State Capitalism Reforms and the Path for Belarus

Praise for the Book

"This book is a coffee table handbook for anyone interested in the Belarusian economy".
—Mikhail Golosov
Professor of Economics, Princeton University, USA

"In a pragmatic, reasoned study, the author outlines the current structure of the Belarusian economy and explains how it came to be; but more importantly he lays out a course for continued reforms and argues how the best to take the country's brand of 'state capitalism' into a stable, prosperous future".
—Courtney Fingar
Editor-in-chief, fDi Magazine (FT Group), UK

"In addition to being profound, multi-faceted and critical in its analysis, this book is very timely – the Belarusian economy is on the threshold of inevitable structural changes – and it is a practical guide for introducing such changes to the public finances".
—Dmytro Sologub
Deputy Governor, National Bank of Ukraine

"This book is food for thought when it comes to Belarus' future economic model. A profound understanding of the economic state Belarus finds itself in, and the factors used to build the paradigm for the country's development over the course of the past several years, needs to drive new, workable solutions that resolve economic imbalances, bolster growth and large-scale energy consumption, and feed the dynamism intrinsic to the private sector".
—Dimitri Gvindadze
Lead Economist for East Europe and the Caucasus of the European Bank for Reconstruction and Development; ex-Minister of Finance of Georgia

State Capitalism Reforms and the Path for Belarus:

Financial Diet

By

Kiryl Rudy

Cambridge Scholars
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By Kiryl Rudy

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To my wife Elena,
and my sons Anton and Ilya

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INTRODUCTION

The region Belarus calls home has been wracked by turbulence. The tectonic shifts of the 1980s led to new countries arising from the rubble of the Soviet empire in a way that has been entirely new. Nowadays, the post-Soviet space is revisiting key issues like strategic choice, peace, and territorial integrity. Many countries, having never built an economic normalcy, find themselves in a new reality that casts a long shadow over their future.

Belarus is more than capable of a surprise or two. In the 1990s, this medium-sized European country took its first steps on its own, and it has spent the intervening decades sticking closely to the choices it made then. However, and for the first time since then, in 2015, and until now, its economy skidded to a near-complete halt. What happens next? Will it lean on its obscurity and unpredictability to surprise once more, or will it test the depths of its resolve by staying the course? Unfortunately, that question is, as of yet, unanswerable. The myriad rational, irrational, internal, and external factors that come into play simply cannot all be accounted for, or even foreseen, not to mention the fact that economics are not the determinant when it comes to the solution. Time, then, is the only judge, and time alone will show which path should have been taken.

The outlook for the Belarusian economy is bleak. The post-Soviet economic structure and manual management is at the end of its rope. Budget spending, devaluations, and debt, no longer help fuel economic growth, and relatively free and long-term access to money has distorted economic stimuli. The system of incentives in place for state-owned enterprises is holding back initiative and innovation, and the continuous flow of state capital conceals mistakes in management. But the problem runs deeper: the consistently preferential treatment enjoyed by the public sector drives costs higher and keeps market resources out of the hands of the private sector, strangling its development as well. All of that saps energy and enthusiasm in the country, and puts a damper on growth. And economic growth must be in place in order to enjoy social stability.

The need for reforms might seem to be self-evident. Like oars on a boat sailing upstream, without them the economy is carried backwards by the current. Private initiative also plays a role, serving as a following wind.

Unfortunately, those reforms are being held back by a lack of direction. Manual management[1] of the economy is so overwhelming that it leaves neither strength nor time for strategic decisions, and with the new generation has come a shift away from nostalgia—a tendency to look for the future in the past—towards uncertainty. No attention is paid to setting clear priorities for a new Belarusian economy. This keeps complex decisions from being made, and serves to oversimplify the situation. The lack of reforms is also explained by an unwillingness to take responsibility for the social fallout. That psychological barrier can only be overcome by recognizing the inevitability of transformation; it is self-awakening that will illuminate the path forward for reforms.

The Belarusian economy is naturally evolving. The private sector is developing, and small business is growing, as well as the service industry. On the other hand, the efforts being made to preserve old state-owned manufacturing and the mobilization model, are limiting the economy's flexibility.

The financial diet referred to in the title of this book is a framework for reforming the economy. It is not shock therapy. It does include well-ordered, rational redistribution of state financial resources. In finance, just as in medicine, a 'diet' (from the Greek word for 'lifestyle') tries to structure an organism as best it can, making it more flexible and stable. For people, that means creating healthy stimuli towards an active way of life, vitality, and consumption in moderation. A financial diet reminds us that capital is a resource, and is just as non-renewable as oil, gas, or even time.

