

An investor-friendly economy

By HE DR SERGEI SIDORSKY

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DR SERGEI SIDORSKY graduated from the Belarusian Institute of Railway Engineers in the faculty of electrical engineering in 1976. In 2001 he became Deputy Prime Minister of the Republic of Belarus. From 2002-03 he was First Deputy Prime Minister, then Acting Prime Minister. In 2003 he was appointed Prime Minister of the Republic of Belarus. He is an academician of the International Engineering Academy and is an expert in vacuum-plasma technologies. He has written more than 40 scientific publications and monographs. Mr Sidorsky was honoured *Workman of the Industry of the Republic of Belarus*.

Iwould like to thank you for giving me the opportunity to appear in the pages of this special edition of the authoritative FIRST publication, which is dedicated to the Republic of Belarus.

The Belarusian economy and the economic policy we have adopted to date are subject to intense scrutiny by the World Bank, the International Monetary Fund and other global and European research economic institutions.

Belarus overcame the systemic crisis that followed the disintegration of the USSR, on its own. When it was the 'workshop' of the Soviet Union, the Republic's economy was predominantly industrial and was characterised by large-scale industrial conglomerates and mechanical engineering enterprises, oil refining, heavy metal, and chemical industries and other industrial sectors. In the critical years of the 1990s we preserved this industrial base for the national interest, and it now constitutes the foundation of the Belarusian economy, and is attracting increasing interest from potential investors from around the world.

It is of primary importance for the government to devise an economic strategy to encourage further development and define the goals of the state apparatus that are based on socialist principles. Our primary goal is to raise the living standard and quality of life of our citizens, and we are implementing an economic model with a socially oriented market economy as part of our overall plan.

During the relatively brief period – in historical terms – of the autonomous development of our country we have adopted a complex range of economic and social reforms. We have created a money lending system that meets modern standards, we have strengthened fiscal discipline and we have substantially improved the financial position of the organisations in the real economy. We have saved our companies from mass bankruptcy and various forms of government assistance have been provided to increase the output of individual organisations. These measures have played a positive role in stabilising the economy.

Belarus entered the 21st century, having already overcome its most pressing problems, and it was from this period that we began to build our socially oriented market economy, which is a continuing process. The existence of large-scale industrial enterprises with limited raw materials and energy resources compelled

us to open up our economy and adopt an active foreign economic policy. The priority given to the development of foreign trade and exports constitutes the primary strategic aim of our economic policy for the foreseeable future.

We now have stable foreign trade relations with 180 countries on every continent, and 60 per cent of our GDP is connected to foreign markets in one way or another. As a consequence we have a high degree of dependence on global development trends.

The Belarusian economy traditionally had close ties to the economy of the Russian Federation. In the year 2000 the Russian market accounted for over 50 per cent of our exports. But even the most stable relations may change over time. We currently export 36.6 per cent of our manufacturing output to the Russian Federation, and 43.8 per cent to countries in the European Union. The volume of foreign trade with the United Kingdom amounted to US\$960.9 million in the first half of 2008. The United Kingdom occupies seventh place among our main trading partners worldwide, and more importantly, it continues to grow.

Mechanical engineering and metalworking are the strategic resources in our foreign trade activity. The Belarusian mechanical engineering conglomerate has over 40 sectors, and accounts for around 20 per cent of GDP. Tractors and agricultural mechanical engineering occupy the leading position and are more export oriented than the other sectors. In recent years new, modern technology has been used to mass produce cars and modern 'MAZ' coaches, energy-saving 'MTZ' tractors with 250-300 horsepower, 'BelAZ' dumper trucks with a freight-carrying capacity of 320 tonnes, and combine harvesters with a capacity of up to 14kg of grain volume per second. It is the extensive use of this kind of technology that is turning Belarus into a major global manufacturer of machine-engineering equipment.

The implementation of an innovative development programme is accompanied by the transition to the new Belarusian economic model, its adaptation to global energy prices, raising the research and development activity of our companies to meet European standards, substantially raising the level of competitiveness of our manufacturing output and consolidating our position among our global competitors.

