

## NATIONAL COMPETITIVENESS OF BELARUS: A BRIEF REVIEW OF THE MAIN TRENDS

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### Introduction

Since 2011, statements about the need for improving national (country) competitiveness have been ingrained in the official rhetoric of the Belarusian authorities. Although the authorities mostly referred to efforts to further promote Belarusian export supplies, ideas about the competitiveness of the country as a whole, going beyond the necessity to enhance the appeal of Belarusian goods in foreign markets, were voiced increasingly frequently.

Improvement in Belarus's international rankings as an individual *area of activities* was for the first time included in the Action Plan of the Belarusian Government for 2011–2015<sup>1 2</sup>. Furthermore, Kiryl Rudy, who was appointed economic aide to the President of Belarus in June 2013, started voicing the need to improve the national competitiveness of Belarus versus the other countries of the region. The objective of this research study is to identify the place of Belarus among the countries of the region by the level of the main competitiveness indicators, as well as to provide a brief description of these indicators.

The main difficulty in the analysis of Belarus's competitiveness lies in the fact that the main international rankings measuring competitiveness, namely, those by the Institute of Management and Development (IMD) and the World Economic Forum (WEF), do not include Belarus in their calculations because of their insufficient confidence in its statistics. This brings about a challenge of the quantitative evaluation of the degree of Belarus's competitiveness, which can be addressed two ways. One of them envisages an independent calculation of Belarus's ranks in the IMD and WEF rankings on the basis of their methodology. This technique was made use of by CASE Belarus, which assessed Belarus's competitiveness based upon the WEF methodology (see Akulič, Valietka, Naŭrodski, Suškiewič, 2015). Assessments were made only for the periods 2012–2013 and 2013–2014.

The other method envisages the assessment of some of the *components* of Belarus's *competitiveness* based upon the analysis of proxy indicators<sup>3</sup>. Various rankings can be used as such proxy indicators, including the World Bank's infrastructure quality ranking, Doing Business ranking, macroeconomic indicators, etc. The second method does not envision the application of

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<sup>1</sup> See the Action Plan of the Government of the Republic of Belarus for 2011–2015, 2011.

<sup>2</sup> In addition to the global competitiveness ranking by the World Economic Forum, it was planned to reach at least rank 70 on the Index of Economic Freedom by The Heritage Foundation, and climb to the top-30 economies on the World Bank's Doing Business ranking, as well as the top-50 countries on the Human Development Index ranking according to the UNDP Human Development Report.

<sup>3</sup> The term "proxy indicators" will from now on apply to the data whose analysis allows making an indirect assessment of other indicators that are hard to assess for one reason or another.

the “native” methodology of the competitiveness rankings and calculation of Belarus’s positions on those rankings. However, it allows assessing some of the components of the national competitiveness of Belarus and making recommendations as to how to improve respective indicators.

The specific nature of this approach also allows assessing the components of competitiveness without using methodologies that call for significant resources and go beyond the scope of this research, and addressing the *behavior* of the key indicators characterizing national competitiveness over a continuous period of time<sup>4</sup>. In this research study we will employ the second method, and, based on our findings, provide recommendations concerning potential activities by the authorities to improve the national competitiveness of Belarus.

The study has the following structure. The first chapter provides a review of literature on the basic methodologies for assessing national competitiveness. The review covers not only the methodologies envisaging country rankings (the WEF and IMD), but also the concept by Michael E. Porter, as well as the methodology of the Organization for Economic Cooperation and Development (OECD). The review is required to conceptualize the notion of national competitiveness and substantiate the logic underlying the choice of the mentioned proxy indicators.

The second chapter focuses on the conceptualization and operationalization of the notion of competitiveness and substantiation of the choice of the proxy indicators that will be used as a means to assess the national competitiveness of Belarus. The third chapter of the study analyzes the behavior of the key competitiveness indicators (more precisely, the proxy indicators that we selected) and describe the current issues and challenges. The third chapter comprises the general comparison of Belarus’s indicators in the rankings that are used as the proxy indicators of competitiveness, versus the countries of the region: the CEE and the CIS. The conclusion provides a brief summary of the research study and presents the findings on the priority areas subject to reforms with a view to improving Belarus’s competitiveness.

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<sup>4</sup> Analysis will be provided starting 2000, where possible.

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## 1. Definition of “competitiveness” and measurement methods

The notion of competitiveness has many meanings that differ depending on the discourse, in which the idea is used, as well as on institutions and entities that interpret competitiveness<sup>5</sup>. The concept of competitiveness is most frequently used to refer to the competitiveness of companies or goods; definitions of national (country) competitiveness are fewer. In this study, we will address the main approaches to the definition and measurement of national competitiveness. There are four such approaches:

- 1) The methodology developed by the author of the concept of national competitive advantage Michael E. Porter;
- 2) The OECD methodology for measuring competitiveness;
- 3) The World Economic Forum (WEF) approach to defining competitiveness;
- 4) The International Institute for Management Development (IMD) methodology for measuring national competitiveness.

### 1.1 Michael E. Porter’s concept

According to the originator of the national competitive advantage concept, Michael E. Porter (Porter, 1998), the competitiveness of a nation is defined by the effectiveness of the use of its resources, both material and non-material. The effective use of resources allows increasing labor productivity and eventually achieving the ultimate goal of high competitiveness: an increase in the prosperity of the population through economic growth.

In Porter’s concept, economic growth and creation of wealth occur at the level of companies; the role of the state lies in shaping a regulatory framework facilitating their operation. All in all, Porter identified four closely interconnected factors of achieving competitiveness, referred to as the diamond model:

- 1) Developed infrastructure: information, road, finance, and research infrastructure, and the quality of human capital,
- 2) Institutional framework, primarily rules that regulate the business environment and influence the economy,
- 3) Peculiarities of internal demand, which impacts the product mix manufactured for internal consumption and determines the volume of investments,
- 4) Availability of supporting industries, which, for their part, envisage the appearance of manufacturing clusters that define the specific nature of a country’s export.

High competitive advantage is achieved through the creation of a developed infrastructure, legal and institutional environment by a state to enable companies to maximize the efficiency of the use of available resources of any kind. This, in turn, allows creating goods with high value added, building up technological potential through the introduction of innovation, and raising investments.

### 1.2. Measuring competitiveness according to the OECD methodology

The methodology developed by the Organization for Economic Cooperation and Development (OECD) defines competitiveness in terms of the competitive advantage of goods and services of a

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<sup>5</sup> See Annex I for an extended list of definition of national competitiveness.

specific country versus those offered by other countries. The OECD methodology envisages the calculation of the two basic competitiveness parameters, namely, import and export.

To assess competitiveness employing the OECD methodology it is necessary to measure the relative appeal of goods manufactured in a given country in the domestic market and in the markets of other countries.

A country's import competitiveness is identified by the cost attractiveness of domestic goods of a given country versus that of imported goods. When it comes to a country's export competitiveness, it is calculated as a comparison of the export price of goods with the price of goods supplied by other exporters in all markets, in which goods produced by a given country are available.

The resulting level of competitiveness based upon the OECD methodology is defined as the weighted average of the total of import and export competitiveness of goods (Durand, Giorno, 2004, pp. 155–157). Formally, competitiveness can be defined, based upon the OECD methodology, as the ability of a given country to produce, in conditions of free trade<sup>6</sup>, goods that are in demand (compared with goods from other countries) in the domestic and foreign markets.