This book is for those who want to dig into how the Belarusian economy works. Its readers want to understand what Belarusians call normal, and how often, and to what degree, that wish is rational. This financial diet is a choice, not only between consuming and saving, or between 'want' and 'need' but, fundamentally, between rational and normal 'ingredients'.

The main driver for the economic recession in Belarus is its lack of capital, without which state capitalism cannot function. That mortal threat to the state, therefore, has to be de-fanged by private or foreign capital before the economy can return to growth. Ultimately, the path out of economic stagnation, called here '*a financial diet*', is increasing capital efficiency.

The book consists of three parts:

Part 1 reveals the case of Belarus – the country 'trapped in transition'. After the break up of the Soviet Union, Belarus failed to implement classical market reforms: there was no privatization of large state-owned enterprises, no 'shock therapy' in price liberalization, no free movement of labour and capital. Gradual, step-by-step economic policy created a hybrid economic regime with the collabouration of private and state sectors, export-oriented IT in services, and collective farms in agriculture, 'manual management' in the machinery-building industry, and corporate management in the banking field, high level redistribution of financial flows through the budget, and active roles played by state-owned banks and the sovereign fund. All these characterize the Belarusian model of state capitalism.

Due to the pitfalls facing Belarus' economy, Belarusian state capitalism is trapped in transition. The external and internal financing deficits have led to long-term economic stagnation. Lack of innovation, social overfinancing, the 'resource curse', and situations with conflicting neighbors, lock the country into the 'middle-income trap'. Such a stable economic anemia brings the country either to the eve of social instability, or to the unavoidance of economic reforms.

Part 2 shows plenty of 'transformer' countries; successful stories of transition. A group of 26 economies from Central and Eastern Europe and CIS went through two periods of transition: adaptation to new economic environments and development. Why was the first group more successful than the second one on that road? It's because Central and Eastern European countries were motivated to become EU members, which kept them on track and pushed the reforms. That political will helped them to overcome the 'middle-income trap', while Russia, as an example of a country without such external leverage left the 'middle-income' trap and then fell back into it.

China is another success story of unstoppable reforms rewarded by sustainable high economic growth. The country went through different models of transformation: from an administrative to a market economy, from being export-oriented to consumption-driven, from industry towards a service sector. As the result of faster reforms, in 2015, China overtook Belarus in GDP per capita, in 2019 it overtook Kazakhstan, and in 2020, it overtook Russia.

Part 3 provides the manual for economic reforms in transition economies. It starts with answers to the simple questions: 'why', 'where to', 'how', 'what', 'who', 'for whom', etc. The decision makers, reformers, and economic authorities should follow the logic of priorities, strategy, structure, and personnel. That will reveal the mechanisms for economic reforms.

The path out of the 'transition trap' for Belarus starts with the financial diet. Macroeconomic stability, long-term financial equilibrium, and the raising of public funds efficiently will create the need for finalizing economic transition: privatization, price liberalization, and free movement of labour and capital. Without these reforms, the financial diet will bring the country to a state of financial hunger, economic recession, and finally into social turmoil. So, the financial diet is only the first step on the way out of the transition trap. As always, it's the most difficult step, but it is also the most important.

PART 1.

"TRAPPED IN TRANSITION": THE CASE OF BELARUS

CHAPTER 1

STATE CAPITALISM IN BELARUS

The Republic of Belarus features an unstable market economy in the early stages of its development. A variety of economic relationships which are constantly in flux are coupled with complexity and unpredictability; market elements jostle with state planning and manual management. On the one hand, the country features state ownership of large swathes of property, administrative (manual) control over state-owned enterprises, directed lending, consolidated budgetary resources, and far-reaching social security. On the other hand, it has its entrepreneurs, small and medium-sized businesses, private and foreign businesses, a liberal banking sector, a free-floating exchange rate, market pricing, elements of a public-private partnership, a functioning Hi-Tech Park, China-Belarus Industrial Park "Great Stone", free economic zones, and other aspects of a market economy.

The special nature of the Belarusian economy is sometimes reminiscent of other countries: modern Russia in the face of sanctions, other post-Soviet countries, and also China, at one point in its development. The resemblance is especially clear when talking about the active role played by the government in a market economy, something generally referred to as state capitalism. State capitalism is understood here to be an economy in which the state plays the main role as entrepreneur, employer, owner of the means of production, and profit allocator.

With that said, there are a few important things to note when considering Belarus' particular brand of state capitalism:

1. The reasons for its birth and longevity;
2. Its current state, as compared to other countries across a number of metrics;
3. The tools used to make it function.

