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State Capitalism in Belarus: Behind Economic Anemia

Kiryl Rudy

Abstract

Belarus' economic model looked rather successful in the late 1990s and in the 2000s with its economic growth above 7% per year. But during the last decade, Belarusian annual economic growth has fallen at the average level around 1% per year. This chapter reveals the rarely known case of state capitalism in this post-Soviet country with its specific indicators, and instruments behind economic anemia. It also outlines several traps on the way of Belarusian economic growth: "debt trap," "middle-income trap," "social burden trap," "resource curse trap," "conflict neighbors trap," and "forceful pressure trap." These pitfalls lead to the long-term economic slowdown in the Republic of Belarus. The consequences of such economic anemia bring to another discussion about the role of public values in support of state capitalism in Belarus.

Keywords: transition economy, economic development, growth

1. Introduction

Belarus is the former Soviet Union republic with the inherited economic structure and un-reformed government management. 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. The Belarusian economy was naturally evolving. The private sector was developing, and small business as well as the service industry was growing. On the other hand, the efforts being made to preserve old state-owned manufacturing and the mobilization model were limiting the economy's flexibility.

In the last decade, Belarusian economy skidded to a near-complete halt. Budget spending, devaluations, and debt no longer help fuel economic growth. 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 throws it to the long-term economic anemia.

State capitalism in Belarus has its own logic, a clear desire to keep (even by force) the inherited structure and system of management. That gives a mental support point, instills self-confidence, and permissiveness. Currently, there are no economic reforms to boost growth in political agenda. Manual management 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 from nostalgia—a tendency to look for the future in the past—to uncertainty. 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.

This chapter includes several parts. The next one provides overview of state capitalism in Belarus, its indicators, and instruments. Another one describes pitfalls faced by state capitalism in Belarus and the reasons behind its economic anemia. The last one shows how Belarusian state capitalism is supported by the public during economic growth, and how public values are transformed during economic anemia.

2. State capitalism in Belarus: overview of indicators and instruments

The Republic of Belarus features an unstable hybrid economy. On the one hand, the country features state ownership of large swaths of property, administrative (manual) control over state-owned enterprises and state-owned banks, directed lending, consolidated budgetary resources, and wide social security. On the other, it has its entrepreneurs, small and medium businesses, private and foreign businesses, an international banking sector, a free-floating exchange rate, market prices, elements of a public-private partnership, a functioning Hi-Tech Park, an industrial park “Great Stone,” free economic zones, and other aspects of a market economy.

The hybrid regime of the Belarusian economy sometimes reminds of other countries: modern Russia [1], other post-Soviet countries [2], and China at one point in its development [3]. 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 [4]. 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.

Belarus’ state capitalism can be described through six indicators how the state intervenes in the economy, and how the capital is distributed.

1. **Public expenditures to GDP:** This indicator shows how consolidated budgetary funds are in an economy. In Belarus in 2010–2019, they were at an average around 30% of GDP, though adding in social security pushes that number to an internationally recognized 40% of GDP. Budget is the main tool and indicator of state capitalism in Belarus. It redistributes much higher share of capital in economy by way of comparison with other countries: Central and Eastern Europe registered at 34%; and Brazil, India, Korea, Malaysia, Singapore, and South Africa at an average of 22% [5].

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 stayed flat since 2016 [6].

Developed countries saw that same number range from 33 to 55% from 2000 to 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 [7]. 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. **Money supply to GDP:** In Belarus, the ratio of money supply (aggregator M2) to GDP is quite low around 16% in 2019, especially if it is compared with Chinese indicator of more than 200%, or Russian—around 60%. This ratio has been increasing in Belarus annually with the speed of 13% in 2016 to 18% in

2019, but still lower than in 1996–2015 with the spread from 20 to 60% increase in different years, which boost double-digit inflation, rapid devaluation, and economic growth.

4. Banking assets to GDP: Banks are usually the significant elements of state capitalism in different countries. For example, the share of banking assets to GDP in Russia is around 90%; in China, it is almost 300% [8].

However, the banking system in Belarus does not satisfy the country's economic needs, meaning that it suffers from chronic undercapitalization. In 2013, the Belarusian banking system commanded assets equaling a bit more than 60% of GDP; in 2019–20, it is 57%.

5. Financial market to GDP: Due to the lack of privatization and relatively small number of private enterprises in Belarus, national financial market is rather underdeveloped. In 2019, the capitalization of Belarusian financial market to GDP was 22.6%, including stock market to GDP was only 0.6%.

By the comparison of state capitalism in China, this indicator was more than 100% to GDP there in 2019, and stock market capitalization was 46.5% falling from 71.7% in 2017.

6. Foreign direct investments to GDP: As the important source to finance balance of payments and economic growth, foreign direct investments inflow in Belarus were at the average annual level around 2.3% to GDP in 2016–2019. This ratio is similar to Chinese one in recent years, but not in the 2000–2010 when it overcame 4%.

According to the estimation of Economy Research Institute of the Ministry of Economy of Belarus in 2015, USD 9.3–9.6 billion of foreign direct investments are to be mobilized in 2016–2020 on a net basis to attain the GDP growth of 10–15% over the 5 years (2–3% per year). In fact, USD 5.2 billion of foreign direct investments were attracted in 2016–2019, and GDP growth was on the average level of 1.1% per year.

The main two instruments of state capitalism in Belarus are state-owned enterprises and state-owned banks.

2.1 State-owned enterprises in Belarus

From the Soviet times, it is believed in Belarus that 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 state-owned 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.

State and local authorities often serve as anti-crisis managers, actively intervening and periodically offering support to state-owned firms. For example, in 2015, the government and the National Bank (central bank of Belarus) 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 Ministries responsible for a particular state enterprise.

