

# Russia and Belarus: A Lesson in Market Economy

The fact that gas prices have been rising to nearly market levels since the beginning of the New Year, as well as Russia's decision to place an export tax on Russian crude oil sold to Belarus can be seen a major economic challenge for Belarus. The rise in prices is economically justified. Its also a product of Russia's irritation, based on the realization that integrating Belarus with Russia is becoming more and more unlikely. Thus, it does not make sense for Russia, either economically or politically, to offer Belarus any more financial breaks.

The competitiveness of the Belarusian economy has until now been based largely on the processing of cheap raw energy materials, which were received thanks to preferential treatment by Russia. However last month's events show that Belarusians should be preparing for a major economic crisis, though most are unaware of this, as of yet.

On New Year's Day, Belarus and Russia negotiated a new agreement, in which Russia charges Belarus 100 USD for every thousand cubic meters of natural gas, which is more than double the price charged in 2006. This is much higher than the Belarusian economy can stand. Experts say that it is unprofitable if Belarus purchases gas from abroad at more than 75 USD per 1000 m<sup>3</sup>. According to the opinions of independent Belarusian economists, the losses suffered this year due to the rise in the prices of oil and gas will be 4 billion USD. Even if all the gold reserves were sold and all the money in the Stability Fund were spent, the Belarusian economy would only be able to function normally for half a year.

Until now, the economy has been a hybrid one: basically centrally planned with some elements of market regulation and supported by the Kremlin. It needs to begin adjusting to free market principles. This is difficult not only because enterprises (more than 90% of which are state-owned) are not able to compete in a free economy, but also because of various social barriers, the lack of economic knowledge as well as the ruling elite's fear of loss of control over the economy.

- President Aleksandr Lukashenko, who is greatly popular with his citizens and seen as a caring father figure, now faces a serious dilemma: either risk difficult economic reforms at the cost of his popularity and decrease his own autocratic rule, or reintroduce the idea of Belarusian integration to Russia. If Russia saw integration as a potential reality, it would probably be ready to consider subsidizing Belarus and the current pressing economic issues would be put aside for the moment. But Russia's offer would have to acknowledge Lukashenko's major political and financial ambitions.

- One other problem also stands in the way of this possibility. Thanks to the anti-integration campaign led by Lukashenko, feelings of national identity have been strengthened. Surveys show that 70% of Belarus' 10 million citizens are against integrating with Russia.

- What is President Lukashenko most likely to do? For now he is trying to fight; His threatening treatment of Russia can be seen in the form of the tax levied on the transit of Russian oil. What will happen next? We will have the answer to this question soon, especially due to the impending economic crisis in Belarus, which will most likely occur before the end of 2007.

- The world should pay attention, as the events in Belarus will impact the neighboring countries in the short term, but are also likely to have long-term repercussions on the economic and geopolitical situation of the entire region.

- *Dr. Piotr Kozarzewski specializes in transition economics, privation and corporate governance in Central Europe and the CIS. He is a senior economist at CASE and and the Institute of Polirical Studies at the Polish Academy of Sciences. Dr. Kozarzewski is a member of the CASE Supervisory Council.*

The views in this publication are solely those of the author, and do not necessarily reflect the views of CASE - Center for Social and Economic Research.

E-Brief Series Editor: Paulina Szyrmer  
Paulina.Szyrmer@case.com.pl