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Belarusian Business in Turbulent Times

In the past three years, the Belarusian private sector appears to have been caught between a hammer and an anvil, experiencing domestic repressions and de-liberalization as well as collateral damage from sanctions and a deterioration of the country's image. This policy brief discusses the challenges that Belarusian businesses have been facing since the onset of the Covid-19 pandemic and argues that the private sector may be the last hope for sovereignty and transformation of the country.



The years that have passed since the onset of the Covid-19 pandemic and the subsequent economic shocks have significantly altered the entrepreneurial landscape in Belarus. This period has seen the emergence of private businesses' social and political activation during the pandemic, as well as during the 2020 election campaign and post-election protests (Bornukova & Friedrich, 2021). Businesses have also had to adapt to reactionary government policies, cope with sanctions against Belarus and deal with issues related to the Russian invasion of Ukraine. In the face of these challenges, the reactions and responses from small and medium-sized businesses signals that the private sector still has the potential to remain a driving force for socio-economic development in Belarus – despite the current political forces in power.

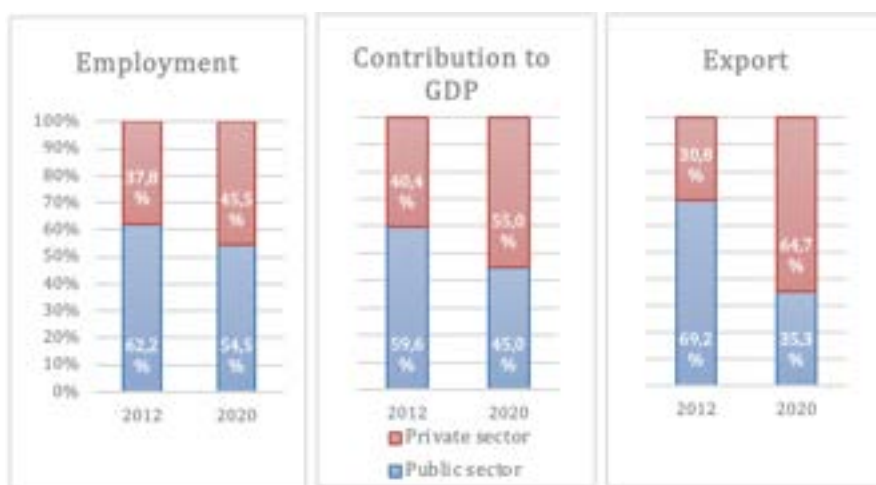
Private Sector Development; Liberalization and Regulation

The liberalization of the business environment, which lasted more than a decade and ended in 2020, allowed the private sector (enterprises without *any* state ownership share) to become the most dynamic part of the economy (see Figure 1).

From 2012 through 2020, the share of the private sector in employment increased by 7.7 percentage points. Similarly, the contribution from the private sector to the export of goods and services, as well as to GDP, exceeded the contribution from state-owned commercial enterprises. Moreover, even in the absence of significant privatization and restructuring of state-owned enterprises, the private sector took over the “social” function as an “employer of last resort”, absorbing workers released from the public sector (including from fully and partly state-owned enterprises) (IPM Research Center, 2020).

In addition, the development of the private sector increased the diversification of Belarus' foreign trade. Private companies in the IT sector, advanced instrument manufacturing, electronics, and other high-value-added industries shifted their focus to developed countries' markets, which reduced the dependency on Russian resources and markets. This increased Belarus' economic sovereignty and its resilience to political tensions and other external shocks. The year 2020 however marked the end of the liberalization of entrepreneurial activities, as private businesses and private capital started to be seen as a threat to the political system (Bornukova & Friedrich, 2021).

Figure 1. Contributions from the Belarusian private sector to main economic indicators.



Source: Own elaboration based on Chubrik (2021) and IPM Research Center (2020).



Although there are no uncontestable figures describing business' attitudes and activities during the political crisis in 2020, several non-academic projects documented that 58 percent of people protesting the fraud elections in 2020 worked within the private business sector (Devby.io, 2020). Dozens of businesses also openly supported the anti-regime strikes (The Village Belarus, 2020). As a consequence, legislation and law enforcement have since been steadily tightened, the tax burden has increased, and the possibility for using simplified taxation and accounting systems by small-scale businesses, in particular for sole proprietors, have been substantially reduced.