The government not only provides financial support but also requests additional financial payments besides taxes from the profitable state-owned enterprises. In

2005, Belarus has founded a targeted national development fund. It accumulates capital from revenue appropriated from highly profitable state-owned enterprises based on their yearly results. The list of firms and the amount appropriated are set each year. In 2020, 40 state-owned enterprises redirected part of their earnings to the fund, and the primary contribution, which was made by the Belarusian Potash Company, made it based on raw materials. However, the fact that contributions are made by state-owned enterprises unrelated to raw materials weakens their incentive to boost productivity. The fund also receives foreign-denominated contributions earned by selling state-owned shares to foreign investors.

The focus of the Belarusian government on the state-owned enterprises put the doubts on the efficiency of such management system as this sector covers only half of national GDP. The similar share of state-owned enterprises around 50% to GDP is in Russian state capitalism. In China, state-owned companies take up only around 30% of GDP [9]. Another way of looking at this issue is to evaluate the other contributions of state-owned enterprise in Belarus: to foreign exchange earnings (about 30% in 2019), industry production (73.3%), retail turnover (16.2%), and revenue (58%) [10].

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. 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.

The role of state-owned enterprises in job creation deserves a separate look due to its economic and social importance for Belarus. State-owned companies made up 43.4% of employment in Belarus as of January 1, 2020, 39% of employment in Russia, and 19% of employment in China. The high percentage of employment generated by state-owned companies 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 and from an economic point of view, it keeps labor resources sticky and puts a damper on overall labor productivity across wide swaths of territory. High employment at state 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.

2.2 State-owned banks in Belarus

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%) [11].

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. As of January 1, 2020 the profitability of assets after taxes of state-owned banks in Belarus was 1.3%. The same indicator of the banks with foreign capital in Belarus was 2.3%, and the banks with private national capital—3.9%. In general, it is necessary to mention that banks with foreign capital play important role in economic

growth of Belarus as they fuel the money in the fast-growing private and international companies in the country. As of January 1, 2020 the foreign-capital banks' assets was 34.6% to Belarus' GDP, and their capital was 34.9% to GDP. It is different from other state capitalism models. In China, these indicators are not higher than 2%.

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 to 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. The continually changing outlook also ensures a constant stream of bank customers switching their accounts to and from rubles 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.

In 2011, the Development Bank of Belarus was founded as a non-banking institution designed to improve the economic performance of government investment programs. From December 2011 to June 2013, Belarusbank and Belagroprombank handed over some of their state program assets to the newly founded institution, altogether totaling more than 12 trillion rubles. They did hold onto some old loans and continue lending directly to government programs.

As of 2019 an old mechanism for funding state programs in Belarus was still in place, though it keeps the Development Bank from being able to perform its primary function. If that mechanism changes or a competitive, a result-based approach is taken to distributing funds, the Development Bank can transition to the traditional format employed by development banks in other countries (for example, in Germany, China, and Russia). The Belarusian Development Bank could then focus on providing export finance, financing major infrastructure projects, supporting small and medium business, and others of the country's priority goals.

Thus, state capitalism in Belarus characterized by high level of public expenditures to GDP, medium tax burden, decreased monetization of GDP, undercapitalized banking system, underdeveloped financial market, and low inflow of foreign direct investments. Its main tools are state-owned enterprises and state-owned banks. However, state capitalism in Belarus is a hybrid regime, as it covers only half of national GDP. It is proved by such metrics like share of state-owned enterprises to GDP, the share of employment at state-owned enterprises, and the share of state-owned banks in banking system assets and capital.

The evaluation of state capitalism efficiency in Belarus based on economic growth provides contradictive results (**Table 1**). There was stable economic growth in Belarus above global average in 1996–2010. The main economic drivers were on the one hand consumption and investment, and on the other hand manufacturing and agriculture. The high inflation in that period signaled about misbalancing in monetary and external spheres. The current account deficit and rise of gross external debt proved that. The IMF holds factors of production responsible for 70% (of which capital created 55% and labor 45%) of growth in output, while productivity came in at around 23% [12]. Other calculations estimate the average contribution of capital to growth from 2006 to 2012 to be 98.3%, accompanied by capacity utilization at 8.3%, labor at –5.3%, and productivity at –1.4% [13].

In the last decade, economic growth was trapped in the long-term anemia around 1% average per year. The role of manufacturing and agriculture in pushing the economic growth decreased with the rise of service sectors. The improvements in financial stability and external balances have happened in recent years.

	1996– 2000	2001– 2005	2006– 2010	2011– 2015	2016– 2019
GDP growth	6.3	7.5	7.3	1.2	1.1
GDP growth, global	3.7	3.6	3.5	3.6	3.4
Consumer price index growth	128.5	25.7	10.4	35.0	6.7
Current account deficit to GDP	–4.1	–2.3	–9.3	–6.3	–1.7
Gross external debt to GDP	15.8	22.5	33.4	51.6	44.2
Consumption to GDP	78.0	77.1	70.5	64.2	71.4
Investment to GDP	25.2	25.6	28.9	35.1	27.9
Net exports of goods and services to GDP	–4.1	–2.2	–8.6	–0.1	0.5
Manufacturing to GDP	28.4	26.8	26.2	23.0	21.0
Agriculture and forestry to GDP	13.1	9.3	8.5	7.3	7.0
Construction to GDP	5.6	6.2	8.9	8.4	5.4
Transportation and communications to GDP	10.8	9.8	8.5	8.8	10.9
Trade and food services to GDP	8.6	9.8	10.9	13.8	11.3

Table 1.
Average annual macroeconomic statistics for Belarus, % [10, 11].

They provided proper environment to increase the quality of capital in Belarusian economy, but not its necessary quantity. The economic anemia can be explained by taking a closer look at the traps facing Belarusian state capitalism.

3. State capitalism traps in Belarus

3.1 The “debt trap”

The “debt trap” appears when old debts are converted into new ones. As American economist Irving Fisher put it at the time of the Great Depression, “the more debtors pay, the more they owe.” The same happens in Belarus. Belarus’ external government debt is not repaid with proceeds from its use, and is partially refinanced, being shifted to the future. Non-project-related government loans are used to replenish reserves, to refinance old debts, and do not generate foreign exchange proceeds through exports and foreign direct investments.