The origins of state capitalism in Belarus

1) The legacy of the Soviet Union

1.1) Administrative management experience

The Soviet planned economy (and its management) was tangled, cumbersome, and excessively theoretical. The Central Committee established an ideological direction for economic policy, while the government (Council of Ministers) performed what was often a highly technical function. Of course, Gosplan was at the heart of the Soviet economy. It distributed funds and resources for which regions, ministries, and enterprises, competed. That access to financial resources created the context for manual control, or for managing projects by manually distributing money. Inter-departmental haggling for financial resources resulted in plans, limits, and other services which sometimes suffered from a lack of transparency.[2] In practice, the Soviet economy was run, and functioned, thanks to a multitude of ambiguous interpretations and loopholes. Even when there were shortages of certain goods, they could still be found, as long as one knew how to work the system. Official policy created room for a shadow equivalent, and decisions were sometimes interpreted in completely opposite ways, depending on the circumstances. Other decisions were ignored altogether. That experience was common to all the former Soviet republics.

The fall of the Soviet Union gave birth to an 'anti-crisis management model'[3] in Belarus which included a strong administration, manual management at all levels, and multiple controls. That post-Soviet model followed in the footsteps of Soviet administrative management, secrecy, centralized control, and the Soviet view of the institution of power through the prism of control over property, the budget, and labour resources. However, manual management is only possible when there are financial resources available to distribute between projects. Financial deficits reduce management to handing out instructions which are no longer backed by real money, leading to increased debt, liquidity problems for businesses and banks, and distorted funding for other public sectors. Ultimately, those financial and monetary distortions spread, to infect the economy as a whole, as well as influencing the behavior of economic entities.

Soviet approaches to management were also propped up by the sanctions imposed on Belarus by the US and the EU. That partly explains the orientation of the country's management style towards the USSR in many respects, in some respects towards Russia, and in yet others, towards China. The biggest foreign investors and lenders in Belarus, for example, have been Russian companies and banks, while the China-Belarus Industrial Park "Great Stone" near Minsk serves as more proof of the country's long-standing leaning towards the East.

1.2) Soviet economic structure

State capitalism in Belarus was built on the legacy of the Soviet economic structure, featuring large industrial and agricultural sectors. From 1922 to 1991, Belarus created, on average, 4.2% of the Soviet Union's GDP, manufactured 11.3% of its refrigerators, and 10.8% of its televisions, and produced 7% of its milk. It also featured a traditionally open economy: it was the second Soviet republic after Russia in terms of exports outside the countries belonging to the Council for Mutual Economic Assistance. In 1990, manufacturing made up 70% of Belarus' GDP. Many manufacturing giants from the Soviet years, for example, the Minsk Automobile Plant, the Minsk Tractor Works, and BelAZ, were held onto by the state, and slowly evolved into symbols of the modern Belarusian economy. Corporate connections dating back to the Soviet Union, and state support, have helped industrial state-owned enterprises to maintain the market positions they have traditionally held.

The notorious experience of privatization in Russia and the Ukraine in the 1990s had a restraining effect on the privatization of industrial enterprises in Belarus. Public disapproval of the large-scale privatization in Russia still echoes in the ears of Belarusian decision-makers. Not only that, but the state support that Belarusian state-owned companies received impacted the prices at which they could be sold, and the disparity between government investment and the real value of sales held back, or even prevented, their privatization. Of course, given the country's underdeveloped institutions and markets, it is important to note that a complete sell-off of such companies by the government could sabotage the trust placed in them from abroad, their credit ratings, the investment they attract, and their profitability. That problem is avoidable, as long as the international rating of the new investors and owners is higher than that of Belarus.

1.3) Socialism

The mobilization management model in Belarus drove social stability and enjoyed public popularity in the 1990s, especially when contrasted with the social turbulence experienced in neighboring countries. Belarusian society also held a degree of nostalgia for the relatively successful social and economic development that Belarus had grown accustomed to as part of the Soviet Union. As a result, Belarusian state capitalism had the support and understanding of the people as a form of socialism, or a welfare state.

Society's expectation that a social government should see and account for everything is clearly unrealistic. Just as Gosplan (during the time of the Soviet Union) was unable to collect all the information it needed and take into account all the needs of the population, leading to shortages, socialism that includes the participation of the government as a market entity cannot resist the temptation to set up monopolies and regulate prices. In addition, the post-Soviet variety of socialism overinflates social expectations, preserving cross-subsidization, equity construction, and other distorted business models. Excessive socialization also cuts the legs out from under private initiative, something that can only be compensated for by a public-private partnership as part of the government's social function.