The import and export competitiveness assessment is not an end in itself for the OECD: its methodology regards the level of the competitive advantage of goods as a sort of meta proxy to assess its potential in the introduction of technological innovation, level of production specialization, quality of manufactured goods, and unit labor costs (Ibid, 2004, p. 149).

### **1.3. The WEF approach**

According to the definition of the World Economic Forum (WEF), a country's competitiveness is its ability to achieve sustainable economic growth and ensure employment growth. This ability, for its part, relies on the degree of the development of the twelve "pillars" of competitiveness (World Economic Forum, 2015b, pp 4–9).

Although success in all of the twelve pillars is crucial in order to increase the overall level of competitiveness, the WEF index makes allowance for the development level of a specific country. For countries at different development levels succeeding in certain pillars is more important than making progress in some others. The WEF Global Competitiveness Index divides all countries into three categories depending on the factors that drive their economies<sup>7</sup>.

The first development phase is characterized by growth building on cheap resources that a country possesses: primarily mineral resources and vast cheap labor. The second stage is characterized by a degree of economic development, where a country exhausts its growth reserves that draw on cheap resources and as a result needs to focus on improving production efficiency: automation of companies, improvement in the quality of goods and further training of workforce. As soon as a country exhausts the growth reserves ensured by efficiency, it will need to move on to the third, innovative stage. Economies driven by innovation improve their competitiveness by marketing their unique innovative technologies, goods, or services.

### **1.4. The IMD approach**

The International Institute for Management Development (IMD) offers two definitions of competitiveness. The academic definition regards competitiveness as an "area of economic knowledge that analyzes the facts and policies that shape the ability of a nation to create and

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<sup>6</sup> The OECD methodology for calculating the level of competitiveness envisages the absence of trade barriers.

<sup>7</sup> The description of the competitiveness pillars and development stages of economies according to the WEF methodology is available in Annex II.

maintain an environment that sustains more value creation for its enterprises and more prosperity for its people (IMD, 2015, p. 481). The simplified definition presents competitiveness as “an area of analysis focusing on methods employed by nations and companies to ensure a totality of competencies to achieve prosperity or profit (IMD, 2015, p. 488).

To achieve a high level of these competencies, an economy should make progress in the four competitiveness pillars, which are as follows, according to the IMD methodology: government efficiency, economic performance, business efficiency, and infrastructure. Each pillar, in turn, is divisible into several factors. Succeeding in these factors produces a positive impact on labor productivity, which contributes to a country’s competitiveness.

The theoretical model of the IMD methodology expects (see the chart in Annex III) that an effective government ensures improvements in economic indicators, which makes it possible to increase investments in infrastructure. Infrastructure, positive macroeconomic dynamics, and effective government create a favorable environment enabling business to thrive. The package of these factors secures employment growth and profitability of business in the long term, which eventually ensures sustainable economic growth<sup>8</sup>.

The four approaches to the definition of national competitiveness that we described above present competitiveness as a total of several interconnected factors. High competitiveness is achieved through improvements in indicators in these factors. The OECD methodology focuses primarily on the assessment of indicators in a country’s international trade, whereas the IMD and WEF methodologies and Porter’s concept are centered on such indicators as the quality of infrastructure, quality of institutions, macroeconomic stability, and the status of the business environment, i.e. emphasize internal structural factors.

Literature review provides an insight of the key factors that shape national competitiveness; we will build on it to conceptualize the notion of competitiveness in the next chapter in order to be able to make use of proxy indicators for its assessment.

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<sup>8</sup> In the IMD methodology, this notion is replaced by *long-term value creation*.

## 2. Conceptualization of competitiveness and choice of indicators for its assessment

The concepts of national (country) competitiveness that we described above provide various definitions of competitiveness. This part of the study focuses on the conceptualization and operationalization of national competitiveness based upon the described concepts, as well as the substantiation for the choice of proxy indicators for the assessment of the ingredients of competitiveness.

As we already mentioned in the introduction, Belarus is part of neither the WEF, nor the IMD rankings because of the lack of reliable statistics. The competitiveness index for Belarus according to the WEF methodology was calculated only once, back in 1993 in a joint research study by the IMD and the WEF. Belarus had been expected to be included in the WEF competitiveness index in 2012; however, that never happened, because the authors of the report had concerns about the reliability of Belarus's official statistics. For the same reason, Belarus (along with some other countries) has not been included in the IMD competitiveness ranking. The OECD does not include Belarus in calculations based upon its own methodology, either, because the country is not part of that organization. Michael E. Porter's concept, for its part, does not envisage country ranking by their competitiveness and does not provide for any methodology to rank economies.

CASE Belarus has applied the WEF methodology to calculate Belarus's competitiveness for the periods 2012–2013 and 2013–2014. Based on its calculations, Belarus appeared to have rank 61 in the competitiveness index (if it were included in the final WEF ranking; see Akulič, Valietka, Naŭrodski, Suškievič, 2015), and identified as an efficiency-driven economy.

Further, Belarus's competitiveness was also analyzed by the IPM Research Center (IPM, 2010). The IPM study employed Michael E. Porter's methodology and focused on such competitiveness aspects as foreign trade competitiveness, status of the country's energy sector, and development of the business environment as of the year 2010.

Our research study will be centered on the *behavior* of the key indicators that characterize national competitiveness. *Drawing on the logic for building competitiveness rankings we can introduce our own proxy indicators<sup>9</sup> for the assessment of Belarus's competitiveness. This will enable us to assess Belarus's progress in specific aspects, which, in their totality, constitute competitiveness, and identify the ones that require improvement the most in order to promote the national competitiveness of Belarus, without making use of resource- and time-consuming methodologies of competitiveness rankings that require calculations going beyond the scope of this work.*

While the OECD methodology focuses on international trade indicators, the WEF perceives competitiveness as the creation of an environment facilitating economic growth and employment, whereas the IMD regards it as the creation of an environment allowing for the accumulation of wealth and generation of major profits for companies.

Michael E. Porter's concept's provides a broader definition of competitiveness compared to those offered by the WEF, IMD, and OECD, and simultaneously incorporates their principal provisions. Therefore, henceforth we will apply Michael E. Porter's definition of competitive advantage, i.e.

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<sup>9</sup> Calculating competitiveness according to the WEF or the IMD methodologies appears to be extremely time- and effort-consuming and requires significant amounts of data; therefore, it goes beyond the framework of this work.



*the ability of a country to effectively use available resources (human and natural, as well as capital), to encourage economic growth and increase in people's prosperity<sup>10</sup>.*

In order to identify the proxy indicators that will underlie our analysis of some of the components of Belarus's competitiveness, we will assess the components of competitiveness included in all of the above methodologies. The WEF and the IMD rankings, as well as Porter's concept, describe competitiveness components that to a large extent coincide (see Annexes II and III, and the outline of Porter's concept in Chapter 1.1). Both the two rankings and Porter's concept envisage that economic growth is driven by companies that operate most effectively in 1) good institutional conditions, 2) a developed infrastructure, 3) conditions, when the state is capable of ensuring the stability of the macroeconomic environment. Therefore, we will apply the following as the proxy indicators for the assessment of Belarus's progress in improving its national (country) competitiveness:

