BELARUS

NATIONAL COMPETITIVENESS ISSUES, CONSTRAINTS AND STRATEGIC IMPLICATIONS

Sofía, Bulgaria – November 2003
The Republic of Belarus is a country with open economy. The openness of the Belarusian economy is stipulated by the current structure. Belarus trades with more than 160 countries. Export accounts for 50% of GDP. It was created in time of USSR under the influence of planned organs in accordance with the domestic division of labour. There is a lack of natural resources in the country. But Belarus has got a favorable geographic (transit) position and experienced force that give the opportunity to place manufacturing industry and develop systems of communication.

The ratio of Belarusian goods export to GDP accounted for 56,2% in 2002 and ratio of services export – 9,2% (58,5% and 8,2% in 2001 correspondingly). In 2002 more than a quarter of the Belarusian export consisted of machines, equipment and transport vehicles (25,9%), mineral products – 21%, chemicals – 17,7%.

Of late two years the volume of goods and services export increased by 9,5% and 18,5% correspondingly. The given data is the evidence of importance and role of foreign trade for the Belarusian economy and prospects of its development.

There are some disproportions in the structure of economy. The major of them:

- disparity of the structure of industry to internal and external demand that leads to the incomplete use of existing productive capacities and sizable volumes of outstanding products;
- insufficient development of science-intensive export productions with a big share of added cost;
- high energy- and material capacity of production and high dependence from deliveries of fuel-energy and raw resources;
- critical (70-80%) level of physical and moral depreciation of active part of basic production assets owing to lack of capital both for its enlarged and simple production.

At the end of 2002 the state was the owner of 70% of basic funds and a share of small business accounted for 7,2% of GDP. These factors are the evidence of low tempo of the economic reform.

**Table. Indicators of the efficiency of the economy (1995 – 2002)**

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<tbody>
<tr>
<td>Share of loss-making enterprises</td>
<td>18,4</td>
<td>12,3</td>
<td>16,2</td>
<td>16,9</td>
<td>23,4</td>
<td>33,4</td>
<td>34,9</td>
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<td>Stale credit debt (in percentage to the total indebtedness)</td>
<td>24,4</td>
<td>32,1</td>
<td>33,8</td>
<td>38,2</td>
<td>40,4</td>
<td>44,7</td>
<td>46,0</td>
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<tr>
<td>Degree of wearing out of fixed assets</td>
<td>70,4</td>
<td>74,6</td>
<td>77,9</td>
<td>70,8</td>
<td>79,1</td>
<td>80,3</td>
<td>81,0*</td>
</tr>
<tr>
<td>Share of investments in GDP</td>
<td>15,5</td>
<td>18,5</td>
<td>22,6</td>
<td>20,6</td>
<td>19,8</td>
<td>18,0</td>
<td>16,6</td>
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*according to the assessments of the experts of the group of companies «Yupiter»*
### Table. Assessment of the efficiency of enterprises (high aggregated level)

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<tr>
<td>Profitability</td>
<td>9,7</td>
<td>10,1</td>
<td>10,9</td>
<td>14,7</td>
<td>13,2</td>
<td>7,8</td>
<td>8,7</td>
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<tr>
<td>Profit on sales, percentage change</td>
<td>-9,5</td>
<td>35,8</td>
<td>15,4</td>
<td>37,9</td>
<td>-17,5</td>
<td>-34</td>
<td>5,9</td>
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Macroeconomic indicators and statistic data are the evidence of the realization of "passive" industry policy in the independent Belarus. There is a slack use of instruments that influence on the changes in the economic conjuncture. Secondary character of industry sector transformation towards the other aspects of socio-economic development is the fundamental peculiarity of transformations in the industry export oriented sector. Consequently, there is a lack of independent and specific directives oriented on the new and high technologies.

At first sight the commodity structure of Belarusian export is equal with the same structure of developed countries. But if you study it more carefully, you can find out that the high technology has a very small share in the economy. So, if it is chemicals (12%) a share of pharmaceutical product accounts for only 10%. If it is machinery, equipment and mechanisms a share of electronic products is 2,7%, electric transformers – 3,5%, insulated conductors – 2,5%.