In past years Belarus was frequently criticised because our rapid economic development was largely

sustained by Russia subsidising our economy with cheap energy resources. We did not regulate the prices of such resources as we considered, and still do consider, the people of Russia and Belarus to have very close ties based on their shared history, language, culture and economics.

In 2007 the Russian Federation unilaterally withdrew from these agreements, and the prices for natural gas from Russia increased by over two hundred per cent from one day to the next. Our economy withstood this blow, however, and our GDP soared to 108.2 per cent; our stability on the currency markets was wholly due to the social commitments and programmes I have already mentioned.

The prospect of obtaining energy supplies at global prices was also accompanied by the necessity of changing our economic policy. We realised that we had to implement an ambitious innovative programme to improve the investment and business climate in the country. This allows us to allocate essential intellectual and financial resources to modernising the national economy by implementing efficient investment projects.

With this in mind, during the last six months we have adopted a series of specific measures designed to radically reform economic legislation and improve the business climate in the country. These changes focus on shareholder issues and the privatisation of state-owned property, functioning of stock markets and finance markets, taxation, simplification of many administrative procedures for setting up and closing down businesses.

We have taken decisive steps towards liberalising the regulatory investment regime, we have abolished the 'golden share' institution; we have simplified the foreign trade regulations, we have made the working conditions for residents in the free economic zones more stable and attractive. These measures have received international recognition. Belarus has managed to improve its international business rating for the way it does business by 30 points in one year and is now one of the 5 top reformist states. In 2007 the Republic of Belarus received US\$5.4 billion in foreign investments, which is 23.8 per cent more than in 2006.

I am pleased to state that almost 16 per cent of these funds, or over 860 billion dollars came from investors in the United Kingdom. Only Russia invested more in Belarus with US\$1.8 billion. Foreign investments continue to grow in the current year. The country has over 4,500 commercial organisations with foreign investments from over 100 countries.

We will continue to play an active role in liberalising the investment climate in Belarus. The real improvement in the investment climate in Belarus and the decision to approach 30 countries and offer them special conditions

for conducting business is one of the main aims of the Belarusian Government. Accordingly, we expect to increase investments in fixed assets by over four hundred per cent during the current five-year period, which will total around US\$80 billion for the said period, and at least US\$17 billion in the current year.

The annual reduction of the tax burden is sending out a serious signal to investors. And the dynamics are good. For example, in 2006 the tax burden was reduced to 0.7 per cent of GDP, in 2007 to 0.8, and in the current year to 0.9 per cent; there are plans to reduce it to 1.2 per cent of GDP in 2008.

Foreign investors have far more rights in the country now. We have adopted and strictly adhere to the Investment Code, which is designed to stimulate investment activity with government support.

This new measure to stimulate business was adopted last year in a comprehensive government programme aimed at developing small and medium-sized towns. Businesses in these settlement areas would be given preferential treatment, mainly in the area of taxation, giving them the opportunity to acquire a reasonable amount of unused assets under European legislation.

A further improvement in the investment and business climate is linked to the measures that we are adopting with a view to modernising our national economy. We realise that there are still no visible benefits in the area of taxation; we lack economic freedoms, an economy that allows goods and finances to flow freely, minimal government interference in business activity, development of finance and stock markets and other institutions.

There is talk of a lack of competitiveness in our business environment. One of our first concerns is therefore, rather than looking at modernising our physical capital and technology, to develop and improve our economic institutions and our economic organisational mechanisms.

We are simultaneously concentrating our efforts on making more efficient use of our existing potential in terms of distinct competitive advantages. There are many of them. But the best bet would be to use the transit opportunities that our country offers. A significant transport and logistics development programme is therefore envisaged, and we consider it to be a very promising opportunity for investment. We have also looked at accelerating the development of the service sector, including the creation of a modern tourist infrastructure. This sector of the economy also needs investors.

We are convinced that the Belarusian Investment Forum in London will provide a good opportunity to present the economy and its future opportunities. I hope that European and British investors alike will gain a better and more intimate understanding of our economy and will find it attractive.

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