2) Internal reasons for state capitalism in Belarus

2.1) Underdeveloped institutions

Setting up a market economy involves creating institutions to protect property rights, the rule of law, competitive business practices, transparency and accountability in government, effective state management, et al. While that is generally a long and difficult process, in Belarus' nascent market economy, it was compensated for by a state capitalism that saw the institutional role of the government grow in tandem. For example, in 2020 Belarus held the following positions in international institutional ratings:

A) 49th out of 189 countries in a ranking by the World Bank for ease of doing business that looks at the expenses borne by companies who interact with government institutions as well as infrastructure development;
B) 66th out of 180 countries in a ranking of international transparency that compares levels of corruption.

As a rule, underdeveloped formal economic institutions leave a vacuum filled by inside sources, corruption, confidential relationships, and informal agreements. That trust-based model of informal rules has come to be called 'social capital' in literature, and it includes one's personal network, reputation, ethical norms, and moral values.[4] It is important to note the fact that that a model of informal institutions is built from the bottom up, and accounts for national quirks and traditions. On the whole it is entirely capable of functioning and even successful: it often guarantees property and capital rights in addition to stimulating economic growth. For example, social capital is pointed to as the reason for northern Italy's climb past its southern cousin. With that said, informal rules on their own serve the interests of the strong. It is only when they also serve the interests of others that they can be useful to society and morph into formal rules. The need to protect public interests is what makes state institutions essential, given that private interests are generally determined by the market.

There are a number of ways governments can combat informal institutions by imposing their formal counterparts from the top down. For example, Singapore uses the British legal system to smooth away distrust for national legislation, while China still struggles with corruption. Belarus leverages myriad agreements in conjunction with cross control and a complaints policy. While the Belarusian model has its advantages, its weakness is that each state entity has the ability to hit the brakes on decision-making by looking back, and leaning on controlling authorities and possibly private complaints. That leads to foot-dragging, and sometimes it is impossible to get anything done. Final business solutions are often put off and become unpredictable: the early 1990s saw some local businessmen export capital and bring it back into the country via foreign investors. Investors try to build relationships and even joint ventures with the authorities and security services in an attempt to hang onto their capital. Ultimately, property rights are only as secure as the status and career of their holder.

Developing economic institutions is a long process that needs a mature society. Transitioning to an institutionalized economy for developing countries means concluding the initial buildup of capital as well as moving away from state and private monopolies. That means that the government willingly imposes competition, often to the detriment of existing players. As this process progresses, big business is most concerned with protecting property rights, while small business is preoccupied by administrative barriers keeping them from entering the market in addition to securing a guarantee of fair competition. It is also important to maintain currently existing property rights when moving to an institutionalized economy. Public support for distributing property rights only happens if there is a large number of shareholders in the country with respect for those rights. Arguably no less important is economic amnesty that lets market players legalize under-the-table earnings from previous eras and start fresh with a clean slate. Not only is the role of undergirding formal institutions (itself, at the end of the day) played by the government important when it comes to institutional change; society plays a key role by acting as a counterpart to the government.

2.2) Public support

State capitalism in Belarus enjoys public support thanks to income growth and moderate inequality:

A) While the average monthly salary in the 1990s came to a few tens of dollars,[5] by 2006 it had grown to 271, and in 2014 it reached a 25-year high of 595 dollars. In early 2016 it dropped to 300 dollars, and in May 2020 it was 476 dollars. Purchasing power also grew over the same period. For example, from 2010 to 2014, the purchasing power of an average month's salary when it comes to foodstuffs (chicken, oil, fish, potatoes, sausage) rose by 20–70%, also growing 70–90% for consumer durables (refrigerators, washing machines, cars).

B) In 1990 the inequality index (GINI index from 0 to 1, with 1 signifying extreme inequality) in Belarus was 0.24, in 2000 it was 0.23, in 2010 it was 0.27, in 2013 it was 0.26, and in 2018 it was 0.25. That number looks even better when juxtaposed with those of other countries featuring high levels of state involvement in the economy. For example, in Russia in 1991 it was 0.26 before rising to 0.44 in 2018; in China it was 0.33 in 1990 and 0.47 in 2018. It's interesting to mention here, that in the book about the history of inequality *The Great Leveler* by Walter Scheidel, the author positioned the inequality as a normal state of capitalism and human nature. Analyzing the cases from the Stone Age to the 21st century, he concludes that the great levelers were wars, revolutions, state collapses, plagues, and violence in general.[6]

It is most likely that those two factors suppress the need for a move away from state capitalism in Belarus and towards faster-paced development of institutions. After all, the push for institutional change most often comes from the middle class, and sometimes from the political elite.