Due to the nature of state capitalism in Belarus, “debt trap” appeared on the road of country’s development. The problems with business plan appraisal and monitoring, project-related external government loans and guarantees do not always generate foreign exchange proceeds either, and are sometimes repaid by the budget rather than by the projects. In turn, external debt refinancing with the more expensive domestic debt leads to an increase in the size of the aggregate government debt and an outflow of foreign exchange from the country, due to the weakening of banks’ resource base and the declining foreign exchange savings of households.

“Debt trap” is locking when the debt rule is broken—“government loans should stimulate economic growth, and the rate of economic growth should exceed that of government debt.” In 2015–2016, the increase in the government debt in Belarus was accompanied by a fall in its GDP. As a result, the ratio of government debt to GDP increased in Belarus from 22.3% as of 1 January 2015 to 39.4% as of 1 January 2017. But, in view of the fact that Belarusian government debt is mainly denominated in foreign currency, the key indicators for payments related thereto include net

exports, foreign direct investment, and the ability to attract new loans. When the first two parameters decrease, the main focus becomes new loans.

“Debt trap” brings to default when the inflow of new loans stops. It is symbolic that in economic theory this point is called the “Minsky Moment,” after American economist Hyman Minsky, the son of Belarusian emigrants, who took the surname Minsky in honor of the city of Minsk upon their arrival in the USA. According to his theory, which regained its popularity after the 2008 mortgage crisis in the USA, there are three types of borrowers. Those belonging to the first type hedge their risks, manage flows, and can avoid default. Those of the second type are only able to pay interest on loans but cannot repay the principal amount. The third type cannot rely on their cash flows, but only on the growing value of their assets. The “Minsky Moment” comes when the asset value stops growing.

Belarus as a borrower can be superficially classified under the first type. But it has a specific feature, and if this is factored in, Belarus moves closer to the second type of borrower. Faced with a limited range of external creditors, Belarus de facto focused on borrowing from a single creditor in recent years. The new external loans mobilized from Russian banks, the EAEC Fund and the Government of Russia, are actually controlled by one creditor. It narrows the space for maneuver in government debt management and creates new risks. The worst thing in case of problems with several creditors is a default and the loss of access to the international financial market for 3 to 4 years; with one creditor it is a matter of sovereignty.

Until 2012, Belarus attracted resources from international markets, although these transactions were often predetermined, that is, Belarusian and Russian banks often bought sovereign bonds. After 2012, almost all non-project-related government loans were extended for political reasons. At the same time, government debt management instruments, such as syndicated loans, issuance of municipal, corporate bonds in foreign markets, and so on, were practically never used. In 2017, Belarus once again tapped the international financial market, issuing its Eurobonds worth USD 1.4 billion to refinance old debts and somewhat diversify the pool of its external creditors. In June 2020, Belarus issued sovereign Eurobonds with the amount of USD 1.25 billion.

It is important to note that access to refinancing is generally linked both to economic development and to non-economic factors like overall confidence in the borrower. The problems developing countries have refinancing external debt are therefore of particular interest.

- a. Background problems with refinancing (default, or the inability or unwillingness to make debt payments): developing countries see refinancing problems start to occur on average when external debt reaches 69.3% of GDP [14]. Most often (in 32.3% of instances) they happen when external debt ranges from 41 to 60% of GDP, while in 19.4% of cases it is when external debt is below 40% of GDP, 16% when it is between 61 and 80%, 16% when it is between 81 and 100%, and 16% when it exceeds 100%. The threshold for when a country starts to have problems refinancing external debt can therefore be said with a high degree of accuracy to be when existing debt is around 60% of GDP. The ceiling, similarly, seems to be 100%.
- b. Fallout following default: the main consequences of default are a drop in investor confidence, a lowered sovereign credit rating, and temporary exclusion from international financial markets. Carmen Reinhart and Kenneth Rogoff looked at 169 defaults from 1946 to 2008 and found that it takes countries 3 years on average to move past defaults (again begin to attract foreign loans) [14]. Interestingly, that period seems to be shrinking: from 1800 to 1945 it took countries an average of 6 years to get past 127 defaults. It is also worth remembering that defaults have on occasion led to war. For example, there

were wars between the UK and Egypt in 1882, the UK and Turkey in 1876, the US and Venezuela in the middle of the 1890s, and the US and Haiti in 1915. The primary objective in each of those cases was to establish military control over customs in order to collect currency as payment for foreign debt.

Given that the primary source of the “debt trap” facing the Belarusian economy is the state capitalism system, opening up the economy to foreign capital and stimulating private investment is the way out of this pitfall.

3.2 The “middle-income trap”

The “middle-income trap,” also called the “development trap”—term introduced by the World Bank economists I. Gill and H. Kharas [15]. This trap occurs when rising salaries no longer lead to country-fast development as measured by GDP per capita (GNI per capita, Atlas) and the country finds itself trapped on par with other middle-income countries. The borders of the “middle-income trap” start from 1006 USD till 12,235 USD of GNI per capita [16]. Others use nominal GDP per capita to estimate “middle-income trap” in the limits of 10,000 dollars to 15,000 USD [17] or real GDP per capita (purchasing power parity) from 5000 USD to 10,000 USD [18]. There is also the method to compare developing countries’ GDP per capital with the same US’ indicator and to use it as the share from 5 to 45% to make conclusions about the pitfall [19].

Using Atlas methodology, it was found out that Belarus got into the “middle-income trap” since its independence and has been there for almost three decades. In 2007, Belarus moved from the group of lower middle-income countries to the group of upper middle-income countries with GNI per capita more than 3956 USD. But it did not go out and made reverse from the exit in 2014, staying in this upper level trap already more than 10 years [20]. The other countries which got into “middle-income” pitfall have been staying there more than 5 years (39 out of 55 countries in the period from 1989 till 2016), and more than 20 years (15 out of 55 countries in the same period). The cases of Russia, Croatia, and Equatorial Guinea prove that countries can go back to the “middle-income trap,” even if they left it before.

There are several reasons why Belarus is trapped in the “middle-income” pitfall.