1) The IMD and the WEF rankings, as well as Porter's concept point to the quality of the institutional environment of a state as a component of competitiveness. Institutional environment is understood as the legislative framework and procedures, as well as implementation practices, which regulate the relationships between individuals, business, and the state. We can assess these indicators by making use of the World Governance Indicators (WGI)<sup>11</sup> institutional quality ranking project. This approach is substantiated by the fact that the WGI measure (see Kaufmann, Kraay, 2010) the ability of a state to develop and implement effective policies and ensure a high level of public services (the Regulatory Quality and Government Effectiveness indicators). The ranking also incorporates the assessment of the degree, to which the relationship between the state, business, and individuals complies with the legislation, rather than informal practices (the Rule of Law and Control of Corruption indicators). Furthermore, the WGI project measures the ability of individuals to influence decision-making by the government and assess the degree of presence (or absence) of political conflicts (the Voice & Accountability and Political Stability and Lack of Violence indicators). Given the definition of competitiveness that we chose, *the high quality of the institutional environment enables economic agents to operate in a transparent and understandable system of rules that does not limit their capacity, but allows for efficient economic operation.*

2) According to the WEF and the IMD methodologies, as well as Porter's concept, in addition to the quality of the institutional environment and government efficiency, competitiveness depends on the current economic situation that is identified by basic macroeconomic indicators. We will therefore assess the status of the economy as an ingredient of competitiveness using such indicators as consumer inflation, GDP growth, labor productivity, and level of income. Although GDP expansion is essentially the result of a country's ability to make efficient use of its resources (because it measures economic growth), it is critically important which resources a country uses in order to ensure economic growth — these must be domestic resources, not external rent or subsidies.

Economic stability and its current status, in turn, *allow (or prevent) economic agents to operate in a predictable economic environment, and grant them protection against economic losses and possibilities for increasing their profits.*

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<sup>10</sup> Economic growth occurs through increases in labor productivity. Productivity gains become possible due to the effective use of available resources.

<sup>11</sup> Despite significant criticism of the World Governance Indicators methodology (see Kaufman, Kraay, 2007), as of today, it appears to be the best developed and most frequently used ranking assessing the quality and effectiveness of institutions in various countries.



3) Further, a developed infrastructure is crucial for economic growth. By infrastructure we will understand basic physical and organizational structures required for business and society to operate. The IMD and the WEF rankings, as well as Porter's concept refer to transport, telecoms, financial, and banking infrastructure. The assessment of this component of competitiveness will be based upon the World Bank's Logistics Performance Index, which measures the quality of road infrastructure, as well as the Global Index of Infrastructure by the Kiel Institute for the World Economy, which measures the development of the telecoms, financial, and banking infrastructures. *A well-developed infrastructure provides economic agents with possibilities for the fastest and most efficient operation and use of their potential.*

4) According to the methodologies of the IMD and the WEF rankings, as well as Porter's concept, economic growth is primarily created by companies, whereas the priority task of the state is to ensure an acceptable environment for their operation. Therefore, the business environment is critically important for the level of competitiveness. *The business environment is understood as administrative and legislative frameworks that directly affect companies.* These frameworks can be assessed by analyzing business environment indicators: the Doing Business ranking, as well as the Corruption Perceptions Index by Transparency International. The ranking complements the Control of Corruption indicator measured as part of the WGI project, as it assesses citizens' attitude towards their state's ability to control corruption, whereas the WGI capture the efforts of a state to resist corruption. The ease of doing business identifies the *ability of companies to operate effectively with least possible costs associated with the activity of business as such (payment of taxes, administrative procedures, etc.).*

The described proxy indicators allow assessing the degree, to which a given state provides possibilities for companies to make the most effective use of their potential, or, getting back to Porter's definition of competitiveness (in which companies are the main drivers of economic growth), to which extent a given economy has developed possibilities for the effective operation of companies as the main resources for economic growth and accumulation of wealth.

In what follows we will compare changes in individual competitiveness indicators in Belarus and countries of the CEE and the CIS. Where possible, changes will be described starting the year 2000. High ranks will be considered to be progress in specific competitiveness factors.

### 3. Assessment of Belarus's competitiveness indicators

In the previous chapter, we provided the definition of national competitiveness and identified the proxy indicators that we will be using to assess the ingredients of Belarus's competitiveness. As we already indicated in the previous chapter, competitiveness will be understood as the ability to effectively use resources to ensure economic growth and prosperity of the population. We will assume that the larger proportion of economic growth of a country is created at the level of companies.

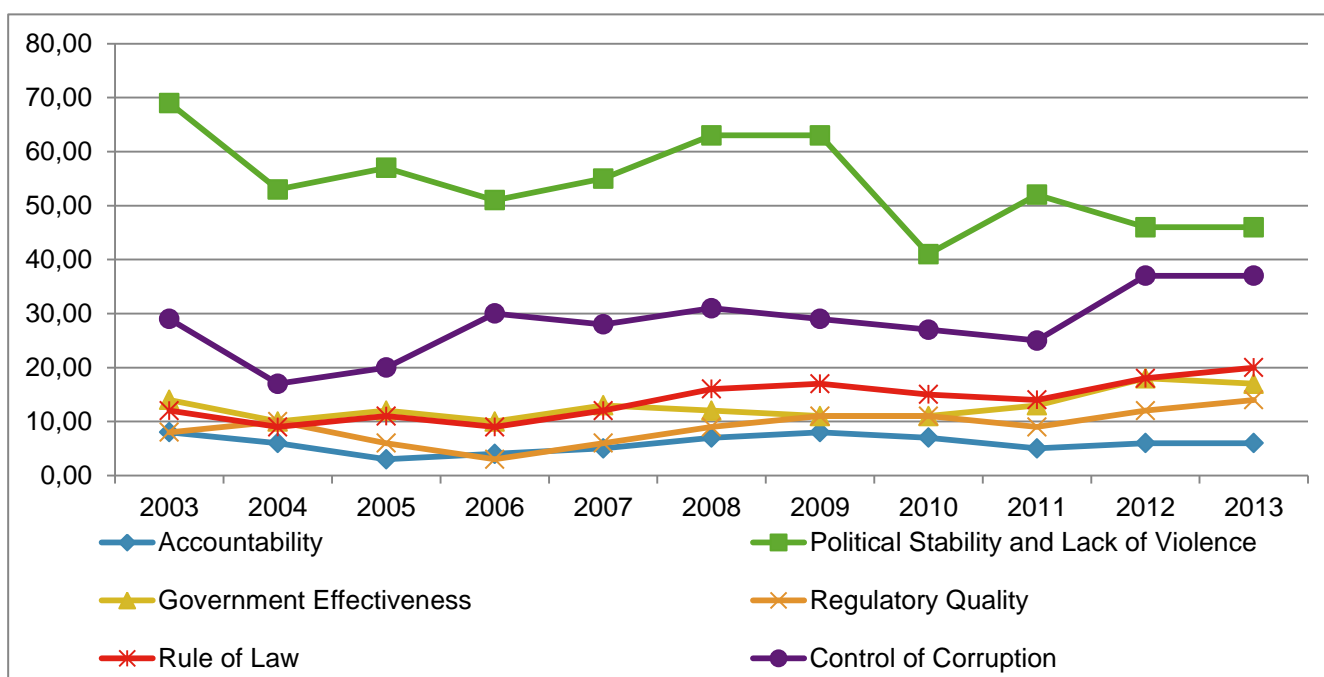
This chapter presents the assessment of the ingredients of competitiveness for Belarus based upon the selected proxy indicators.

#### 3.1. Quality of governance and effectiveness of institutions

As we mentioned above, regulatory quality and effectiveness of institutions markedly affect the competitiveness of a country, as they form the "rules of the game" – the framework, in which the economy operates.

Chart 3.1. shows the behavior of the main governance quality and effectiveness indicators of the World Governance Indicators for Belarus.