Literature delineates four ways to transform economic models while also building and developing institutions influenced by changing levels and paces of income growth and inequality:[7]

1) A long, gradual move toward stable democratic institutions stimulated by long-term economic growth (see Great Britain);
2) Speedy creation of democratic institutions and their equally speedy collapse into high income inequality, social discontent, and a faltering economic (see Argentina);
3) A lack of democracy coupled with high or growing income levels that suits the population (see Singapore);
4) A dictatorship with high income inequality, exploitation, and forcible pressure that slows the economy (see South Africa).

Those options give way to each other under the influence of economic and political crises. Dictatorships crumble under the weight of social protests, while democracies are overthrown by populism or military coups.[8] Hybrid options are also feasible: for instance, so-called competitive authoritarianism, a category to which literature assigns post-Soviet political and economic models.[9]

Obviously, the best option is the evolutionary formation of institutions exemplified by Great Britain. At the same time, that is only possible once a set income level is reached and a strong middle class has been established, preventing constant waffling between models and creating a stable social push and long-term support for institutional change and continued institutional growth. The middle class, though, does not appear in a country naturally; instead, it is carefully nurtured by state policy. For example, in China, the average monthly income over the period from 2013 to 2015 has been 500-700 dollars, later from 2016 to 2019 – 800-900 dollars while the cap of income not subject to income tax was set at a bit lower than 500 dollars per month and then increased in 2019 to 735 dollars. That drives the appearance of a middle class brandishing new demands for institutional change in both the economic and political arenas.

We cannot but note that educating society by influencing public opinion is a critical issue when it comes to developing institutions in a country and attaining public support for reform. That is the role played by economists who have to regularly explain current policy, possible alternatives for society, or even the lack of an economic policy. For example, Ludwig Erhard in Germany gave a weekly address over the radio that dealt with economic issues. He also required his subordinates to talk to people when visiting on business, filling them in on what was going on. Ignoring the gravity of problems robs their solutions of urgency and weakens public support for reform.

State capitalism in Belarus is an evolved, post-Soviet model for economic development and socialism that enjoys popularity and public support. It has its own features setting it apart as well as similarities to other countries, something borne out by a number of metrics.

State capitalism metrics in Belarus

The similarities and differences between Belarusian state capitalism and its foreign counterparts can be measured by looking at how the state intervenes in the economy: public expenditures to GDP, the tax burden, and the role of state-owned enterprises in the economy (portion of GDP created, jobs created, etc.).

1) Public expenditures to GDP

This indicator shows how consolidated budgetary funds are in an economy. In Belarus in 2010 – 2019 they were, on average, around 30% of GDP, though adding in social security pushes that number to an internationally recognized *40% of GDP*. At the same time, middle-income countries are said to be unable to sustain economic growth if they redistribute more than 30% of GDP via a consolidated budget.[10] By way of comparison: CIS countries registered at 27%; Central and Eastern Europe at 34%; and Brazil, India, Korea, Malaysia, Singapore, and South Africa at an average of 22%.

This number is higher for developed countries than it is for developing ones. For instance, for G7 countries it was at an average of 31%. A number of countries (the US and France in particular) sometimes boost public spending as an anticyclical tool used to stimulate growth and maintain strong social welfare. However, that most likely only works for countries issuing a reserve currency, boasting a developed financial market, and capable of converting inflationary pressure into savings and investment. For Belarus, boosting public spending could serve to slow economic growth in addition to triggering inflation. Increased public spending stimulates consumer and manufacturing imports, negatively impacting GDP.

It is difficult to pin down the connection between this metric and an economy's level of development. Correlation analysis of state spending to GDP and per capita GDP in terms of purchasing power parity over the period from 2000 to 2012 came up with correlation coefficients that were far from 1. For CIS countries it was 0.04, for Central and Eastern

European countries it was 0.37, for developing countries it was -0.68, for G7 countries it was -0.41, and for Belarus it was 0.19.

2) Tax burden

Belarus enjoys a lighter tax burden than many developed countries. In 2019 tax revenue, including social spending, came to 37% of GDP. Tax burden, without social spending, was 25% in 2019 and has stayed flat since 2016.[11]

Developed countries saw that same number range from 33% to 55% between 2000 and 2019. Interestingly, from 1870 to 1910 in developed countries it was as low as 7–8%, and was sufficient for governments to pay for security, legal systems, foreign services, and everything else the public needed.[12] The growth in tax revenue experienced by those countries since then has primarily served to cover spending on social programs and infrastructure. For the same reason, Belarus has a fairly high tax burden, with around 12% of GDP going to social security.