1. An export-oriented economy

From 2009 to 2018, 31.3% of manufactured goods and services were exported, with that number climbing to 36.6% for 2016 and 36.1% in 2018 [10]. At the same time, the rising cost of labor resources has cut into profits and sabotaged Belarusian competitiveness as compared to countries coupling similar technology with cheaper labor. More importantly, however, those countries themselves are undergoing structural reforms, improving their markets, and developing their institutions, with the effect of entrenching their competitiveness.

2. Fading innovation

A lack of spending on research and development, innovation funds that are sometimes not used for their intended purpose, and an overall lack of stimulus for the development of innovation keep Belarusian exporters from focusing on reducing costs and boosting quality in an effort to improve their competitiveness. For example, the share of expenses devoted to R&D by Belarusian exporters (the Minsk Tractor Works, BelAZ) is several times lower than that of their competitors (John Deere, Caterpillar). In absolute dollar terms, they are outspent thousands of times over. Moreover, Belarusian companies invest in imported technology, while their foreign competitors invest in their own technology. Firms in Belarus purchase high

quality, if imported equipment that needs to be update 5–10 years later, meaning that they have to again spend the money to purchase foreign tech. That all intensifies the Belarusian race to improve on old technology and leaves no room for companies to create new, cutting-edge technology of their own. Technological progress, in short, stalls. The level of R&D expenditures to GDP is rather low. It declined from 0.96% in 2007 to 0.49% in 2015 and the increased to 0.6% in 2018.

The situation with innovation in Belarus has also devalued how people look at research and scientists by chronically underfunding them and leaving their skills unneeded and unwanted. Young doctors of science in Belarus are few and far between. In 2011 and 2012, there was not a single one in the country under the age of 29. There were 3 and 4, respectively, under the age of 39, 39 and 29 aged 40–49, 71 and 62 aged 50–54, and 114 and 112 aged 55–59 [21].

The IT industry's popularity in Belarus neither compensates for the lack of innovation in the real sector nor contributes to overall labor productivity. Instead, the flow of qualified workers moving to IT from the manufacturing industry sacrifices productivity in the latter without a corresponding boost for the former. But IT as the self-sufficient and export-oriented industry (separated from the rest of the economy) provides rather successful case in Belarus. In 2017, new legislature reloaded High-Tech Park with new tax benefits and state guarantees. As the result, in 2019 IT sector contributed 6.5% to GDP, and 5.2% to total export of goods and services.

3. Low labor productivity

Salary growth over the long term in Belarus exceeds labor productivity growth multiple times over. For example, from 2000 to 2014, real wages grew 4.8 times, while productivity only grew 2.2 times. From 2010 to 2014, real wages grew 45%; productivity was held to only 14% growth.

Admittedly, labor productivity at Belarusian state-owned firms is lower than at their private and foreign competitors. In 2013, revenue per employee at the joint venture MAN factory was 360,000 dollars compared to 64,300 dollars at the Minsk Automobile Plant (6 times higher); at John Deer it was 11 times higher compared to the Minsk Tractor Works; at foreign owned Olivaria Brewery it was 190,700 dollars compared to 85,000 dollars at state-owned Krinitza (half as much); at private Santa Bremor it was 115,900 dollars compared to 83,700 dollars at state-owned Belryba. It is worth noting that the difference in productivity goes beyond technology, a metric according to which state enterprises are comparable to their competitors after modernization; different management systems—manual versus corporate, for instance—explain the difference.

Belarus can therefore get away from the “middle-income trap” by utilizing systemic and operational measures.

- a. Systemic measures, which wield a long-term effect, include altering the country's economy structure, accelerating innovative development, and taking steps to boost labor productivity, primarily at state-owned firms. Management systems could be improved, for example, by implementing IT in the manufacturing industry. The necessity of maintaining living standards for Belarusians makes it imperative to compete with other countries for international capital by improving the institutional and entrepreneurial environment rather than cutting labor costs.
- b. Operational measures, which enlarge the labor pool in the short term, include pension reform, getting more women and disabled people into the economy,

liberalizing immigration policy, and reducing prison sentences (for example, for non-violent crimes).

3.3 The “social burden trap”

Belarusian state capitalism has always had the support and understanding of the people as a form of socialism, or a welfare state. Since the 1990s, especially when contrasted to the social turbulence experienced in neighboring countries, Belarusian society held onto a degree of nostalgia for the relatively successful social and economic development Belarus had grown accustomed to as part of the Soviet Union.

And nowadays the government and its limited resources are torn between satisfying the country’s growing social needs and solving its economic problems. It generally chooses to prioritize the former at the cost of economic growth. That high level of social spending coupled with the “debt trap” and “middle-income trap” is calling into question whether the social welfare system will be financed in the future by the government, the people, or other sources of income. At the same time, a population that has grown accustomed to today’s level of income and social benefits as subsidized by the government expects more of the same.

It is important to also note that the purchasing power of wages in Belarus is higher than its face value in dollars. That can be explained by the partial subsidies the government provides for consumer prices, utilities, and social services. While nominal wages in Belarus are lower, for example, than in Russia and Kazakhstan, in terms of purchasing power parity they have been higher in recent years than in Kazakhstan.

The growth in and level of salaries in Belarus should be juxtaposed with the approaches taken by other countries, for example, to financing utilities or a number of other social expenses aimed at boosting the national economy’s competitiveness.

3.3.1 Utilities

The government provides a utility subsidy of nearly 70%, and there are plenty of counter-arguments to the impending elimination of cross subsidies.

First, and given the state monopoly in this area leaving consumers bereft of choices when it comes to which utilities they use and pay for, the key issue is to control expenses and therefore rates.

Second, raising rates would increase the percentage of private expenses taken up by utilities. In the first quarter of 2015, utilities accounted for 6.9% of household expenses in Belarus. By way of comparison, in 2012 that number was 6.8% in Russia and 9.9% on average in Europe, with the lowest being 3.5% in Finland and the highest being 14% in Slovakia [22]. In other words, completely eliminating cross subsidies in Belarus would be justified given were it to occur in the context of an increase in private earnings.