**Chart 3.1.** Behavior of WGI indicators for Belarus. The indicators are calculated based upon the position relative to other countries, and are measured on a scale 0 ("low") to 100 ("high").



**Source:** World Governance Indicators

As is clear from the chart, Belarus shows relatively good results only in Political Stability and Lack of Violence, although the indicator has been decreasing since 2003. However, the parameter is unstable: in the chart, we observe cycles of fluctuation associated with the electoral calendar.

At the same time, Belarus shows little progress when it comes to the rest of the indicators of governance effectiveness and lags significantly behind the other CEE countries (see the table below).

**Table 3.2. Behavior of the main governance quality and effectiveness indicators.** The cells contain indicators for the year 2013, changes from 2003 are presented in brackets. The worst indicators are highlighted in red, whereas the best ones are shown in green. The indicators

are calculated based upon the position relative to other countries, and are measured on a scale 0 ("low") to 100 ("high").

Country	Voice & Accountability	Political Stability and Lack of Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Georgia	55 (+15)	31 (+19)	69 (+34)	74 (+49)	54 (+36)	67 (+35)
Moldova	45 (+13)	45 (+7)	41 (+15)	49 (+14)	43 (+10)	24 (+2)
Ukraine	37 (+7)	21 (-9)	30 (-3)	29 (0)	23 (0)	12 (-7)
Kyrgyzstan	30 (+9)	19 (+2)	29 (0)	42 (+2)	13 (-15)	11 (-7)
Kazakhstan	14 (-3)	35 (-22)	35 (+7)	37 (+3)	31 (+16)	20 (+6)
Romania	57 (+1)	53 (-3)	53 (+6)	69 (+18)	56 (+11)	53 (+6)
Latvia	70 (0)	65 (-17)	76 (+3)	80 (+2)	73 (+7)	64 (+4)
Lithuania	75 (0)	76 (-8)	74 (-2)	84 (+4)	74 (+11)	67 (+5)
Estonia	85 (+2)	68 (-9)	78 (-1)	90 (+1)	86 (+13)	81 (+4)
Russia	19 (-12)	22 (+8)	43 (+3)	37 (-11)	25 (+5)	17 (-11)
Poland	78 (-1)	79 (+16)	71 (0)	81 (+8)	73 (+9)	71 (+3)
Slovakia	76 (+1)	89 (+9)	73 (-1)	78 (0)	64 (+2)	60 (-5)
Czech Republic	77 (0)	84 (+9)	75 (-3)	82 (-3)	82 (+6)	63 (-8)
Hungary	70 (-17)	70 (-17)	70 (-10)	78 (-4)	67 (-11)	65 (-9)
Bulgaria	58 (-5)	55 (+6)	59 (-2)	68 (-2)	51 (+5)	50 (-5)
Slovenia	79 (-6)	73 (-16)	79 (-4)	72 (-3)	81 (0)	74 (-6)
Croatia	63 (-2)	66 (+3)	71 (+4)	66 (0)	60 (+9)	61 (+1)
Belarus	6 (-2)	46 (-23)	14 (+3)	14 (+6)	20 (+12)	37 (+8)

**Source:** World Governance Indicators

A detailed analysis of the comparative behavior of the institutional effectiveness parameters in the CEE, the CIS, and the Eurasian Economic Union (EEU) demonstrates that Belarus is an obvious outsider when it comes to such indicators as Voice & Accountability, Government Effectiveness, and Regulatory Quality, being inferior even to Kyrgyzstan. By the other parameters, Belarus shows better results than its neighbors, including Russia and Ukraine, but is still found at the bottom of the list from a comparative perspective.

As was stated above, theoretically, the quality of institutions is fundamental for economic growth, as it provides a regulatory framework for the operation of business and economic agents as a whole, thus facilitating improvements in macroeconomic indicators. Low effectiveness of institutions and quality of governance amid a high level of corruption result in costs for companies, because they increase the uncertainty of the legal environment, in which business operates.

### 3.2. Infrastructure

In terms of infrastructure development, Belarus shows contradictory results, and the country's progress in the development of various types of infrastructure is not uniform.

According to the Global Index of Infrastructure by the Kiel Institute for the World Economy (KIWE), Belarus has rank 39 by the general development of infrastructure and is found side by side with Malaysia, Saudi Arabia, and Estonia. However, Belarus has low scores in terms of the development of its financial infrastructure, which is for the most part due to the immaturity of its stock market (see the table below).

**Table 3.3. Infrastructure development ranking (ranks)**

The best indicators for the respective column are shown in green, the worst ones, in red. Changes in the ranks from the year 2000 are indicated in the Overall rank column in brackets.

Country	Overall rank	Road infrastructure	Telecoms	Energy infrastructure	Financial infrastructure
Georgia	112 (-24)	74	84	66	130
Moldova	69 (N/A)	70	57	107	59
Ukraine	37 (+16)	11	65	51	64
Kyrgyzstan	137 (N/A)	98	139	111	98
Kazakhstan	73 (N/A)	33	93	39	124
Romania	86 (-14)	108	59	59	106
Latvia	50 (-2)	20	38	57	120
Lithuania	72 (-10)	84	36	91	113
Estonia	42 (-2)	27	34	53	40
Russia	45 (-2)	38	32	29	96
Poland	44 (-2)	29	43	45	66
Slovakia	47 (-2)	34	39	31	102
Czech Republic	29 (N/A)	16	30	25	68
Hungary	67 (-8)	93	40	50	110
Bulgaria	48 (-2)	46	33	40	82
Slovenia	30 (0)	19	20	26	88
Croatia	34 (+7)	42	28	52	25
<b>Belarus</b>	<b>39 (+2)</b>	<b>21</b>	<b>34</b>	<b>52</b>	<b>71</b>

**Source:** KIWE, 2014

Transport infrastructure development and logistics are crucial for Belarus, which relies on its beneficial location between major trade partners — Russia, the European Union, and Ukraine, which enables it to make use of its transit potential for overall economic development. Further, two of Europe's nine major transport corridors run through Belarus — Moscow–Berlin and St.

Petersburg–Kyiv. The appeal of freight transit and passenger traffic, both by rail and road, is further enhanced owing to the short haul distance and absence of alternative routes with similar distances.

At the same time, although Belarus enjoys a rather high rank on KIWE's road infrastructure ranking, its advantage is somewhat neutralized by problems with logistics quality factors. Belarus has rank 99 on the World Bank's Logistics Performance Index, next to Ghana and Burkina Faso.

**Table 3.4. Overall ranks and components of the Logistics Performance Index, 2014.** A country's overall rank is given in brackets in the LPI column.