3) The role of state-owned enterprises in the economy

Opinions differ when it comes to evaluating the role of state-owned enterprises in the Belarusian economy. According to the National Statistical Committee of the Republic of Belarus (Belstat), in 2019 state-owned companies created around half of GDP in Belarus. While comparable to Russia's 50%, in China, for example, state-owned companies take up only around 30% of GDP,[13] and the total around the world is only 6% of global GDP.

Another way of looking at this issue is to evaluate the contribution state-owned enterprise in Belarus makes to the budget, its foreign exchange earnings (about 30% in 2019), the jobs it creates (43%), industry production (73.3%), retail turnover (16.2%), and revenue (58%).[14] On the other hand, the close relationship between public and private business in Belarus makes it difficult to objectively determine the role played by the public side of that partnership independent of its private counterpart.

One distinctive feature of public enterprise in Belarus is its scale: state-owned enterprises support an entire ecosystem comprised of hundreds of smaller state-owned, private, and foreign suppliers, contractors, and intermediaries. In keeping with international terminology, companies critical to the economy vis-à-vis manufacturing, taxes, exports, and employment, are designated 'national champions'. However, the fact that they are occasionally forced to lay off employees, reduce production, and rely on tax breaks to maintain competitiveness means that the list of Belarusian national champions sometimes changes. Interestingly, that list periodically includes service-oriented companies as well as both private and foreign-owned companies thanks to the Wimbledon effect, which is when national tournaments are won by foreigners (see Table 1).

Table 1: National champions in Belarus, 2014[15]

Category	Company name	Ownership
Largest manufacturers (by volume in terms of actual selling prices)	Belaruskali	State-owned
	Belarusian Steel Works	State-owned
	Minsk Automobile Plant	State-owned
	Minsk Tractor Works	State-owned
	Minskenergo	State-owned
Largest taxpayers (by share of budget revenue)	Gazprom Transgaz Belarus (4.9%)	Foreign
	Belaruskali (3.8%)	State-owned
	Naftan (3.5%)	State-owned
	Mozyr Oil Refinery (3.5%)	Join (state-owned, foreign)
	Lukoil Belarussia (2.5%)	Foreign
	Grodno Tobacco Factory "Neman" (2.3%)	State-owned
	Tabak-Invest (1%)	Private
	Minsk Grape Wines Factory (1%)	Private
Largest exporters	Belarusian Oil Company	State-owned
	RN-West	Private
	Belarusneft	State-owned
	Belarusian Steel Works	State-owned
	InterService	Private
Largest employers (by number of employees)	Evrotorg (22,600)	Private
	Belpochta (20,500)	State-owned
	Belarusbank (19,500)	State-owned
	Minsk Automobile Plant (18,800)	State-owned
	Minsk Tractor Works (18,800)	State-owned
	Beltelecom (17,800)	State-owned
	Belaruskali (17,600)	State-owned

4) Share of employment at state-owned enterprises

This indicator deserves a separate look due to its economic and social importance for Belarus. State-owned enterprises made up 43.4% of employment in Belarus as of January 1, 2020,[16] 39% of employment in Russia, 19% of employment in China, and 3% of employment in France.

The high percentage of employment generated by state-owned enterprises in Belarus is in large measure due to how connected they are to individual cities, something left over from the Soviet Union. From a social point of view, that makes them essential; from an economic point of view it keeps labour resources sticky and puts a damper on overall labour productivity across wide swaths of territory. However, there are a number of historical examples that point to a way out of that conundrum by reorienting both the companies and the cities with which they are so intrinsically connected. For example, factories in the Ruhr (Germany) were transformed into centers of creative industry, while an entertainment industry and eco-tech cluster were also founded. In Birmingham (USA) the coal and steel industries gave way to a healthcare center that includes medical services, education, and research. Manchester (UK) went from a textiles city to a cultural capital, attracting world-class musicians, investors, and tourists.[17] A similar transformation happened in Beijing (China), when an old East German factory was transformed into the popular Art Zone '798'.

High employment at state owned enterprises in Belarus can be seen as providing social security in the form of guaranteed jobs (lifetime employment). However, companies incapable of holding up on their own under intense competition cannot provide that security to their employees. Counting on the government to continually prop them up can distort public finances and lead to problems for other public services, also preventing manpower from migrating to industries characterized by higher added value and stronger economic growth.[18] Social support is better served by creating new jobs, and thereby offering a choice as opposed to guaranteeing employment. The government can leverage market-based methods to avoid hidden unemployment and the costs involved in maintaining employment, keeping social policy from undermining economic policy.[19]

Looking at the metrics measuring state capitalism in Belarus helps compare it to other countries at the macro level with regard to public spending and the tax burden. Belarusian quirks appear more at the micro level in the role state-owned enterprise plays in the economy, particularly by providing employment. Private and foreign-owned companies also play a visible role in the Belarusian economy.