Third, utility rates are included in the consumer price index, so raising them would have a trickle-down effect that pushes inflation higher across the entire economy. Doing so therefore needs to be gradual in an effort to avoid an inflationary shock.

3.3.2 Social support

Social expenditures on, for example, supporting families are higher in Belarus than in other countries. For instance, paid maternity leave in Belarus is 3 years, while in Russia, it is 1.5 years and in Kazakhstan, it is 1 year. The one-time grant given at childbirth is 961 USD in Belarus for the first child and 1345 USD for all following children. In Russia, it is 261 USD; in Poland, it is 266 USD; and in Lithuania, it is 469 USD. In Kazakhstan, parents are paid 319 USD for each of

their first three children, receiving 53.2 USD for all subsequent children. In 2015, Belarus introduced family capital in the amount of 10,000 USD made available after the birth of third and following children. In Russia, maternity capital comes to 8160 USD, while there is no state-sponsored maternity capital system in Kazakhstan, Poland, or Lithuania.

There is no need to limit the search for ways social spending can be financed to some sort of split between the government and consumers—business could also prove to be an important source. However, social spending is usually seen in the business world as a burden imposed by the government in the form of a minimum wage, educational standards, medical standards, and more. In the 1990s and 2000s, the business model in vogue was to minimize social expenditures by manufacturing in countries with the lowest social requirements and standards: China, Vietnam, Bangladesh, and other Asian countries, for instance.

In Belarus, one strategy for privately owned construction companies is to build kindergartens into their new apartment complexes and hand them over to the local authorities, thereby adding to the incentive to buy their apartments. The cost of building the kindergartens is even built into the price of the apartments. Another example is when companies build roads to their shopping centers, business centers, and entertainment complexes. All of that goes back to a business model focused on stimulating demand for goods and services rather than charity paid by business to finance the state's social infrastructure.

Ultimately, one way out of the “social burden trap” (besides wholesale welfare reform) is a public-private partnership that is both mutually beneficial and voluntary, a qualification without which it would drag business into an unprofitable social sphere and come to nothing. Most practical would be the creation of a fund supported by private, state, and international capital that could be used to finance the public-private partnership's social projects (by offering targeted business loans at discounted rates, for instance).

3.4 The “resource curse trap”

This trap occurs when the economy, and in particular exports, is based on preferential access to raw materials, forcing it into dependence on external factors (global prices, foreign trading partners, and competitors) and industries not based on raw materials into the background. Favorable conditions see exports and the economy grow, digging themselves deeper and deeper into the hole in the process, while economic downturns lead to falling exports, economic growth, and living standards. Free or preferential access to raw materials also saps the state's need for tax revenue and strong institutions. When the economy takes a turn for the worse and the prices for raw materials drop, institutions and tax revenue are not there to continue stable economic development.

This pitfall is a real and present danger for the Belarusian economy due to the petrochemical sector's outsized presence and the Russian factor.

3.4.1 The petrochemical sector

The petrochemical industry exploited a period of low crude oil prices and high prices on finished products to boost its share of the country's GDP. In 2009, oil refining and chemical production created 4.7% of GDP; in 2019, they created around 7%. Raw materials also became more of the country's focus when it came to exports. For example, the share of oil, petroleum products, and potash fertilizers in Belarusian exports went from 35% in 2010 to 38% in 2014. And even within that number oil and petroleum products went from 26 to 30%, while potash fertilizers dropped from 9 to 8%.

Falling global potassium prices in 2013–2014 and oil prices in 2014–2015 (a trend that will most likely be deep and protracted) coupled with a lesser fall in prices for petroleum products necessitates a new economic structure for Belarus. A fast bounce-back of global oil prices and a return to the old national economic structure are an unlikelihood not borne out by knowledge of history. The average historical oil price (in terms of the dollar's value in 2000) from 1880 to 2004 was 19.61 USD per barrel [23]. The historic highs enjoyed by the global economy have been a recent phenomenon: in 2010–2014, Brent crude averaged 102 dollars per barrel, creating an unsustainable bubble in the economies of a number of countries. The dramatic drop in oil prices has also had an impact on both production quantities and the financial wellbeing of oil refineries that are Belarus' largest exports and taxpayers and in the middle of modernization. In 2013, the share of exports taken up by goods and services provided by Mozyr Oil Refinery and Naftan was 16%.

On the other hand, the impact dropping crude oil prices have had on the Belarusian oil refinery sector should not be overstated. Prices on crude are correlated with prices on oil refinery goods, so the net profit brought in by oil refineries should remain more or less the same. Efficiency, rather than price changes, is a much heavier driver of profits, and decreased export customs duties have been the biggest difference the oil price drop has had on the Belarusian refining sector.

3.4.2 The Russian factor

Russia's oil-based economic structure, the formation of the Eurasian Economic Space, and the orientation of 43% as of 2019 Belarusian exports toward the Russian market make the Russian factor a critical piece of the puzzle. In 2019, oil was responsible for 48% of import from Russia to Belarus, adding gas pushes that number to 68%, and adding metals means that the overall share of raw materials came to 78%.

Given the Russian ruble's floating rate, the global collapses of oil prices in 2014–2015, and early 2020 were mirrored almost exactly by the exchange rate. The Russian ruble has been de facto pegged to the price of oil. Certainly, the plummeting price of oil has not been the only factor exerting downward pressure on the Russian ruble. Countries like Angola, Algeria, Kuwait, Iran, Iraq, and Nigeria, all with a higher oil exports to GDP ratio than Russia, saw their currencies devalue less dramatically than the Russian ruble in 2014–2015.

The weakening Russian ruble has a corresponding effect on the competitiveness of Belarusian exports to Russia. Not only that, but given the floating Belarusian ruble rate, the fact that the Russian ruble is in the Belarusian currency basket, and the close economic relationship between Belarus and Russia, changing global oil prices affect the value of the Belarusian ruble as well via currency and trade channels.