Country	Overall LPI	Timeline ss	Tracking	Logistics Competence	International deliveries	Infrastructure	Customs
Georgia	2.51 (116)	3.09	2.59	2.44	2.32	2.42	2.21
Moldova	2.65 (94)	2.89	2.35	2.44	3.14	2.55	2.46
Ukraine	2.98 (61)	3.51	3.20	2.84	2.95	2.65	2.69
Kyrgyzstan	2.21 (149)	2.36	2.20	2.13	2.43	2.05	2.03
Kazakhstan	2.70 (88)	3.24	2.83	2.72	2.68	2.38	2.33
Romania	3.26 (40)	4.0	3.39	3.20	3.32	2.77	2.83
Latvia	3.40 (36)	4.06	3.50	3.21	3.38	3.03	3.22
Lithuania	3.18 (46)	3.60	3.17	2.99	3.10	3.18	3.04
Estonia	3.35 (39)	3.55.	3.20	3.27	3.34	3.34	3.40
Russia	2.69 (90)	3.14	2.85	2.74	2.64	2.59	2.20
Poland	3.49 (31)	4.13	3.54	3.46	3.47	3.08	3.26
Slovakia	3.25 (43)	3.94	3.02	3.16	3.30	3.22	2.89
Czech Republic	3.49 (32)	3.73	3.56	3.51	3.59	3.29	3.24
Hungary	3.46 (33)	4.06	3.82	3.33	3.40	3.18	2.97
Bulgaria	3.16	4.04.	2.88	3.00	3.31	2.94	2.75

Slovenia	3.38 (38)	3.82	3.51	3.51	3.05	3.35	3.11
Croatia	3.05 (55)	3.37	3.11	3.00	2.98	2.92	2.95
<b>Belarus</b>	<b>2.64 (99)</b>	<b>3.05</b>	<b>2.51</b>	<b>2.46</b>	<b>2.74</b>	<b>2.55</b>	<b>2.50</b>

**Source:** World Bank Logistics Performance Index

Kyrgyzstan is the only country on the above list with its overall rating lower than that of Belarus. The analysis of the factors that constitute the Logistics Performance Index makes it clear that Belarus shows the best result in Timeliness, which corresponds to the KIWE ranking conclusions. Although Belarus has high scored when it comes to the development of its road infrastructure, the overall potential of the Belarusian transport and logistics network is reduced because of the poor logistics services infrastructure.

Major oil and gas-mains run through Belarus, specifically, the Druzhba pipeline and Yamal-Europe gas-main.

The potential for the development of the country's energy transit by pipeline transport appears to be limited: the volume of transit is determined by the export strategy of OAO Gazprom and Russia's oil exporters. The importance of energy transit via Belarus has markedly decreased since the Russian authorities began diversifying delivery routes (primarily by building bypasses, such as the BPS-2 pipeline project and the Nord Stream pipeline). Therefore, we can assume that Belarus is making use of all of the available possibilities in this area.

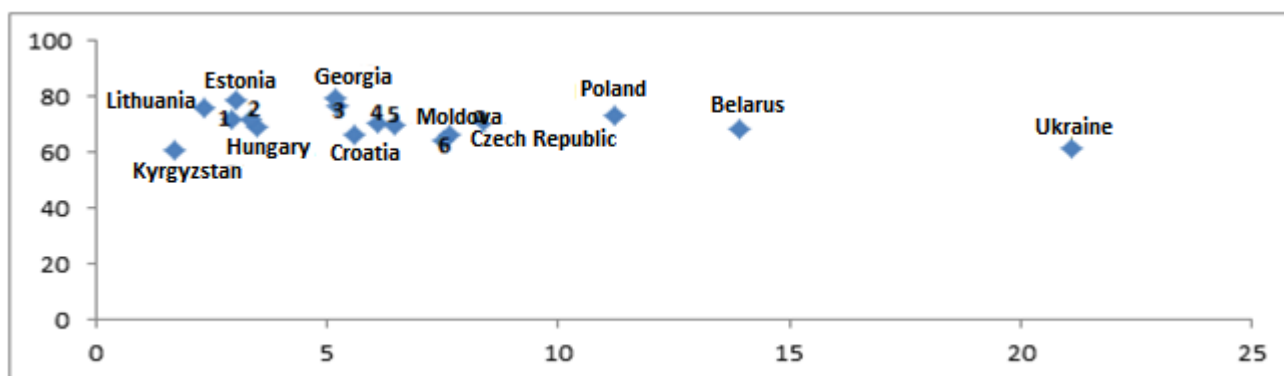
Belarus's high telecoms score is mostly due to the high level of Internet penetration and broad coverage of the population with telephone networks: in 2014, 57.1% of the Belarusians had access to the Internet, and 60% used it on a daily basis (BelTA, 2014).

However, Belarus ranks 71st on KIWE's ranking of financial institutions, the reason being the immaturity of Belarus's financial market (especially of its stock market), which should be attributed primarily to the lack of clear legislation on financial institutions and implementation practice.

### 3.3. Business environment

In 2015, Belarus had an overall rank 44 on the World Bank's Doing Business ranking, one notch down from the year 2014. In 2014, the methodology for assessing the ease of doing business was altered, and new calculation procedures were introduced. That modification makes it impossible to give a fair evaluation of Belarus's progress since 2000. However, there is a possibility to assess the country's headway based upon the Distance to Frontier (DTF) indicator, which benchmarks economies with respect to the ease of doing business in comparison with the country that is characterized by the best performance in each indicator (see chart 3.1.). Although the rank calculation methodology was altered in 2014, the DTF indicator calculation procedure allows tracking the indicator all the way down to 2010.

**Chart 3.1. Behavior of the Distance to Frontier indicator of the Doing Business ranking in 2015.** Y-axis — indicator in 2015, X-axis — change from 2014. The higher the Y-axis value, the better the indicator shown by the country on the overall ease of doing business. Countries are presented as follows: 1 — Slovakia, 3 — Latvia, 2 — Bulgaria, 4 — Romania, 5 — Slovenia, and 6 — Kazakhstan.



**Source:** Doing Business

As is seen from the chart, Belarus shows quite decent results compared to the other countries of the region by the overall ease of doing business. At the same time, Belarus is the second economy that showed the most improvements in this area.

**Table 3.5. Doing Business indicators for Belarus, 2015**

Doing Business indicators	Overall rank
Starting a Business	12
Dealing with Construction Permits	34
Getting Electricity	89
Registering Property	7
Getting Credit	109
Protecting Minority Investors	57
Paying Taxes	63
Trading Across Borders	125
Enforcing Contracts	29
Resolving Insolvency	69

**Source:** Doing Business

Although since the revision of the methodology, comparisons of ranks on a year-on-year basis have become less accurate, for our purposes, Belarus's progress in its efforts to ensure a more favorable environment for doing business can be illustrated by the comparison of the data for the years 2015 and 2009: back in 2009, Belarus had rank 85. Since 2008, certain amendments were introduced to Belarus's legislation with a view to simplifying the conditions for doing business in the country. First of all, the tax legislation was markedly simplified, as some of the indirect taxes were cancelled; measures to expedite tax payment were taken; and amendments were made to



the property registration regulations, making the registration procedure a lot faster. In addition, the procedures associated with international trade were considerably simplified, and the overall number of such procedures was reduced. Belarus also took steps to remove administrative barriers related to standardization, registration, certification, and licensing procedures. However, despite these improvements, according to the Doing Business findings, Belarusian business still faces major challenges in getting electricity, getting credit, protecting minority investors, and trading across borders.

At the same time, there are certain factors that are not assessed for the Doing Business ranking, yet they affect the characteristics of the business environment in Belarus — this is primarily the level of corruption.

In Chapter 3.1., we already focused on the WGI Control of Corruption indicator. However, in order to assess the environment for the operation of business it is important to measure Belarus's performance in the Corruption Perceptions Index by Transparency International. While the Control of Corruption indicator measured as part of the WGI project captures the efforts of a state to combat corruption, the Corruption Perceptions Index identifies the *perceived* level of corruption in a given state. In 2015, Belarus's rank was 129, way behind the other countries of the region.

