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What can be the way out of the impasse in Belarus?

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What Can Be the Way out of the Impasse in Belarus?

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Abstract

Public discontent with Mr. Lukashenko's authoritarian rule had been piling up for years and came to the surface after the fraudulent presidential election held in August 2020. At present the country is in a political stalemate as the official election results are challenged by a large part of the population and by the West but recognised by Russia and China. In the present circumstances there are no straightforward ways to break the gridlock, and different scenarios are possible. At the same time the Belarusian economy is plagued with serious problems that call for radical economic reforms. Belarus's economic and political problems are intertwined: the way the political crisis will be resolved will shape the future of the Belarusian economy.

Keywords: Belarus, elections, political stalemate, credibility and legitimacy of power, succession of power, economic reforms

JEL classification: E65, P21, P30

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THE BACKGROUND: A BROKEN CONTRACT

For years the domestic political situation in Belarus gave the impression of a delicate equilibrium under which the people agreed to forgo some democratic freedoms in exchange for some societal benefits that the government had committed to provide, such as stability, order, and low levels of income inequality. This was the core of what came to be referred to as the 'social contract' – although no contract was ever signed between any contracting parties. The economic pillar of this contract was a peculiar type of 'state capitalism', which was gradually installed in the country and centred on the significant role the state played in the economy, in terms of ownership of production and business assets and direct interference in the economic processes. The political pillar of the system was a highly centralised decision-making pyramid featuring excessive powers concentrated at the top. The foundation of this system was the constitutional reform introduced in 1994 by the president, Alexander Lukashenko, which gave his office far-reaching powers, such as the right to dissolve parliament, issue decrees with the force of law, appoint the prime minister and the members of government, call referendums, and many more. Under this system the president had de facto greater powers than the legislative branch. Despite ups and downs along the way, this constellation allowed Mr. Lukashenko to stay in power for 26 years.

For all practical purposes this system collapsed in 2020, and we now see its debris in the streets of Minsk. Actually, the social structure that supported the fragile equilibrium had been decaying over time due to the arrogance of the leadership, its lack of receptiveness regarding the wishes of the people, including the desire for democracy, and the unilateral imposition of rulings that were detached from reality. According to many observers, Mr. Lukashenko had long ago lost credibility in the minds of numerous Belarusians.

However, it was two recent developments that triggered the actual breakdown of the whole sociopolitical model. The first was related to the attitude of the authorities and the country's leader to the COVID-19 pandemic. On a number of occasions Mr. Lukashenko, using his personal judgment, openly dismissed the health risks of the pandemic, refusing to take into account the opinion of health experts or the preventive measures taken in other countries – let alone the opinion of the population. As a consequence Belarus was never placed in lockdown, and the containment measures introduced by the government were only marginal. By and large the Belarusian people felt betrayed by the political elite, and above all their president, because of their total disregard for the available evidence and expertise and the prevalent perceptions.

One can only speculate about Mr. Lukashenko's rationale for this attitude, but most likely it was at least partially motivated by the upcoming presidential election in August. A lockdown would inevitably have impacted negatively on the economy – and on his own political standing. Whatever the rationale, his stance on the pandemic was a catastrophic miscalculation, as the people's feeling of betrayal obviously outweighed any possible motives. With the approach of the election it became clear that Mr.

Lukashenko's ratings were falling, while those of other, previously unknown candidates were rising. His first reaction included various measures of political repression, from the refusal of the electoral commission to register some alternative candidates to the arrests of some contenders. When left with a sole contender in the person of Svletlana Tikhanoskaya, the authorities resorted to a massive manipulation of the election results, as evidenced by many individuals on the ground, who confessed to having been forced to falsify their vote. The news of the endemic manipulations was the spark that ignited the public indignation.

Both incidents represented blatant unilateral failures by the top to adhere to the unwritten norms of the 'social contract'. The arrogant disregard of the public's concerns related to the COVID-19 pandemic instigated massive social anxiety and effectively broke the pledge to maintain stability. The rigged presidential election broke another key pledge by the top – that of safeguarding order in the country. The social contract was broken and the societal structure that kept it afloat imploded.