All in all, the Belarusian economy's post-Soviet structure, its overbearing focus on the raw materials of the petrochemical and potassium sector, and its close ties to the raw materials-based Russian economy creates the framework for a fall into the "resource curse trap." Norway is a textbook example of how to get out of that trap, as the oil and gas sector there is responsible for more than 50% of the country's export revenue. Even so, it has maintained stable economic growth—while raw materials and the role they play in exports is an important factor in the country's economic growth, they are not the determining factor. The main difference is that institutions were built in Norway before raw materials were developed on an industrial scale (before the 1970s), making it immune to external shocks today. The way out of the resource curse pitfall, ultimately, means going back to the necessity of institutional reform.

3.5 The “conflict neighbors trap”

The “conflict neighbors trap” term was coined by Paul Collier to describe how countries surrounded by neighbors in conflict fall into the long-term trap of inhibited economic growth [24]. His study showed that, on average, countries benefit from the economic growth of their neighbors: each point of growth adds 0.4% to the GDP of neighboring countries, though for African countries that number is 0.2% and for non-African countries it is 0.7%. Political crisis in a country also results in economic losses both for it and for its neighbors totaling an average of 100 billion dollars. The origin of political conflict was also proven to be slow economic growth or contraction in many instances. For example, 5 years of non-existent economic growth leads to political crisis and civil war in 14% of cases. Each point of growth or contraction improves or lowers the odds of a political crisis occurring. If an economy contracts by 3%, for instance, the likelihood of a crisis happening rises to more than 16%. It was also shown that the longer an economy contracts, the longer it takes to dig itself out of the resulting political crisis. A crisis that culminates in civil war lasts an average of around 5 years, and countries that go through a civil war have a 50% chance of experiencing another one within the next decade. Economies suffering from civil war contract by an average of 2.3% per year, pulling their neighbors down with them.

The results of Collier’s study have an analogy in the Russian-Ukrainian conflict, the civil war in Ukraine, the 2014–2015 recession, the 2016–2019 slow recovery in Russia, and their impact on the Belarusian economy. Given the territorial losses suffered by Ukraine as well as the human cost of the conflict, a fast resolution to the bilateral conflict looks anything but likely. Taking into the account the consequences of 2020’s coronavirus, it is hard to make predictions when Russia will return to growth. While prognoses differ, they share a similar trend: for each point Russian GDP contracts, estimates concur that Belarusian GDP will lose 0.6% of growth thanks to the net-export effect [25].

Before moving on it is important to note that Russia and Ukraine are not simply neighbors of Belarus; they are its primary trade and investment partners. And they stay like this through the years, despite their economic recessions or recoveries. In 2019, the share of Belarusian exports of goods to Russian market of total was 43%, and to Ukrainian market—11%. The share of import from Russian of total in Belarus was 62%, and from Ukraine—5%. The share of foreign direct investments from Russia of total to Belarus was 69%, and from Ukraine—1%.

There are two ways out of this trap for the Belarusian economy: reorientation toward the domestic market or diversifying into other foreign markets.

1. Reorienting the economy from foreign markets to the domestic market

While this may be a tempting solution, from January to March 2015 the share of Belarusian sales in the domestic retail market came to 68.9%. For foodstuffs, that number was higher, at 81.6%, and for non-foodstuffs, it was 50.9%. The domestic market is simply not capable of completely replacing the volume of sales lost in foreign markets without increasing capacity.

Generally speaking, a reorientation toward domestic markets is generally part of a temporary import substitution strategy geared toward protecting from external competition.

The main argument in favor of import substitution is the need to temporarily shelter high-potential industries or companies from competition. However, in that case the sheltered industry has to use that opportunity to outpace the development of its foreign competitors (by cutting production costs faster, for example), coming out the other side having made up most of the ground separating

them. Developing countries often point to examples where developed countries employed import substitution (the US, Germany, and Japan in the nineteenth and twentieth centuries) to, in their opinion, distance themselves from developing countries over the long term [26] .

Opponents of import substitution bring up the difficulty of deciding which prioritized industries should be protected [27]. Often the obvious choice for the government is looked at askance by private businesses that have invested elsewhere. At that point, the industry is prioritized by the administration and a temporary import substitution policy becomes permanent. Inflation is also a result of import substitution, as prices for both imported (thanks to new protective measures) and domestic goods rise. When that happens, national manufacturers often lower the prices they charge in foreign markets and compensate for the lost revenue by boosting them domestically.

2. Diversification of foreign markets

The focus Belarusian exports have fixed in the last few years on Russia and Ukraine has less to do with left-over post-Soviet relationships and more to do with their lack of competitiveness and lagging technological development. Belarus' concentration on its largest export Russian market has grown in recent years: from 37% of total exports in 2011 to 39% in 2015, and to 43% in 2019. Import is even more concentrated on Russia. During last decade, import from Russia to Belarus stayed more or less at the same level: 64% of total imports in 2011, 62% in 2015, and 62% in 2019.

The problems Russia and Ukraine experienced in 2014–2015 have limited Belarus' export options. That would logically encourage a switch to other markets, but there Belarusian exports are less competitive. The situation is exacerbated by the lack of innovation in Belarusian exports. For example, the country's exporters (the Minsk Automobile Plant and the Minsk Tractor Works) do not have research centers abroad they can lean on for market analysis and forecasts, to learn about customer needs, and to tweak technology and manufacturing. Competitors like John Deere and MAN have R&D centers in Germany (100 employees), France (120 employees), China, India, and the US. A systemic solution to the problem would be to move from a resource-based economic model to an investment-based model by attracting foreign direct investment, and from there creating a domestic culture of innovation.

The “conflict neighbor trap” often centers on the medium term with a likelihood of repeat occurrences in the long term, given that long periods of poor economic growth can lead to social unrest. The best way out of this trap for Belarus is to attract foreign direct investments in export companies focusing on highly competitive and high-tech markets.