**Table 3.6. Changes of positions in the Corruption Perceptions Index, 2003 to 2014. The worst results are highlighted in red, and the best ones are shown in green.**

	2003	2005	2013
Georgia	124	130	50
Moldova	100	88	103
Ukraine	106	107	142
Kyrgyzstan	118	130	136
Kazakhstan	100	107	126
Romania	83	85	69
Latvia	57	51	43
Lithuania	41	44	39
Estonia	33	27	56
Russia	86	126	136
Poland	64	70	35
Slovakia	59	47	54
Czech Republic	54	47	53
Hungary	40	40	47
Bulgaria	54	55	43
Slovenia	59	31	39
Croatia	59	70	61

<b>Belarus</b>	53	107	119
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**Source:** Transparency International

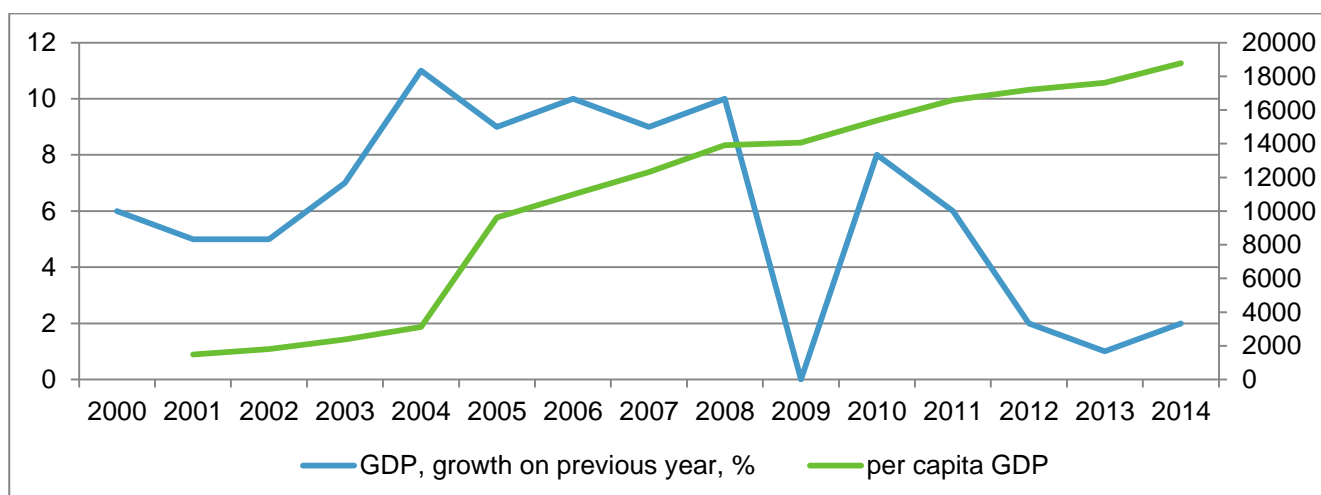
Entrepreneurs themselves refer to corruption as a major obstacle to business, especially representatives of small and medium-sized enterprises (SMEs). A study by the IPM Research Center (see Skryba, Uriucina, 2015) shows that more than half of the interviewed representatives of SMEs point to either all-round corruption, or "above average corruption." Corruption is especially characteristic of controlling agencies and institutions responsible for issuing licenses and permits. A bit less than half of the respondents insist that the efforts by the state to resist corruption yield either no results at all, or very limited results.

Overall, Belarus's high scores in many of the Doing Business indicators attest to improvements in the legislation that regulates the business environment. However, the high level of corruption and low quality of institutions (based upon the WGI data) suggest that there are problems with enforcement and low quality of the regulatory environment, in which businesses operate. Business could become a growth driver for national competitiveness if a favorable legal framework were ensured; however, a series of institutional reforms would need to be put in place. Entrepreneurs point to the need for such reforms: based on their estimates, urgent reforms are required to encourage business growth in Belarus, primarily an institutional reform, a reform of state enterprises, and labor market liberalization (Uriucina, 2015).

### 3.4. Macroeconomic environment

In the period from 2000 to 2010, the Belarusian economy was growing at a fast pace — the average annual GDP growth reached 7.2%, even though the growth was at zero in 2009, the year affected by the crisis. For its part, per capita GDP went up 12.7 times from 2000 to 2014 to USD 18,777 from USD 1,474 (see the chart below).

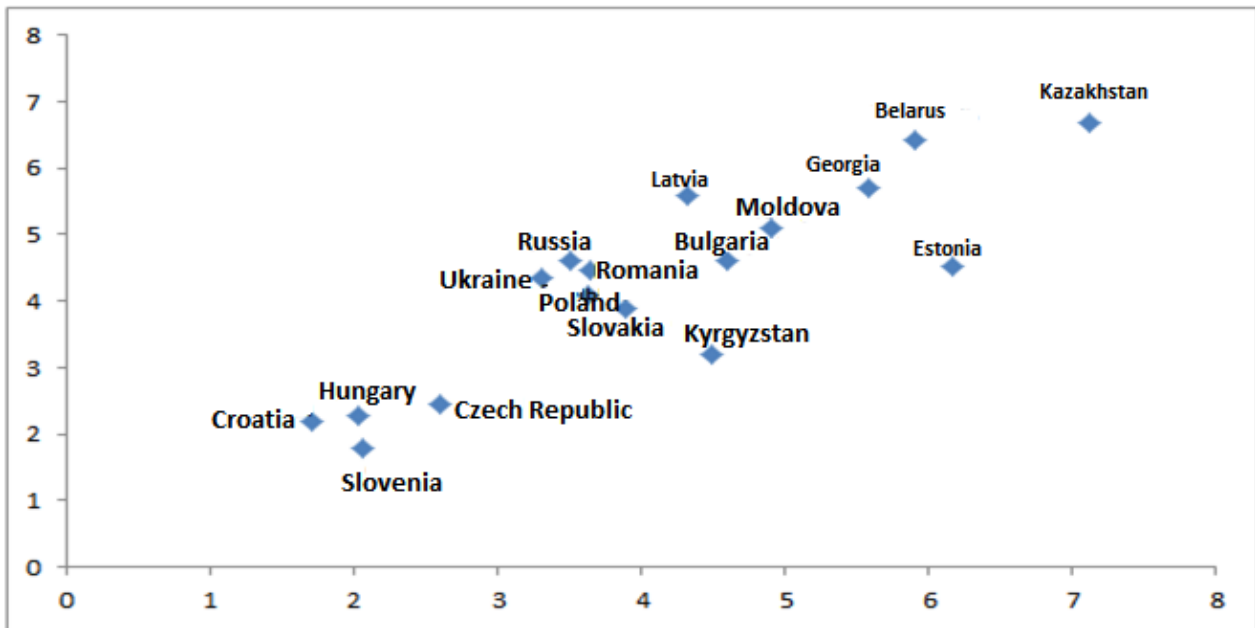
**Chart 3.2. GDP growth rate (% of previous year, left Y-axis) and per capita GDP (USD, right Y-axis), 2000–2014**



**Source:** IMF, World Bank.

As is seen from chart 3.2., from 2000 to 2014, Belarus was among the leading countries of the region by the average annual GDP growth and per capita GDP and outperformed such countries as Poland and Hungary.