Tools for state capitalism in Belarus

1) State-owned (and private) enterprises

State-owned enterprises are the main tool Belarus has for state capitalism. It is believed that the economy could be run as if it were a single state-owned corporation, and thus managed more efficiently. The government participates in the day-to-day management of individual companies by setting goals, approving business plans, helping organize sales, unloading warehouses, continually monitoring operations, attracting financing for agriculture, and running social projects, sports, and more. By way of comparison, the Chinese government limits itself to managing its state-owned enterprises at the strategic level. Directors sign three-year contracts and are given long-term goals. Russia, in turn, mixes strategic and operational management: state agencies establish long-term plans and goals, though they have been getting more involved with purchasing, contractor selection, and pricing.

1.1) Direct planning

In 2014 a plan was laid out for state-owned enterprises: Order 585 of the President of Belarus to the government dated December 31 2013, set out nine parameters outlining the plan for the country's social and economic development in 2014.

1) GDP
2) Labour productivity
3) Exports of goods and services
4) Balance of trade in goods and services
5) Foreign direct investment
6) Energy consumption
7) Private income
8) New housing construction
9) Inflation

That order included Resolution 17 by the Council of Ministers dated January 13 2014, which included seven metrics for state-owned enterprises:

1) Growth rate for exports of goods
2) Growth rate for exports of services
3) Ratio of goods exports to production
4) Revenue per worker
5) Growth in revenue per worker in excess of growth in nominal wages
6) Sales profitability
7) Energy savings

Local authorities add their own metrics to that list, including physical production volumes, because standards for gross regional product are set for Minsk and the country's regions. Local authorities, therefore, set goals for the enterprises located in their area of responsibility, sometimes for both state- and privately owned firms.

It is important to note that the number of state enterprises subject to centrally determined metrics is dropping. While in the 1990s it included almost all of them, in 2010 it dropped to 140 before falling still further, to around 80, in 2019. Most recently it is primarily the manufacturing industry, responsible for a bit more than 20% of GDP, that receives directed plans from the government. As for non-state-owned companies, administrative pressure is occasionally exerted on them to conform to state-set goals by signing special contracts or 'gentlemen's agreements'.

1.2) Anti-crisis management of public enterprise

State and local authorities often serve as anti-crisis managers, actively intervening and periodically offering support to state-owned enterprises. For example, in 2015, the government and the National Bank took control of the business plans for 106 of them with the heaviest external debt burdens.

Anti-crisis management encompasses the use of a number of financial tools: tax breaks, short-term loans, debt restructuring, loan servicing, and more. The problem is that a conflict of interests necessarily arises between the Ministry of Finance and the government agency responsible for a particular state enterprise (the ministry for that industry or the local authority, for example). Sometimes, and for a number of state-owned enterprises, temporary state support turns out to be permanent, at which point their incentive is to work for that support as opposed to meeting customer needs. In those situations, as well as those in which there is a monopoly (state-owned or private), there is no need to fight off competitors, haggle with buyers, or please clients. That relaxes business, stifling initiative and innovation. However, once administrative resources begin to run out, or new officials and priorities are brought in, state support begins to wane, exposing inherent weaknesses.

Manual anti-crisis management and long-term state support propping up industrial enterprises engender familiarity among many, as well as a suspicion of other forms of management. An anti-crisis posture and way of thinking becomes the norm. Some oppose private and foreign business to the point of rejecting privatizations, while others jump into the opposite ditch of seeing absolute privatization as a silver bullet. An equally polarized attitude is taken to state-owned companies themselves: the first group sees them as holding the economy back, while the second thinks of them as engines suffering from a temporary setback.

1.3) Administrative burden

State and local authorities often hold meetings, summits, and panel discussions that include both state-owned and sometimes private firms, send instructions, request statistics, and recommend sponsorships. A survey of 800 directors of Belarusian firms, run in 2013 by the Economy Research Institute of the Ministry of Economy, found that 71% of those surveyed spend at least 20% of each week (one working day) on meetings with state agencies, the main topic of which, 91% say, is meeting set metrics. With that in mind, private firms increasingly prefer to avoid contact with the government in an effort to avoid that administrative pressure.