THE NATURE OF THE CURRENT IMPASSE: CRISIS OF THE CREDIBILITY AND LEGITIMACY OF POWER

The fraudulent presidential election spurred an unprecedented wave of protests, and their scale reflected the accumulated popular discontent with Mr. Lukashenko's lasting authoritarian rule and the widespread urge for democracy and change. For the hundreds of thousands of protesters – and probably millions who share their views – the main driving force is the belief that Mr. Lukashenko and his entourage falsified the election results and that in the case of a fair and transparent election the results would have been very different. In other words, a large share of the population challenges the legitimacy of Mr Lukashenko's current presidency, which comes on top of his already ruined credibility. A number of EU countries as well as the European Parliament have also openly challenged the election results. The problem is that at this point in time there is probably no way in which the actual votes and the true outcome of the election can be restored. Although many protesters see the contender, Ms. Tikhanoskaya, as the actual winner, a view that has gained international support, there is no hard evidence which could verify such an outcome and justify her claim to victory.

Mr Lukashenko's claim to victory, by contrast, is backed by the official results announced by the central electoral commission and – not least – by the recognition of these results by some important international players, such as Russia and China. Moreover, he still enjoys popular support among some levels of society, especially in the countryside. However, in the absence of recognition by a large share of the Belarusian population, exercising his presidential powers may become a daunting task. Given the current state of public sentiment, it is very likely that the legitimacy of many, if not all, of Mr. Lukashenko's future rulings in his role as president will also be challenged, and thus would be problematical to enforce.

Without credibility and legitimacy, Mr. Lukashenko can mostly resort to repressive methods to exercise his powers. The fact is that he has important economic levers against (at least some of) the protesters because a large share of the Belarusian economy is state-owned. The biggest threat to his rule could come from a general strike, with the participation of the country's large industrial giants. Indeed, when sporadic strikes started in some of these companies, he threatened them with lockouts and started firing the organisers. This had a suppressing effect, and the industrial strikes have lost their steam for the time

being. In addition, public servants (including those in the public administration, the education and healthcare sectors and others), who account for another large chunk of the employed, are often threatened directly with dismissal if they join the protests or show sympathy for them.

One peculiar feature of the current political situation is that the crisis of the credibility and legitimacy of power is coupled with an absolute leadership vacuum below and around Mr. Lukashenko. During his decades-long rule he systematically and purposefully eliminated all those whom he suspected of being potential contenders to his post, both within his own circle of power and outside it. In the first case, this was orchestrated through regular reshuffles at the higher levels of the public administration. In fact, he reverted to frequent sackings of numerous subsequent governments as a means of letting off steam in times of rising social tension to divert the pressure from his own person. As to the few direct challengers to the highest post during presidential elections, these were mostly eliminated through demoralising campaigns, the spreading of (often fake) inculpatory evidence or direct repression.

As regards the general political environment, although formally there exist numerous political parties (some supporting Mr. Lukashenko, others opposing him), for all practical purposes they do not play any visible role in the country's political life. Under the existing presidential system the parliament (and any parties represented in it) has very limited powers, and making a political career within a party is not an attractive career move. What characterises the current 'opposition' (represented by the protesters), is that it seems to have a very heterogeneous political structure and is only united by one key demand: the departure of Mr. Lukashenko.

Ultimately, the fact is that at present there is virtually no one on the Belarusian political scene, neither among Mr. Lukashenko's entourage nor among the opposition, who could be regarded as a possible successor. From this perspective, the cheerleaders of the protests do not seem to possess genuine political weight and will most likely only play a transitory role.

HOW WILL THE CRISIS BE RESOLVED?

All indications are that the era of Mr. Lukashenko in Belarus is coming to an end. The key question is how this will happen: will it be in an orderly manner or through a violent societal clash? Below we will look briefly at some of the possible scenarios for the succession of power.