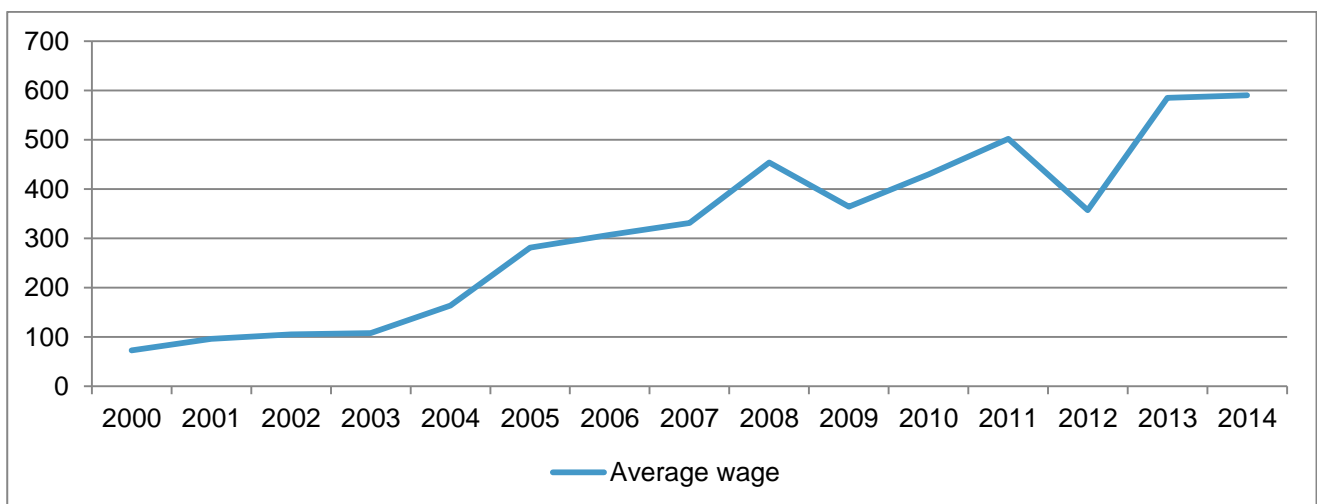
**Chart 3.2. Average annual GDP and per capita GDP growth rates, 2000–2014. X-axis — average annual GDP growth rate, %; Y-axis — average annual per capita GDP growth rate, %.**



**Source:** World Bank

At the same time, the average wage in the U.S. dollar equivalent increased to USD 590 from USD 73. The average wage decreased twice in 2009 and 2012 following moves to devalue the Belarusian ruble.

**Chart 3.3 Average wage in Belarus, USD, 2000–2014**

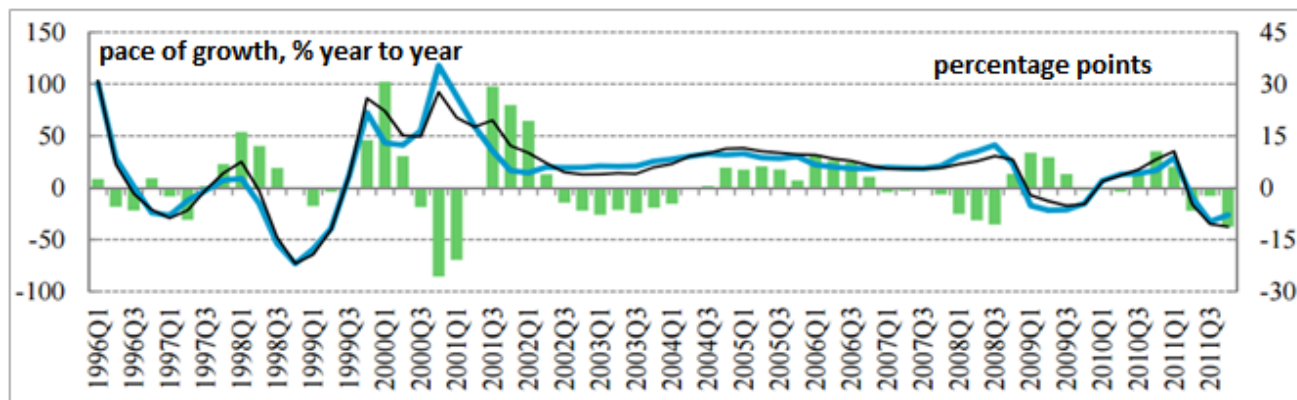


**Source:** IPM

However, the economic growth in Belarus during the period under review cannot be attributed to hikes in productivity, but was to a great extent due to subsidized imports of Russian oil and natural gas, increase in foreign borrowing, and priority status in the Russian market enjoyed by Belarusian suppliers. According to the World Bank (World Bank, 2012), the total amount of Russian oil and natural gas subsidies reached from 7% to 25% of Belarus's GDP in various years. At the same time, the subsidies, which de facto represented a reduction in fees for oil and natural gas versus the average price effective in Europe, resulted in extremely favorable conditions for the Belarusian oil refineries (global oil price hikes provided an additional impetus) and allowed Belarusian state-owned enterprises to cut their energy costs.

That said, the growth in personal incomes was not conditional upon the economic expansion as such. Wage increases throughout the period under review were frequently higher than performance gains (see the chart below).

**Chart 3.4. Wage increases and productivity gains in Belarus, 1996–2011. Blue curve – productivity, black curve – wages. Green columns show discrepancies.**

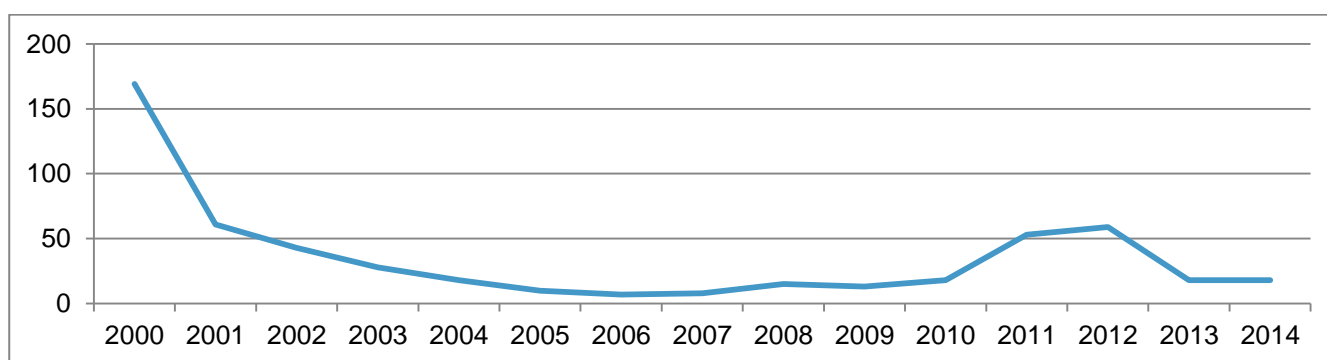


**Source:** Čubryk, Šymanovič, 2011.

The discrepancies that we observe in the chart between the growth in wages and increases in productivity can be accounted for by a cyclical component linked to electoral events throughout the period. The hikes in wages contributed to trade imbalance, resulting in import growth and undermining the appeal of domestically-made products in the home market.

Consumer inflation growth in Belarus was expressed with a single, not double, digit only in 2006, 2007, and 2010. The drop in consumer inflation growth from 169% in 2000 can be attributed to macroeconomic stabilization efforts that the National Bank was making for a continuous period. In 2010, inflation growth slowed due to the setback in the global economy in the wake of the economic crisis of 2009. In 2011 and 2012, consumer inflation hikes were reported primarily due to increases in prices of crude oil and natural gas imported from Russia.

**Chart 3.5. Consumer inflation in Belarus, % of the previous year, 2000–2014**



**Source:** World Bank

## Conclusions

The study presents a review of the current methodologies for assessing national (country) competitiveness and findings of a brief analysis of the basic parameters that identify Belarus's competitive advantage.

