

Environmental
policy
6

Education policy /
R&D
5

The educational system is also subject to tight oversight, and is seen as one of the most important propaganda venues. Non-state actors in education (independent universities, educational NGOs, business education) are comparatively small in number, and are not influential.

Transformation Management

I. Level of Difficulty

The level of difficulty posed by structural constraints varies substantially by indicator. According to the World Bank, per capita GDP stood at a middle-income level of \$5,075 in 2009. The 2010 Human Development Index ranked Belarus at place 61 worldwide, representing a rise of seven ranks as compared to 2009. Among the country's other advantages are a relative ethnic and religious homogeneity, and low disparities in income.

Structural
constraints
6

The estimated number of people living with HIV/AIDS by the end of 2009 was 17,000. According to the United Nations Joint Program on HIV/AIDS (UNAIDS), 1,000 people died of AIDS in 2007. The UNDP Education Index shows the country's labor force to be relatively well-educated, but this is an ambiguous legacy of the Soviet system. The average Belarusian citizen has a high level of education, but the population has been trained to serve the needs of centrally planned economies, an obstacle to the establishment of a market economy in Belarus. As one of Europe's few landlocked states, Belarus also has limited access to international trade routes.

Belarus possesses negligible or at best weakly developed civic traditions. Since the collapse of the Soviet system in 1991, numerous civic activities have emerged. During the review period, the activities of civil society organizations continued to be seriously restricted, particularly if run by opposition groups. The government still denies registration to many NGOs. Moreover, in the aftermath of the 2010 presidential elections, civil society has come under severe attack by the KGB and state security forces. But despite these difficult conditions, Belarusian civil society is surprisingly active compared to other post-Soviet societies. It aims to unite all kinds of interest groups and oppositional actors. Civil society organizations have given increasing attention to advocacy and public policy issues. However, the state's institutions, which are primarily oriented toward the consolidation of Lukashenka's power, serve as obstacles rather than as vehicles for transformation.

Civil society
traditions
7

Belarus has no substantial or dominant ethnic or religious conflicts. Nevertheless, Lukashenka restricts the activities of religious communities by prohibiting international contacts. In 2005, the government dismissed the independent

Conflict intensity
3

leadership of the Belarusian Union of Poles and pressed for the election of regime loyalists, prompting domestic and international protests. These developments are not so much manifestations of ethnic or religious strife, but rather show the massive level of state intervention in all aspects of society. Belarusian society remains divided over the legitimacy of Lukashenka as president. The intensified repression of the opposition following the presidential elections could help radicalize certain oppositional groups that see violence as a valid means of overthrowing the regime.

II. Management Performance

14 | Steering Capability

The political leadership claims to pursue long-term aims, but these are regularly supplanted by short-term interests associated with political bargains and Lukashenka's efforts to consolidate his hold on office. Overall, the regime has been dependent on access to Russian energy at below-market prices. When Russia started in December 2006 to increase its energy tariffs to world market levels, this signified the Kremlin's intention to use energy as a tool for exerting international influence. Consequently, since summer 2008, the regime in Minsk has taken measures allegedly aimed at improving the country's democratic climate and strengthening the conditions for market economic reforms. However, these reforms did not represent a sustainable breakthrough. Indeed, they might well be deemed cosmetic changes, as they represented no real intention to move toward democracy and a market economy, but were rather put in place to please the European Union and the West in the short term. As the events of 19 December 2010 showed, the regime had no intention of encouraging the real "evolutionary change" that many people had hoped for.

Belarus has seen little sustainable reform since 1995, when Lukashenka launched his so-called social market economy model. By pursuing this policy, Lukashenka reimposed administrative controls over prices and currency exchange rates, and expanded the state's right to intervene in the management of private enterprises. During Lukashenka's rule, there has been some significant investment in modernizing big plants important for export industries (steel, oil). Beginning in 2007, the government has undertaken some minor reforms, but these have not been significant enough to be termed a breakthrough. Indeed, the Lukashenka regime's ability to democratize and open the country on its own is doubtful. All policies

Question

Score

Prioritization

3

Implementation

3

implemented by the government are eventually aligned with the goal of maintaining power. Government reform initiatives are oriented toward short-term benefits rather than long-term strategy.

When Lukashenka was elected in 1994, hardly anyone would have expected that the former Kolchoz director would stay in power for 16 years. Within the context of his autocratic rule, Lukashenka has shown formidable learning skills, often adapting his policies to new challenges and situations. After Russia's decision to charge market prices for energy delivery, and in the wake of the global financial crisis, some structural reforms were announced. These included a privatization program, the reduction of administrative barriers to opening a private business and the release of high-level political prisoners. Indeed, Lukashenka even implemented some reforms to this program. For example, he made private businesses a bit easier to operate. In addition, the election campaigns prior to the 2010 presidential elections were conducted in a surprisingly free atmosphere. However, the repression and violence that followed the elections are indicators that the regime has not yet given up its former routines and interests.