The first one would be the hypothesis that the key demand of the protesters – the immediate departure of Mr. Lukashenko – is met. Under the assumption of an orderly succession, this would imply the holding of a new presidential election under the current constitutional order. According to Belarus's acting constitution, the president can voluntarily resign his post at any time, a resignation that also needs to be confirmed by the lower house of parliament. The constitution also stipulates that if the presidential post were to become vacant (which would be the case if the president resigns), the lower house of parliament calls a new presidential election no earlier than 30 days and no later than 70 days after the post has become vacant. In the interim (between the date of resignation and the actual election of a new president) the presidential powers are temporarily transferred to the prime minister. So in principle such a succession is plausible and would allow for a smooth transition of power. By default, the timing of the events prescribed in the constitution implies that the new presidential election must be held under the current constitutional order.

There are, however, some important caveats. The first is that Mr. Lukashenko categorically rejects such an option. Given his firm grip on the security forces, he can protect his reign through oppressive means, at least for some time to come. The second caveat is related to the actual constitutional order in the country. As already noted, Mr. Lukashenko's constitution provides for presidential superpowers, which de facto overrule the power of both the parliament and the executive branch. The risk is that a premature new presidential election under the current constitution would just reproduce a new Lukashenko or even bring to power a worse replica. Given the leadership vacuum in the country, such risks are hard to ignore.

A second option would be a rapid constitutional reform, which would restore a balanced sharing of power between the three branches of government, and the holding of a new presidential election (and possibly a parliamentary one as well) under the new constitution, presumably without Mr. Lukashenko's participation in the race. This seems to be the preferred option of the Russian political elite, and part of the opposition also seems to favour such an option. But this option features critical caveats as well. For a new constitutional order to be firmly grounded, it needs to enjoy the support of a core majority of the population. However, the constitutional reform would have to be prepared and implemented under the current governance structures, whose credibility and legitimacy is being challenged by a large part of the population. So it is questionable whether such an effort, even if undertaken, would produce results that would be supported by a core majority. Furthermore, even if all goes well, it is questionable whether Mr. Lukashenko would step aside in a new electoral cycle.

On the other hand, given the current explosive situation, it is not clear whether the Belarusian people will have the patience to maintain the social order until an orderly succession can take place. It cannot be excluded that the protests expand and radicalise, resulting in the use of violence and, in the extreme, a drastic escalation of the social tensions that could actually lead to the forceful ousting of Mr. Lukashenko. The outcomes of such a disorderly succession are difficult to predict, and in this case one would also need to factor in possible external interventions.

In particular, one cannot exclude a reaction by the most powerful neighbour –Russia – in a situation where it perceives threats to its own geopolitical interests. Moreover, in the case of Belarus there exist some bilateral and multilateral conventions that can be invoked in such circumstances. The fact is that Belarus is formally a signatory to the Treaty on the Creation of a Union State with Russia dating back to 1999. This treaty envisages an ambitious agenda of integrative measures, but it also includes clauses on the security of the Union State which refer to the joint territory of the two countries. Belarus is also party to the Collective Security Treaty Organisation, which is a Russia-led military alliance between six post-Soviet states.

These are only some of the possible scenarios for the succession of power in Belarus. There can be many intermediate versions that combine different elements of these scenarios. Obviously, the future can also bring many unexpected developments. In any case, scenarios of a disorderly succession involving violence and possible external intervention will be the least desirable options for the transition of power in the country. On the other hand, if the protests lose their steam, one cannot rule out a continued status quo, with no changes in the constitutional order and Mr. Lukashenko remaining in power as before for an indefinite period of time.

THE FUTURE OF THE BELARUSIAN ECONOMY

The Belarusian economy is plagued by numerous chronic problems, and the future rulers of the country will be confronted with formidable challenges, whatever the outcome of the current political crisis. In this brief essay we shall only focus on some key economic problems.