We outlined the methodologies for identifying national competitiveness employed by the WEF, IMD, and OECD, as well as Michael E. Porter's concept. Given the fact that Belarus is not included in the WEF and IMD rankings because of the lack of reliable data, the description was required to understand the logic for building the notion of competitiveness. We opted for Porter's definition as the basic definition of competitiveness, namely, the ability of a country to use internal resources to promote economic growth and prosperity of the population. Because the approaches applied by the IMD, WEF, and Porter's concept regard business as the main driver of economic growth, business was treated in the study as the main resource required to achieve a high level of competitiveness.

Given the specific nature of the IMD and WEF rankings, as well as Michael E. Porter's methodology, we highlighted the components of competitiveness common for these methodologies and identified the indicators to use in order to assess them. The analysis of changes in indicators demonstrates that in terms of the components of competitiveness Belarus shows a lot less progress than the countries of the region.

Belarus demonstrates good results only as far as the legislative framework for doing business and certain macroeconomic indicators are concerned (primarily GDP growth). However, this progress is either neutralized by some negative factors (for example, business is strongly affected by corruption), or resulted from reasons other than the effective operation of the government (as in the case of GDP, which grew significantly drawing on Russian subsidies). To improve its national competitiveness, Belarus requires improvements in many indicators that impact the capacity of companies.

According to Porter, a country's competitiveness is enhanced provided there is an increase in the efficiency of the use of resources; this increase, in turn, results in productivity gains. For this reason, Belarus needs to put in place a package of reforms to increase the efficiency of performance by companies with a view to eventually improving its national competitiveness.

We assume that these reforms should primarily pertain to privately-owned companies and should be aimed at increasing the contribution of the private sector to GDP. As we already mentioned, the rapid expansion of the Belarusian economy in 2000–2010 was to a great extent encouraged by Russian subsidies, rather than high labor productivity at companies. Although economic growth is the ultimate goal of high national competitiveness, in the case of Belarus it was attained owing to the use of external aid: preferential terms of trade in energy resources and priority access to the Russian domestic market. To ensure "competitive" economic growth, Belarus needs to implement a set of reforms to enable its business to make a better use of the available potential.

The current system of state administration in Belarus seriously limits the potential of business. This dimension calls for improvements in the quality of governance, increased transparency of legislation, as well as combat against corruption — these efforts will enable business to operate in more predictable administrative and regulatory frameworks.

When it comes to infrastructure, Belarus needs to additionally develop and improve the quality of logistics in order to develop its transit potential as an economic growth driver more effectively.

In terms of the overall conditions for doing business, Belarus can improve its competitiveness by reducing administrative barriers in business regulation, and liberalize and reform its labor market in order to create stronger incentives for workers to improve their productivity.

In macroeconomic policy and trade, Belarus needs to change from the policy of macroeconomic populism towards structural reforms. They will allow promoting national competitiveness through the creation of a stable macroeconomic environment enabling business to operate in conditions of increased economic predictability.

## Annex 1. Definitions of national competitiveness by various researchers and institutions

Definition	Author/Source
Ability to sustain potential of companies, industries, and regions to create factors encouraging growth in employment or living standards.	OECD, 1997.
Ability of a country to produce goods and services that pass the test of international markets and ensure sustainable growth in standards of living in the long term.	The First Report to the President and Congress, 1992. US Competitiveness Policy Council.
Competitiveness is the ability of industries or companies to bridge over difficulties imposed by their competitors.	US Department of Energy.
Competitiveness implies elements of productivity, efficiency, and profitability, but it is not an end in itself or a target. It is a powerful means to achieve rising standards of living and increasing social welfare — a tool for achieving targets. Globally, by increasing productivity competitiveness provides the basis for raising people's earnings.	Competitiveness Advisory Group, (Ciampi Group). "Enhancing European Competitiveness". First report to the President of the Commission, the Prime Ministers and the Heads of State, June 1995.
Competitiveness includes both efficiency (reaching goals at the least possible cost) and effectiveness (having the right goals).	Buckley, P. J. et al, "Measures of International Competitiveness: A critical Survey", Journal of Marketing Management, 1988.
National competitiveness identifies a country's ability to create, produce, distribute, and/or service products in international trade while earning rising returns on their trade.	Scott, B. R. and Lodge, G. C., "US Competitiveness in the World Economy", 1985, pg. 3.
The immediate and future ability of, and opportunities for, entrepreneurs to produce goods worldwide whose price and non-price qualities form a more attractive package than those of foreign and domestic competitors.	European Management Produce and Market



## Annex 2. Components of competitiveness according to the WEF ranking

<b>Growth drivers</b>	<b>Pillars of competitiveness</b>	<b>Economy type</b>
<b>Basic factors</b>	<p>Institutions. The institutional environment is determined by the legislation of a country, which structures the relationships between economic agents, business and the state in the creation of material wealth.</p>	Factor-driven
	<p>Infrastructure. Extensive and efficient infrastructure is critical for ensuring sustainable economic growth. It determines the location of economic centers and the kinds of sectors that can develop within a country, facilitates the integration of the national economy into that regional and cuts transport and logistics costs.</p>	
	<p>Macroeconomic environment. The macroeconomic environment determines the success of doing business within a country and identifies the overall capacity of a state to ensure sustainable economic growth.</p>	
	<p>Health and primary education. Labor productivity depends on the quality of healthcare: workers who are ill cannot function to their potential and will be less productive. Basic education increases the efficiency of each individual worker, both in terms of skills and ability to learn.</p>	
<b>Efficiency factors</b>	<p>Higher education and training. Quality higher education and training is crucial for economies that want to move up to the production of high technology innovation products and for the overall effectiveness of the economy.</p>	Efficiency-driven
	<p>Goods market efficiency. Countries with efficient goods markets are well positioned to produce the right mix of products and services that can be most effectively traded in the economy and beyond it.</p>	
	<p>Labor market efficiency. The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most effective use in the economy and provided with incentives to give their best effort in their jobs. Flexible labor markets allow shifting workers from one economic activity to another with little wage fluctuations.</p>	
	<p>Financial market development. An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to the most productive industries and companies, which show the highest efficiency.</p>	

	<p>Technological readiness. Technological readiness increases the ability of an economy to effectively introduce new technologies and practices in production and work processes to boost productivity and efficiency.</p>	
	<p>Market size. The size of the market affects productivity since large markets allow firms to exploit economies of scale. Markets available to firms are not constrained by national borders, as competitiveness is promoted by the absence of trade barriers.</p>	
<b>Innovation factors</b>	<p>Business sophistication. Business sophistication affects the quality of market strategies of individual firms. Economic performance is encouraged through the introduction of innovation and streamlining of business processes; benefits are drawn from other firms' borrowing the most effective practices.</p>	Innovation-driven
	<p>Innovation. Introduction of innovation is critically important for improving effectiveness and productivity and crucial for building up the competitive advantage of goods and moving to the production of goods with higher value added.</p>	

**Annex 3. Components of competitiveness according to the IMD ranking (pillars and factors of national competitiveness by the IMD methodology)**

<b>Pillar</b>	<b>Factors</b>
Economic Performance	Domestic economy
	International trade
	International investment
	Employment
	Prices
Government Efficiency	Public finance
	Fiscal policy
	Institutional framework
	Business legislation
	Societal framework
Business Efficiency	Productivity
	Labor market
	Finance
	Management practices
	Attitudes and values
Infrastructure	Basic infrastructure
	Technological infrastructure
	Scientific infrastructure
	Health and environment
	Education

Source: IMD, 2015, p.481.

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