Policy learning
2

15 | Resource Efficiency

Because of the regime's lack of transparency, it is difficult to evaluate the efficiency of resource use. After the negative effects of the global financial crisis reached Belarus in late 2008, the country struck an agreement with Russia for a \$2 billion stabilization loan. This was followed by a \$2.5 billion standby agreement with the IMF in January 2009. In line with IMF conditions, Belarus devalued the ruble by approximately 20%. National debt levels are not yet dramatic, but have tripled in recent years. Belarus has therefore tightened some fiscal and monetary policies. During the same period, President Lukashenka issued the "On Establishing a State Investment Program for Year 2009" decree, which included the construction of 19 ice arenas in Belarus in 2009. In October 2010, Belarus and China signed a bilateral package of agreements worth \$3.5 billion. In November 2010, the foreign ministers of Germany and Poland offered financial support in return for democratization. Due to its macroeconomic instability, Belarus will probably seek another IMF loan in 2011, which could come with stricter political conditions tied to the aftermath of the presidential elections.

Efficient use of
assets
4

The efficiency of the administration is still comparatively high. Nevertheless, the system has perpetual weaknesses such as corruption and a lack of relevant skills or modern human resources. The administrative system has many executors, but suffers from a lack of skilled, professional managers able to solve conflict situations efficiently. The system is efficient enough to keep the status quo, but provides an insufficient foundation for modernization and development processes.

In 2010, the Belarusian government again achieved a relatively high economic growth rate, the stable development of social service programs and widespread income equality. However, the dominant “social market economy” model does not allow for conflicting policy priorities, demands high expenditures and neglects the structural reform of the economy. Even Lukashenka has admitted that the country has all but maximized the economic potential of the old Soviet-style industry. Rising energy costs and the impact of the global financial crisis have created pressure on the government to choose between a course of economic modernization and its current path of subordinating the economy to the regime’s political interests. Since the regime decided to consolidate its power by smashing the opposition, the road to the European Union and the West, and therefore to investments and loans, is closed for the moment. In the long run, Russia’s economy will not be able to provide the input needed by the Belarusian economy for its inevitable modernization. However, China could probably open a back door for Lukashenka, so that he could simultaneously strengthen free market rules and retain his autocratic political stance.

Policy
coordination
5

Findings on the success of Belarus’ anti-corruption efforts are inconclusive, in part due to a lack of transparency. Although fighting corruption is officially on the government’s agenda, in practice Lukashenka often utilizes his anti-corruption campaign merely as a means of eliminating political opposition and keeping a tight control on private enterprise. Various regime opponents have been sentenced to multi-year prison terms in the course of anti-corruption trials.

Anti-corruption
policy
4

There is no access to information on state spending. For instance, it is impossible to quantify the resources delivered to non-budgetary funds. State statistics also distort the true expenditure picture.

The public procurement system is not transparent. It consists of allegedly private enterprises through which shadow procurement schemes are implemented, in areas such as oil refining or the arms trade.

16 | Consensus-Building

Major political actors are required to support Lukashenka’s “social market economy” path. Members of Belarus’ state government who forgo expressions of loyalty to the president have little opportunity to influence political or economic decisions. The consensus on reforms and their objectives has been enforced from above.

Consensus on goals
2

The growing political influence of Lukashenka’s son Victor in the Security Council might indicate a slow handover of power to a new generation. Some experts have seen this younger generation among Lukashenka’s camarilla as the seeds of a new

elite which might press for market reforms and an evolutionary change within the regime. However, after the escalation of violence during the presidential elections, Lukashenka fired some of these representatives of the new elite, including Prime Minister Sergei Sidorsky and Natalya Pyatkevich, who had been responsible for ideological issues in the presidential administration. It has been widely speculated that the unexpected violence and the regime's repressive response of December 2010 was the result of a conflict between reformers and hard-liners represented, for example, by Victor Sheiman.

There is no substantial independent political force outside the government. The opposition's posture is characterized by objection to the government's policies. The opposition distinguishes itself more by its rejection of Lukashenka than by a common position on substantive questions concerning reform and the path toward democracy and a market economy. Political and economic actors who might be able to promote reform fail because the president usually blocks reform attempts. The fact that by crushing the opposition at the end of 2010 Lukashenka smashed all achievements made by the slight economic reforms undertaken between 2008 and 2010 demonstrates that reformers have little influence over the president. Lukashenka's main goal was and is to consolidate his power.