3.6 “The forceful pressure trap”

This trap means that due to the state capitalism management system in Belarus, government and control agencies are deeply involved in business activities of business enterprises. Year by year, this administrative burden becomes forceful pressure on business and the barrier for economic growth. Being the part of the system, control agencies cannot stop the pressure by themselves. So they bring economy to almost complete stop as the enterprises try to avoid making mistakes in following norms and legislature and being punished. The state forceful pressure takes the forms of meetings, inspections, and court cases against business.

1. Meetings

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 discussing their revenues, profits, and other indicators. With that in mind, private firms more and more prefer to avoid contact with the government in an effort to avoid that administrative pressure.

2. Inspections

According to the Association of Retail Networks, in 2014–2015, there has been an uptick in the number of inspections conducted by the Ministry of Trade. 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.

3. Court cases

In 2015, some evident coercive pressure on the economy emerged in the form of an increased number of court cases dealing with administrative offenses in the economic sphere. According to the Supreme Court, the number of cases increased from 9792 in 2014 to 13,361 in 2015. Along with that, the major contributors to the coercive pressure on the national economy in 2014 and 2015 were the Ministry of Taxes and Duties—correspondingly 6804 and 9060 cases, the State Customs Committee—466 and 651 cases, the Ministry of Internal Affairs—446 and 415 cases, and the State Control Committee—357 and 398 cases.

In addition, there has been a rise in the percentage of cases resulting in administrative penalties to the overall number of cases filed in court: a total of 88% in 2014 and 90% in 2015, including cases related to the Ministry of Taxes and Duties—91 and 92%, the State Control Committee—85 and 88%, the State Customs Committee—47 and 73%, and the Ministry of Internal Affairs—69 and 66%. Only a few appeals were satisfied in whole or in part against the action or inaction of officials and verification of legality. Moreover, the number of appeals has been decreasing since 2013. A total of 102 decisions were challenged in court as appeals against actions of officials of the Ministry of Taxes and Duties in 2013; 12 claims were satisfied in whole or in part. In 2015, the corresponding figures were 78 and 6. Regarding the State Customs Committee, the numbers were 168 and 78 in 2013, and 112 and 6 in 2015.

A year-long comparison of the overall quantity of initiated criminal cases related to economic offenses shows a steady increase in the number: 2129 cases in 2012, 2639 in 2013, 2867 in 2014, and 3580 in 2015. The number of administrative cases related to economic offenses has also been growing: 111,421 cases in 2012, 121,052 in 2013, 121,371 in 2014, and 128,005 in 2015.

For Belarus, getting out of this trap means decentralizing state regulation of the economy as well as strengthening and promoting independence and material incentives for state institutions to bring in result-oriented professionals. Better information in addition to more openness and transparency are critical, as are keeping

decision-making out of the hands of individuals, engendering trust, and building respect. Authority has to be delegated to ministries, departments, and sections in keeping with the principle that simpler problems can be solved farther down the food chain. Dividing up the regulatory and economic functions of state agencies needs to happen, putting ministries in charge of industries and more general areas without responsibility for the economy on the micro level.

The state would be wise to deprioritize the letter of the law when it comes to monitoring compliance with the rules governing business (something that is undoubtedly important in an institutional economy). As it sets up institutions and oversees the development of the economy, most important is for Belarus to ensure currency and financial stability by prioritizing tax- and currency-related crimes (though punishing them cannot be used as a means to other ends). Relaxing control, especially over small and medium business, would create space for them to experiment, try new approaches and methods, test new suppliers and clients, and breathe life into the economy. Once changes have been made to economic structures, control can be adapted to those new forms and fully reinstated.

4. Public values behind state capitalism in Belarus

State capitalism cannot function in Belarus without public support thanks to income equality and moderate income growth. 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, 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. While the average monthly salary in Belarus in the 1990s came to a few tens of dollars, by 2006 it had grown to 271, and in 2014, it reached a 25-year high of 595 dollars; in May 2020, it was 476 dollars.

Public support consists of the variety of values, and it is a double-edge sword how the values influence on the economy and the economy influences on the values in Belarus.

4.1 Influence of values on the economy in state capitalism of Belarus

Belarusian matrix of values' impact on the economy is complex, both random and orderly.

The *randomness* is expressed in doublethink, swaying between collectivism and individualism, emotionality and restraint, the past and the future, short- and long term, conservatism, and liberalism [28]. In the theory of behaviorism, the first decision is usually considered irrational and incorrect (the so-called "halo effect"), while the second one is rational and more accurate. In the case of Belarus, both decisions look irrational, and the Belarusian state capitalism itself is akin to a set of anomalies. A decision can be affected by the unpredictable specific context, case, mood, fatigue, hunger, time of day, previous meeting, another person's statement, personality, association with the surname of the person in question, or something else that cannot be foreseen. All these are situational factors of the value matrix. Because of constant reflection and adaptation, the national features of psyche and local behavioral practices replace the classical economic theory and world practices, playing the priority and effective role in the Belarusian state capitalism.

The *orderly* influence of the Belarusian matrix on the economy is reflected in the perceived influence of a range of cultural, economic, and other factors on the matrix itself and, thus, on the economy. Such factors are difficult to weigh and

prioritize depending on their impact on the Belarusian economy. These are the “tectonic plates” of the Belarusian behavioral economics, which overlap and move with time. They form the overall information and cultural environment, in which decisions are made, the values, which are shared by the public and combine into the cultural matrix, the unifying factors, which nowadays make the Belarusian matrix Belarusian, distinguishing it from other societies.

The range of valuable factors that orderly influences on Belarusian state capitalism includes the following.

Memory of the war: according to a sociological survey of 2013, 89.6% of Belarusians called the Great Patriotic War the main historical event for Belarusians [29]. The memories and fears of the war trigger the desire to seek protection from a strong leader and provide the basement for state capitalism. In 2010–2014, 58% of Belarusians worry about the war involving in the country [30]. Belarus preserves the inert military mentality of the strong role of the state and paternalism. This leads to increased control over businesses, maintaining the traditionally high budgetary expenditures on poorly performing enterprises, accompanied by the decreasing incomes of the population.