Probably the toughest economic policy issue is related to the fate of the large, unreformed, state-owned industrial companies. These firms constitute an important component of the 'social contract', as they provide privileged employment to tens, if not hundreds, of thousands of Belarusians. During the past three decades these firms were kept afloat with the help of various direct and indirect subsidies as well as the country's privileged access to the Russian market. In turn, one of the sources of this state support were the Russian energy subsidies to Belarus in the form of below-market prices for its imported hydrocarbons. Ultimately, the support to the inefficient Belarusian state-owned firms was possible thanks to the Union State treaty with Russia.

However, over the course of the past several years Russia has begun withdrawing the energy subsidies, not least because of its discontent with Belarus's reluctance to move forward with the implementation of the integration part of the Union State treaty. Recently Russia warned Belarus that unless there is progress in this matter, these subsidies would be completely phased out by 2024. This change occurred in a period of general tightening of the macroeconomic policy stance in Belarus in an effort to bring down the country's previously rampant inflation. At present, under the combined effect of these developments, Belarus seems to be running out of financial resources to continue supporting the large state-owned companies. So, if macroeconomic stability is to be preserved, the reform of this sector of the economy seems inevitable, as the state-owned sector is a continuous source of contingent fiscal liabilities which the government can no longer afford.

Until now Mr. Lukashenko has categorically rejected the option of privatising the large state-owned firms. That said, one could add that in their present form most of these firms can hardly be considered as attractive investment options for any rational business investor for a number of reasons, such as obsolete production facilities, overstaffing and, as a result, inefficient production. Therefore, even if a future government takes the course towards privatisation, most firms first need to be reorganised and streamlined and placed under hard budget constraints. Actually, if such a reform is successful and firms manage to break even, privatisation may not be an urgent matter as they will no longer be a drain on the public finances. Recently even the IMF admitted that such a reform course is a plausible option and recommended it to Belarus.

However, the streamlining of the state-owned sector (let alone privatisation) will have grave social consequences, as it will inevitably be associated with massive layoffs. At the same time it should be pointed out that at present there exists no proper social safety net in Belarus. As the pledge to provide employment was part of the social contract (and, basically, the rate of unemployment was rather low), Mr. Lukashenko did not bother with establishing a safety net featuring an unemployment insurance scheme that guaranteed decent benefits in the case of job losses. So launching an enterprise restructuring reform in the absence of a proper safety net would undoubtedly give rise to serious social tensions. On the other hand, establishing such a system from scratch is in itself a momentous administrative task that cannot be accomplished overnight. Plus, the launch of such a system would generate significant new claims for public resources, which have not been part of the public budget until now.

A third serious economic policy challenge is the servicing of the country's large external public debt. In recent years Mr. Lukashenko has partly compensated for the diminishing Russian energy subsidies with new public borrowing to keep in place at least part of the previous socioeconomic model. However, this has led to an escalation of the country's public debt, most of which is denominated in foreign currencies, whose service has become another heavy burden on the public finances. At the beginning of 2020 it was estimated that the government needed to borrow about USD 3.3 billion (or some 7% of GDP) over the course of the year in order to service its foreign debt normally. It was envisaged that one part of this sum would be borrowed on the international financial markets. However, the political crisis has in effect cancelled the further implementation of these plans. Belarus was forced to revert to its 'lender of last resort', Russia, and during his recent visit there Mr. Lukashenko secured new emergency loans amounting to USD 1.5 billion. This will probably not be the last such bailout, and it remains to be seen what political concessions the Russian leadership will demand in return for such support. As noted before, Russia is not happy with its current role and has openly stated that such relations can only continue if Belarus accepts the integration clauses under the Union State treaty.

In the meantime the political crisis, coupled with uncertainty about the ability of the authorities to service the large public foreign debt, has given rise to nervousness on the financial markets and put growing pressure on the currency. People have started to withdraw their deposits from the banks and changed their holdings into foreign currencies. As a result the Belarusian rouble has depreciated rapidly over the course of the past weeks. If this process continues, this will be another serious headache for the authorities.

These are some of the problems that any present and future government in Belarus will have to face. Most of them are interconnected and need to be addressed in a complex manner. However, the way in which these problems are tackled will depend very much on the outcome of the political crisis.

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