Against this backdrop, the government has also suppressed the publication of detailed statistical data including those on entrepreneurial activity. Since 2020, the Belarusian Research and Outreach Center (BEROC)'s quarterly enterprise surveys have become the main source of information and analysis on the business development situation.

In general, BEROC's surveys demonstrate that, despite a reduced safety cushion and the lack of substantial state support during the pandemic, Belarusian businesses had, by the end of 2021, adapted to the shocks from the post-election crisis and harsh de-liberalization, by realizing their ability to cope, and finding creative solutions in the turbulent environment (Marozau, Akulava and Panasevich, 2021). Before Russia's aggression against Ukraine, Belarusian entrepreneurs' optimism about overcoming external barriers – i.e., factors that are out of a firm's control such as macroeconomic instability, etc. – was the highest since 2015. However, increased uncertainty forced Belarusian businesses to focus primarily on maintaining the achieved scale of activity, halting investments (Kastychnicki Economic Forum (KEF) & BEROC, 2022).

Optimism In Challenging Times

In general, the institutional environment for doing business in Belarus has deteriorated in recent years, both due to actions such as changes in tax legislation, price regulation and pressure on disloyal businesses, and due to negligence from the state, such as lack of significant support measures for private business, an outflow of businesses due to sanctions and an increasingly negative image of the country (KEF & BEROC, 2022). The Business confidence index (BCI, ranging from 0 – “extremely negative” to 100 – “extremely positive”), developed by BEROC and the Kastychnicki Economic Forum based on OECD methodology, documented that at the end of 2020, the confidence level of business representatives regarding future developments was in the negative zone – arguably due to the political unrest and the Covid-19 pandemic. As firms accepted a new normality and adjusted their businesses, the BCI steadily grew before comfortably settling in the neutral zone at the end of 2021 (see Figure 2).

In March-April 2022, however, macroeconomic instability, disruption of supply chains, and shortages of raw materials and/or components following the Russian war on Ukraine became serious external barriers for Belarusian businesses. This lowered the BCI and businesses' perception of their economic situation.

Quite surprisingly, the risks of doing business in Belarus in the second half of 2022, until early 2023, were estimated to be lower than in 2021 (see Figure 3). This may be explained by the fact that (for companies remaining in Belarus) many of the potential risks (inflation, exchange rate instability, sanctions, counter-sanctions, disruption of supply chains, tightening of price regulation, etc.) had already realized (BEROC, 2023).

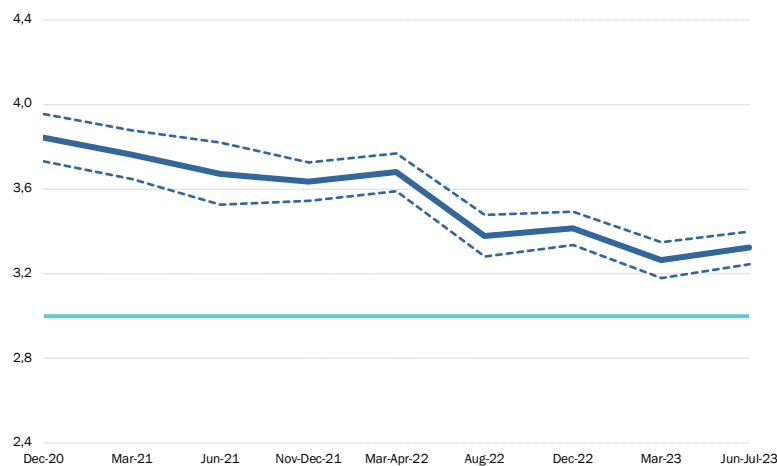


Figure 2. Business Confidence Index and GDP growth rate, October 2020-March 2023.



Source: KEF & BEROC (2023) and the National Statistical Committee of the Republic of Belarus

Figure 3. Risk perception by Belarusian Businesses.



Source: BEROC (2023). Note: Risks were scored on a five-point scale, 1-5, where 1 denotes “very low” and 5 “very high”. Dotted lines denote the 95 percent confidence intervals.