However, what is felt more keenly are the inspections the state has been running recently as part of its goal to limit imports. According to the Association of Retail Networks, there has been an uptick in the number of inspections conducted by the Ministry of Trade since December 2014. Traded goods themselves are also subject to inspection by the State Control Committee, several departments in the Ministry of Internal Affairs, the Ministry for Emergency Situations, the Ministry for Taxes and Levies, the Ministry of Labour and Social Protection, the Ministry of Natural Resources and Environmental Protection, the State Committee for Standardization, local authorities, and other monitoring and law enforcement agencies. Although the process is legally regulated, the administrative burden pushes operational costs higher for businesses.

In general, top-down regulation under Belarus' state capitalism breeds conformism, bureaucratic red tape, and corruption. The usual powerful idea as to why the country should limit the share of state-owned enterprises in the economy is that people don't fully take care of things that don't belong to them. In Belarus they treat state-owned enterprises as though they are collectively owned, the people's,or national, mostly a matter of pride, rather than profit. In the discussion of state vs. private enterprise, the case of Belarus shows that all of the state enterprises can expect budget subsidies and government bail-outs. On the other hand it cannot be guaranteed that corruption issues will be solved after enterprises are privatized. Moreover, Belarusian statistics show that private companies are charged with fines by tax authorities more than state-owned companies, (this could be also be explained by the attitude of the government towards the private sector).

2) Banks

Banks are a significant tool used to finance state capitalism in Belarus. They can be divided into state banks, banks with foreign capital, and the Development Bank, and each category has its own set purpose. However, the banking system in Belarus does not satisfy the country's economic needs, meaning that it suffers from chronic undercapitalization. The Belarusian banking system commanded assets equalling a bit more than 60% of GDP in 2013, and 57% in 2019. In Russia, that number is 86%; in Ukraine it is 91%; in Hungary, Poland, and the Czech Republic it is 100 – 110%; in China and Japan it is around 150%; and in France and the UK it exceeds 200%.

2.1) State-owned banks

The lion's share of the Belarusian banking system is occupied by two state-owned banks: Belarusbank and Belagroprombank. They participate in state programs and offer state support, commanding a monopoly of the banking system vis-à-vis assets (62.2% between them as of April 1 2020) and capital (60.4%).[20] The low profitability that comes with state programs and support, ranks state-owned banks among the country's worst large banks in terms of asset profitability and capital.

Administrative meddling in the day-to-day operations of state banks by oversight boards often leads to directed lending that does not take the bank's reserves into consideration, creating liquidity issues. Directed lending also relieves banks of responsibility for channeling funds towards underperforming projects. When the general economic situation worsens or revenue dries up, companies no longer have the ability to service the loans held by banks. Moreover, the high cost of rouble-denominated loans pushed many state-owned enterprises in 2013–2014 to move over to cheaper loans denominated in foreign currencies. Changing exchange rates added weight to their debt load and future devaluations could make it tough to service bank loans. The continually changing outlook also ensures a constant stream of bank customers switching their accounts to and from roubles, as well as into and out of the banking system, draining bank reserves. All those factors intensify the systemic risks faced by banks, and a state infusion of capital, or moving toxic assets to the Development Bank or public debt when directed lending is relaxed, serves as only a temporary reprieve for the banking system.

Another problem is that Belarusbank and Belagroprombank, though they have the same owner, do not always coordinate their efforts to perform their social function and end up echoing each other. For example, their locations and banking service centers are located on the same street in almost every town across the country (often even where there are few people living). Sberbank of Russia, by comparison, successfully streamlines its branch network, while in Switzerland, Italy, and France banking functions are handled by post offices in remote areas.

When it comes to the issue of making Belarusian state-owned banks more efficient, China's experience boosting capital for its state banks by attracting foreign direct investment while still regaining control is intriguing. For each major state-owned bank the government found a strategic minority investor (Bank of America, Goldman Sachs), adopted management and banking technology, and then capitalized them via an initial public offering. The IPO of Chinese state-owned banks was the largest in the world. In one example the Agricultural Bank of China brought in more than 19 billion dollars from the market in a single day (July 6 2010).

2.2) Banks with foreign capital

The share of foreign banks in the Belarusian banking system is not as large: on April 1 2020, it was 34.7% of assets and 35.2% of capital.[21] Even so, banks with foreign (primarily Russian) capital do impact the development of the Belarusian economy. Access to relatively cheap resources from their parent banks as well as professional management and technology lets them offer loans to Belarusian companies with better conditions and service than their state-owned counterparts. As a result, foreign banks work with more active, profitable, and up-and-coming Belarusian firms. For example, in 2014, companies like Belarusneft and Tabak-Invest were financed completely by banks with foreign credit, the Mozyr Oil Refinery obtained 97% of its financing through foreign banks,