High level of the capital consumption affected the competitiveness of the economy and prospects of its growth. The capital consumption has exceeded the limit value of economic security (60%) and it keeps increasing. The more dangerous situation we can see in the chemical and petrochemical industry (the level of wastage – 85,4%), mechanical engineering and metal-working (84,7%), production of building materials (76,3%), light industry (79,3%), building (79,1%), agriculture (79%).

There was a visible negative change for Belarus in the structure of foreign trade prices after 1990. Prices for the major Belarusian export goods (light industry, food industry, and mechanical engineering) were 2,5-3 as little than the world prices. Now the prices of these products are equal with the world prices (except gas). The production technologies are the previous. It follows that the production of these goods in the natural indices (the level of 1990) means the full finance bankruptcy of the country.

The role of investments is very important in the process of growth and qualitative development of the major resources. In recent years a share of investments in the fixed capital accounted for 16-18%. The given share of investments is insufficient. The attraction of foreign investments will lead both to the growth of investment commodities import to the country and increase of GDP and consumption. Besides, there is a need in support of the existing tendency of the increase of capital-productive investments. The participation of foreign investors in the decentralization and privatization of state enterprises allows to stop the process of capital ageing. Domestic investments are of big importance too. New amortization policy, development of leasing, reduction of interest rates on loans, additional budget financing of investment projects on the basis of competition promote the growth of investments.

Solution of the problems of structural reconstruction and rise of competitiveness of the Belarusian economy stipulate the necessity of creation of the Programme for structural reconstruction and rise of competitiveness of economy.

The goal of the programme is to work out the major trends and priorities of structural changes in the economy, systems of measures, mechanisms and modernization of production providing the creation and maximum effective use of competitive advantages of the country, rise of the competitiveness level.

Solution of the following problems:

- assistance in the development of competitiveness of domestic goods and services producers at the internal and external markets.
adjustment of cumulative structural deformations by conversion of loss-making enterprises that are artificially supported by budget grant.

• completion of the development processes of the institutions of transition period (privatization, commodity and financial markets, innovation mechanisms, system of government regulation and other) to the institutions that meet the requirements of modern market economy and world tendencies.

• acceleration of modernization and conversion of enterprises, development of markets of goods and services, labour and capital in accordance with the tendencies of the world economic transformation based on information technologies, intensification of global and regional integration processes.

Assessment of the factors of rise of competitiveness by Belarusian enterprises

It is interesting to examine the factors of internal and external competitiveness through the eyes of entrepreneurs.

Creation of brands is one of the factors. Numerous barriers on the way of business development prevent the creation and promotion of the brands at the domestic market. Only a quarter of examined enterprises has from 1 to 3 registered brands.

Mastering of new kinds of activities, increase of goods and services assortment and search of internal sale markets are the major instruments of activity expansion.

Rise of motivation and activity of personnel as a factor of rise of enterprise competitiveness is put at the third place by managers. That means a potentially high capacity of the market of business education.

The awareness of market situation and talent to foresee the market situation, professional labour collective, ability to produce competitive products were named among the competitive advantages by managers of small and medium-sized business.

Such competitive advantage as the knowledge in the sphere of legislation is a specific feature of Belarusian institutional reality.

High taxes, unstable legislation and low purchasing power were named among the external factors that promote rise of enterprises competitiveness.

Necessity of inspection certification and hygienic registration leads to the rise of the price and fall of competitiveness of Belarusian economy.