The political leadership downplays cleavages, often dismissing attempts to create political alternatives as being influenced by foreign powers. Democratic protests against the fraudulent presidential elections were often characterized by Lukashenka as "hooliganism." These events show the regime's readiness to defame democratic protests as political fabrications. In this vein, the regime called the protests during the presidential elections 2010 "mass riots," and has charged former presidential candidates, journalists and activists with their organization. The regime also accused the Polish and German secret services of seeking to stage a coup against the president. In confronting structural political conflicts, the regime routinely turns to propaganda and repression.

Overall, the political leadership suppresses and excludes civil society actors from the political process. At the same time, some pro-regime groups simulate and imitate civil society. Journalists, religious groups, trade unions and other civil society actors have been the targets of government harassment. Opposition demonstrators are regularly jailed. During the second half of 2008, the Belarusian authorities took some steps toward the toleration of civil society activities, however. These included the registration of the NGO "For Freedom," the registration of the Homel branch of the Belarusian Popular Front opposition party, and the establishment of a public advisory council on human rights, which will include independent civil society representatives such as the Belarusian branch of the Helsinki Committee, For Freedom, and the oppositional United Civic Party. However, the regime still denies registration to other NGOs. The repression and detentions that followed the presidential elections severely affected civil society. It

Anti-democratic
actors

2

Cleavage /
conflict
management

3

Civil society
participation

2

is not yet clear whether the regime in fact aims at the total destruction of civil society and the opposition.

It is difficult to separate the identity of either the elites or the population at large from the Russian and Soviet past. For this reason Lukashenka deliberately affirms the continuity of the Soviet heritage, and does not exploit the country's European potential. Thus, Belarus' political elite has not addressed acts of Soviet injustice and has not initiated a process of reconciliation, elements that would surely emerge in the case of democratic regime change. However, Belarus' pre-Soviet and pre-Russian history has in recent years become a more integral part of the country's self-described identity, even among representatives of the regime. This is without question due to the newly conflictual relationship with Russia.

Reconciliation
3

17 | International Cooperation

In general, there is no long-term direction with respect to the regime's cooperation with the European Union or other international partners. Following the EU-Belarusian rapprochement in 2008, the two sides engaged in technical cooperation on various administrative levels and between various governmental bodies, on issues such as transit routes and border security. In addition, cooperation between local administrations and NGOs on the one side and EU funding organizations on the other has also increased in recent years. Moreover, the Belarusian leadership encouraged cooperation on an economic level by creating comparatively more freedom for Belarusian entrepreneurs and liberalizing aspects of the Belarusian economy and foreign investment regime. On October 13, 2008, the European Union suspended its sanctions against prominent Belarusian officials for a period of six months. The suspension of these sanctions was later confirmed, as the European Union decided that Belarusian authorities had made progress in a number of specific areas concerning "fundamental freedoms, including the freedom of expression and of the media, and the freedom of assembly and political association."

Effective use of
support
4

Despite the fact that the beginning of the 2010 election year started with repressive activities directed against potential candidates and independent journalists, the pre-election period was a time of greater freedom for political debates and political competition. This indicated an increase in political freedom within Belarusian society, which had also been stimulated by the strategic dialogue with the European Union. However, the tragic outcome of the presidential elections at the end of 2010 demonstrated that the steps taken by the Belarusian authorities during this period of dialogue did not in fact represent a true democratic breakthrough, and were ultimately both cosmetic and reversible. Consequently, the European Union renewed its sanctions against the Belarusian regime in January 2011.

Beginning in 2008, the European Union and Belarus developed a relationship based on increasingly closer cooperation. The EU suspended sanctions that had been imposed in reaction to the aftermath of the 2006 presidential elections. Following a number of signs of economic liberalization, as well as the pre-election opening of a more liberal political space for opposition, the relationship between the EU and Belarus improved significantly. The EU offered Belarus the opportunity to enter the Eastern Partnership initiative, prepared a new joint interim plan for bilateral cooperation within the context of the European Neighborhood policy, and offered a €3 billion loan contingent upon continued progress with democratization. However, in the wake of the December 2010 presidential elections, Lukashenka has lost credibility as a political partner for the EU. Nevertheless, the European Union has kept the door open for cooperation in case liberalization resumes, and decided not to exclude Belarus from the Eastern Partnership initiative, fearing to send the wrong messages to Belarusian society.