The New Reality

The reaction from most Belarusian businesses to both pandemic- and war-related challenges has manifested in their search for new business models, an introduction of new products/services, and the entry into new export markets. Despite a bundle of powerful shocks to the economy stemming from the Russian war on Ukraine and related sanctions, some factors have

dampened the anticipated drop in the economy: in particular, the increase in Russian support, export re-orientation to Russia and developing markets, alongside monetary stimuli, and interference with the activity of state-owned enterprises as well as artificial price controls (Kruk & Lvovskiy, 2022). As a result, the standard of living has remained at pre-war levels: in January-April 2023, real household disposable income and real salary grew by 1.6 percent and 3.8 percent respectively. With



sanctions on Belarus being comparatively softer than those on Russian businesses, Belarusian businesses may have gained a comparative advantage and additional opportunities in both the domestic and Russian markets (BEROC, 2022). This caused optimism among entrepreneurs and in March 2023 – for the first time in the considered period – the composite BCI turned out to substantially exceed the neutral zone (see Figure 2). These positive spillovers are however likely to be bound in time – they will end both if the state of the Russian economy worsens (as this would reduce Russian support and decrease export revenues for Belarusian firms), and in the unlikely scenario that Russia’s current isolation is reduced. Whether Belarusian businesses will withstand the current protracted crisis depends on the ability of state authorities (current or new) to restore a constructive dialogue with the business community, return to the rule of law and create a business environment conducive to entrepreneurship.

According to business, the key factor needed to expand business activity is a reduction of external barriers (such as disruptions to supply chains, shortages of raw materials and/or components), rather than government support (e.g., financial, informational, etc.) (KEF & BEROC, 2022). Thus, “We do not need state support, but need the state not to worsen legal conditions for doing business” has become a motto of Belarusian entrepreneurs. Even in the context of war and political instability in the region, it allows looking at the prospects of the private sector in Belarus with some positive expectations.

At the same time, factors such as political repressions, sanctions against Belarus, problems with logistics, and the refusal of business partners to work with Belarusian companies due to the Russian aggression towards Ukraine have forced many Belarusian businesses, especially in high-tech sectors, to relocate. While the scale and direction of Belarusian business emigration is still difficult to assess (Krasko & Daneyko, 2022), these processes devastate entrepreneurship capital in

Belarus and jeopardize the prospect of entire sectors such as the IT sector. In addition, the popular opinion about the lack of business opportunities implies that, unless conditions improve in terms of state policy and public confidence in the future, the socio-economic effects (employment, value added, tax revenue, innovations) from entrepreneurial activity in Belarus will diminish (GEM-Belarus 2021/2022). With operations severely affected by external barriers and restrictive legislation, halted investments and limited, if any, commercial contacts with Western countries and individual businesses, Belarusian private enterprises can hardly be seen as a source of stability for the current regime.

Conclusion

To promote an increased role of the private sector in the Belarusian economy, and to ensure high-quality and sustainable growth of the same, two prerequisites are critically necessary.

Firstly, a resolution of the political crisis and a restoration of authorities’ and state institutions’ legitimacy will significantly increase the populations’ confidence in state policy on business and economics. The principle of rule of law must be recognized and public and private actors must be treated equally in all spheres. It is also necessary to ensure the stability of tax legislation and economic law and the mitigation of excessive state control of business activities. All the above would lower external barriers and create stimuli for long-term business investments that, in turn, would facilitate economic transformation.

Although the sanctions’ packages imposed on Belarus by most developed countries due to domestic repressions, and complicity in the aggression against Ukraine, were directed towards the public sector, the private business suffered substantial macroeconomic and reputational consequences in their wake. The refusal of many foreign partners (suppliers, customers, banks, transport companies etc.) to



work with Belarusian businesses – regardless of their affiliation with the state and attitude towards Lukashenko’s regime as well as towards the war on Ukraine – also substantially undermine businesses’ potential and Western soft power in Belarus. Such refusal is often driven by the argument that, by paying taxes, private businesses in Belarus support the current regime, when they should instead undermine the regime by halting operations (and thus tax revenues). At the same time, with the complete liquidation of civil society organizations and the termination of international projects and initiatives, the Belarusian private business may serve as the last resort in the hope of achieving independent, decentralized, and autonomous decision-making – all cornerstones of modern democracy (Audretsch & Moog, 2022).

From this perspective, the preservation of the private sector in Belarus may be of decisive importance in the future political processes, necessary to take into account by policymakers and business elites alike in developed countries.

In addition, relocated Belarusian businesses can play an important role in transforming the country by developing social ties between entrepreneurs and civil society, by providing support when solving problems related to doing business outside of Belarus and by investing in the Belarusian economy in the future. In this regard, establishing non-partisan Belarusian business associations abroad creates preconditions for consolidation of the most active part of the Belarusian community and its involvement in the envisaged economic transformation of the country.

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