Competitive advantages of Belarus:

High quality of human capital, low cost of labour force, effective system of personnel training
Developed science and technical potential
Favourable economic and geographic position
Availability of productions that manufacture competitive products at the internal and external markets (tractors, refrigerators, TV sets, beverages and so on)
Availability of oil and gas pipe lines at the territory of the republic
Advanced productive infrastructure
High level of complexity of the territory development
Vast land resources. Favourable nature and climate conditions for the production of fodder, flax and potatoes growing
Availability of huge renewable timber resources
Availability of huge renewable fresh water resources (underwater and superficial water)
Availability of abundant supplies of potash salt
Availability of resources of loam, cement and other raw stuffs for the production of building materials
Availability of cultural and historic wealth, loveliness of natural landscape

**Actions in the rise of competitiveness of the Republic of Belarus**

Taking into account the existing situation it is important to take appropriate drastic measures on the rise of competitiveness of Belarusian economy in view of flexible use of temporary security measures and support of domestic manufactures at the internal and external markets. “Active” industry policy must be an alternative at this stage of the development of the national industry.

The right choice of branch priorities plays an important role in a strategic plan for the development of the country. They should comply with the conditions of the country. The realization of these priorities would allow accelerating the socio-economic development.

In order to form the priorities, they must necessarily be based on: the peculiarities of a small country with open economy; world economic processes; national, spiritual and cultural traditions of people; economic and geographical location; natural and climate conditions; mineral resources; the conditions of the material and technical basis of industries; labour potential and the qualification of workers; scientific and technical potential.

The priority for the economically non self-sufficient small country (that Belarus is) must be export orientation based on the total mastering and development of competitive advantages and scarce resources it possesses.

**Competitive advantages of Belarus are the following factors:**

Fiscal, monetary, foreign currency and pricing policies that facilitate financial recovery of enterprises of the real sector, the creation of business and investment climate in the country that stimulate favorable conditions for the acceleration of reproduction processes.

The structural adjustment of the industrial complex that is oriented on export of high technological, science-intensive goods and objects of intellectual property is a key and perspective factor of the economic growth of the country and its foreign trade relation. The sales abroad of the objects of intellectual property require little costs and are exclusively perspective method for the increase of the volume and the quality of export. The country has such a potential but it remains unclaimed. Intellectual property incomes could be the source for financing of the research-and-development work.

There is a necessity to develop the concept of structural adjustment and development of the industrial complex within the framework of which the conformity between the intellectual potential of Belarus and its total technological level of the economy must be foreseen. The concept must reflect the starting conditions of the industrial complex and determine strategic guidelines, priorities, of structural adjustment of the industrial complex in connection with the socio-economic consequences of its realization. In addition, resources and mechanisms for the realization of the concept for structural adjustment and development of the industrial complex must be determined.

The conduct of active industrial policy demands the availability of free resources (financial, investment, tangible, technological and so on) and effective system of administration.

**Major trends of rise of competitiveness**

1. Support of education, science and innovations through the budget. Creation of the institutional foundations of effective use of human capital
2. Creation of the complex science and productive centers and schools for the development and mastering of new technologies
3. Budget support of science and innovations
4. Attraction of investments to the development of the transport system, telecommunications and infrastructure
5. Creation of the institutional foundations of Belarusian transport services appeal
6. Formation of the normal investment climate
7. Attraction of investments to the intensification of the complex timber processing, enlargement of assortment and improvement of quality
8. Attraction of investments to the development of productions using the organic raw stuffs. Creation of conditions in order to increase the flows of oil and gas through the territory of Belarus
9. Reform of agriculture, attraction of investments to the subsectors of effective specialization of agriculture in view of criteria of food security
10. Creation of the new complex fertilizers and mastering of new markets, implementation of state protectionism at foreign markets
11. Attraction of investment for the modernization of production and improvement of quality and improvement of quality
12. Creation of normal institutional, macroeconomic, tax, credit and pricing conditions of production for competitive branches
13. Attraction of investment to the development of tourism infrastructure in order to preserve and restore historical and cultural heritage
14. Creation of integrated corporative structures. Development of the system of science support and interfacing productions. Increase of the level of management. Support and development of supplemental branches.
15. Development of clusters
16. Improvement of institutional basis of production in the region

Belarus can find new “niches” in foreign trade through the new and high technologies. Namely replacement of non-competitive technologies and production into techniques that meet the modern achievements of technical thought will provide sustainable development of the economy. Responsiveness of the effects of globalization is noteworthy for Belarus because its economy will compete at the world markets with developed countries.