Family orientation: it forms the dualism of collectivism and individualism. It narrows the circle of trust, range of partners, limits behavioral practices, and restrains social identity. In addition, such features as paternalism and orientation to the Soviet past are formed under the influence of Belarusian family orientation. During economic slowdown, family values have become stronger. In the period of economic growth in 1999–2009, from 78 to 81% Belarusians considered their families as very important in life. In 2010–2014 when economic growth declined, 88% respondents gave that answer [30].

Language: Russian is the main spoken language, the language used for writing documents and the language of thought, while the Belarusian language is not so popular for many in the country. In 2010–2014, 83.3% of Belarusians speak Russian at home, while only 6.5% speak Belarusian [30]. Russian largely determines many Belarusian features, for example, the orientation to the Soviet past, hence the orientation to scale, to short-term planning and paternalism, as well as individualism in the form of isolation from the rest of the world. The use of the Russian language in the Belarusian economy predetermines the orientation of its foreign trade, investments, and tourism to Russian-speaking partners.

Sense of ownership: in Belarus, the collective memory, orientation to the Soviet past, orientation to scale, and paternalism, dull the sense of ownership. It affects the public's attitude to large state-owned enterprises as features of heritage and culture, which then constrains their privatization and restructuring. In general, the Belarusians sense of ownership is very polarized with no strong attitude toward government or private ownership [30].

Fears: in Belarus, phobias explain the roots of state capitalism. The fear of losing earnings, say because of their depreciation due to inflation, exceeds the willingness to earn more, which creates a greater propensity to save than to invest. The fear of losing a job with a change of owner, following the example of Russia in the 1990s, creates a cautious attitude toward privatization. In 2010–2014, 56% of Belarusians were afraid of losing their jobs [30]. The fear of the future and disappointment in the present forms the orientation to the past in the search for answers. The fear of punishment, both inherited and learned, serves as a habitual motivation in the paternalistic regime.

4.2 Influence of the economic anemia/growth on the public values in Belarus

Recent economic anemia in Belarus has transformed public values. It no longer raises the question *how* the state capitalism restores the high level of economic

growth in Belarus. Now it faces new dilemma *if* the state capitalism is capable of doing that. If public values behind economic anemia have changed dramatically, then it would mean that the issue of state capitalism efficiency has moved from economic to sociological and political fields of science.

Belarusian’s public values could be compared in different time periods of economic growth and economic anemia (**Table 2**). There is no strong evidence that people are looking for solutions of economic problems in the ownership of business. More likely they see other reasons of economic anemia in Belarus rather than private vs. state ownership of business, as the two are interconnected in the country. Moreover, Belarusians prefer the government to take more responsibility during hard times and less the people themselves. When economic growth is high, people also have high confidence in the government. But when economic growth is low, the public confidence in the government is decreasing. So it is easy to see that economic growth fluctuations in Belarus are reflected in the public opinion on the responsibility of the government and its state capitalism.

Some more observations of Belarusians public values behind economic anemia could be added that influence on the business climate and the health of society. So important for economic growth trust is decreasing during economic slowdown. In 2010–2014, the answer “most people can be trusted” has been decreased from 41 to 33%, and the answer “need to be very careful” has been

		1994– 1998	1999– 2004	2005– 2009	2010– 2014
GDP growth, average %		0.1	5.18	7.68	3.52
Private vs. state ownership of business	Private ownership should be increased	8	9	8	11
	Medium	22	23	26	21
	Government ownership should be increased	18	8	4	6
Responsibility: government vs. people	People should take more responsibility	5	12	12	4
	Medium	5	19	19	5
	Government should take more responsibility	29	16	6	23
Confidence: the government	A great deal, quite a lot	47	Not available	60	56
	Not very much, not at all	46	Not available	30	43
Political system: having a strong leader	Very good, fairly good	49	34	62	47
	Bad, very bad	39	50	25	52
Political system: having experts make decision	Very good, fairly good	44	63	52	56
	Bad, very bad	34	17	30	42
Political system: having the army rule	Very good, fairly good	12	16	13	9
	Bad, very bad	74	69	72	91
Political system: having democracy	Very good, fairly good	66	67	72	85
	Bad, very bad	16	8	9	15

Table 2.
Public values and economic growth in Belarus, % of total respondents [30].

increased from 50 to 60%. The values of such qualities like tolerance and respect for other people has become less important during economic anemia falling from 64 to 61% in 2010–2014 [30].

Economic anemia in state capitalism transforms public attitude toward political system (**Table 2**). In the case of Belarus, the popularity of strong leader political system has been decreasing during low economic growth. People increase their good attitude to the experts making decision political system, but not so much. When Belarusian's state capitalism tries to use force pressure to solve economic problems, it also makes political system ruled by army absolutely unpopular. Finally, the main transformation of public values behind economic anemia is the strong rise of popularity toward democratic political system. It brings the doubts about the future of the current mode of state capitalism in Belarus without reforms.

5. Conclusions

Belarusian state capitalism is the hybrid regime of transition economy. Currently it covers only half of GDP, half of employment, and around 60% of banking assets and banking capital. It is based on the high level of public expenditures to GDP, medium level of tax burden, and wide range of state-owned enterprises. There are plenty of underdeveloped financial instruments in Belarus that could support its state capitalism nowadays, like banking system, financial market, monetization of GDP, and foreign direct investments.

In 1996–2010, state capitalism boosted high economic growth in Belarus on the level of average 7% per year. But it was also accompanied by high inflation, current account deficit, and currency crises. In 2011–2019, Belarus faced some traps on the way of its economic growth: “debt trap,” “middle-income trap,” “social burden trap,” “resource curse trap,” “conflict neighbors trap,” and “forceful pressure trap.” They all lead to the economic anemia in the country on the level of a little more than 1% per year during last decade.

Belarusian state capitalism exists because of public support, based on economic equality, and the rise of incomes. During economic growth such public values like the memory of the war, family orientation, language, sense of ownership, and various phobias supported state capitalism in Belarus. But, during economic anemia, the fall of incomes, the public attitude to political system has changed dramatically and brought state capitalism existence to new crossroads.

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