Credibility

2

Relations with the United States have been deteriorating since 2007, leading to sanctions on both sides. In November 2007, the U.S. Treasury Department announced it would freeze any assets of Belnaftakhim, the country's state-controlled oil-processing and chemical company that accounts for about a third of Belarus' foreign currency earnings. The sanctions also barred U.S. citizens from doing business with Belnaftakhim. Later, the U.S. State Department conditioned the lifting of these sanctions on positive steps toward the protection of human rights. In response, the Belarusian foreign minister declared 10 U.S. diplomats, including the ambassador, to be *persona non grata*, and called on them to leave the country within 72 hours. This brought Belarusian-American diplomatic relations to a point of deadlock. As a consequence of the repression of the opposition after 19 December 2010, the U.S. government announced that it would once again enforce sanctions against the Belarusian regime.

In general, the relationship between Belarus' regime and its Western neighbors is freighted with difficulties. The relationship between Poland and Belarus in particular is strained due to the regime's numerous attacks on the Polish minority in Belarus. During the period of rapprochement between Belarus and the European Union, the political leadership repeatedly expressed interest in cooperating with single neighbor states as well as with regional and international organizations. Polish, Lithuanian, Slovakian and other projects driven by the new EU member states have aimed at strengthening transition forces in neighboring Belarus, seeking to develop a driving force for future-oriented development. As a part of Lukashenka's turn toward European cooperation, the government also joined the EU's Eastern Partnership initiative in 2009. In the light of the new wave of repression against the opposition, regional partnership projects will probably come

Regional
cooperation

4

again to a standstill. The relationship between the regime and Russia also sank to a new low in 2010. Though the Russian government did not criticize the regime for its campaign of repression against the opposition, it is expected that Russia will increase pressure on Lukashenka in the near future.

Strategic Outlook

As long as President Lukashenka remains in power, the strategic outlook clearly depends on his action. Both formally and informally, Lukashenka controls all significant decision-making processes. Prior to the elections of December 2010, experts were quite optimistic that the regime might allow long-term evolutionary change to take place, in a scenario called “Singaporization.” According to this scenario, the country would open up to foreign trade, welcome foreign investors and guarantee their rights, and achieve a higher standard of living by using a mix of market-economic principles and state planning. But the brutal escalation of violence on election day, and the subsequent repression of civil society and opposition groups, shocked everybody who had hoped for continued improvement in Belarus’ political situation. It is not clear yet what made the regime return to its former hard-line politics. But obviously it feared the consequences coming through the gate of freedom, no matter how slightly opened. The road to the West, which had previously brought Belarus into a comfortable position in terms of its effort to balance the influences of the West and Russia, is now significantly bumpier. The number of options for the regime has significantly decreased.

For the immediate future, a number of scenarios are possible. Several December 2010 presidential candidates were sentenced to prison in politically motivated court verdicts in May 2011. But it is also possible that the regime will later release prisoners to appease the West – though only after having destroyed many oppositional structures. It could also establish a “controlled opposition.” In the long run, the fragility of the country’s economy is the regime’s most striking vulnerability. Under the pressure of rising Russian energy tariffs and the effects of the global financial crisis, Belarus was forced to agree to stabilization loans from Russia and the IMF. The latter has obliged the country to move away from a fixed exchange rate regime, and is demanding strict controls on public sector wages and investment. These conditions are aimed at restoring the manufacturing sector’s competitiveness and replenishing the country’s low level of official foreign exchange reserves in order to diminish Belarus’ external vulnerability.

In the new political environment, it is unlikely that Belarus will get new IMF loans. At the moment, Russia probably has more ability to press for a regime change in Belarus. It is evident that the Russian government is not pleased with the erratic Belarusian dictator. But Russian influence on the political system is quite limited. In the near future, Russia will most likely seek opportunities to exert more pressure on Lukashenka, probably through rising energy tariffs. If Lukashenka is no longer able to fulfill his promises of “market socialism,” public unrest might increase. This will create greater opportunities for Russia to introduce and establish a “pro-Russian” president. In such a situation, with an extremely weakened democratic opposition, the influence of the European Union and the West will be quite limited.

At the moment, Belarusian civil society is divided between two possible strategies on the part of the internal political opposition. One faction, based around the Sannikau group, has called for

extreme pressure against Lukashenka. This would include the enactment of a maximum level of political and economic sanctions against Lukashenka, up to the political isolation of Belarus. Another faction, based around the National Platform of the Eastern Partnership Civil Society Forum, has suggested a more balanced strategy: significant but not extreme political sanctions, no economic sanctions and a policy of keeping the door open for the regime to improve. This strategy stresses the importance of well-targeted reactions to the December 19 events, in order to avoid undermining the Belarusian people's support for greater European integration.