Working Papers
iCEUR
Nr.2 2009

INTERNATIONAL CENTER FOR ADVANCED AND COMPARATIVE EU-RUSSIA/NIS RESEARCH

CRITICAL OPTIMISM: RUSSIA AND EUROPE COPE WITH THE CRISIS

ISSN 2076-8028

Alexander DYNKIN, Moscow
Global Turmoil: Challenges for Russia

Bernhard FELDERER, Vienna
The Crises of Financial Markets and the Real Economy

Michael LÖWY, Vienna
Current Developments in Austria and the CEE

www.iceur-vienna.at

The Working Papers are edited by ICEUR and offer background analysis on topical issues concerning the EU-Russian/NIS relationship. They aim at explaining and interpreting the complex political, economic and social problems of the Eurasian space against the backdrop of the interests and perceptions of relevant actors in order to elaborate innovative solutions. The authors are renowned scientists and practitioners from Russia/NIS and Europe.

Responsible editors	Hans-Georg HEINRICH Ludmilla LOBOVA
Administration and substantive editing	Carina EILEN Alexander DUBOWY Katharina BERANEK
Graphics and design	Stanislav BOBROV www.atelier-b.at
Printing	MarsMedia Print Productions GmbH Schusterstrasse 2b Top1 2111 Tresdorf

ICEUR-Vienna
(International Center for Advanced and Comparative EU-Russia/NIS Research)

Address: Breitenseer Str. 19/24-26, A-1140 Vienna, Austria
voice: +43 1 786 31 44
fax: +43 1 786 32 08
mobile: +43 6991 90 65 133
email: office@iceur-vienna.at
www.iceur-vienna.at

Kindly supported by the Austrian Federal Ministry of Science and Research

Working Papers

ICEUR

Nr.2 2009

CRITICAL OPTIMISM: RUSSIA AND EUROPE COPE WITH THE CRISIS

CONTENTS

Reinhold MITTERLEHNER
Federal Minister of Economy, Family and Youth

Welcome Address

The economic relations between Austria and Russia have intensified over the past years. Russia has not only been an extremely important country of origin for energy imports, but become increasingly important for our export industries during this period as well. For example, the volume of Austrian exports to Russia has quadrupled between 2000 and 2008. As exports soared, FDI increased significantly. Even under the heavy impact of the global economic crisis trade relations with Russia open broad prospects for our country. In order to make use of these opportunities, it is of paramount importance to maintain and develop an open market environment.

Such institutions as ICEUR-Vienna play an important part in this context. With its strong analytic capacities, its multi-disciplinary approach and its multifaceted activities, ICEUR-Vienna makes a major contribution to the deepening of the Russian-Austrian relationship. Specifically, this Working Paper offers an interesting, highly relevant and topical collection of scientific articles. I am confident it will be an exciting reading experience for everybody.

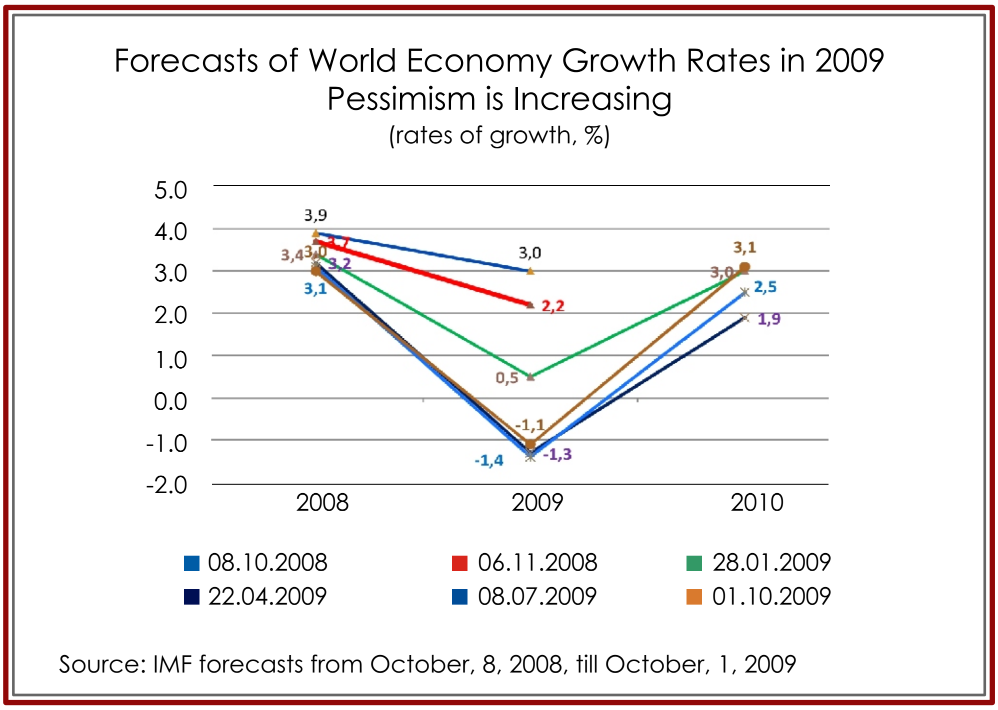
Dr. Reinhold Mitterlehner

Alexander DYNKIN

Global Turmoil: Challenges for Russia[1]

If we talk about the contemporary world economic – financial crisis, we are, in fact, speaking about the first general crisis in the era of globalization. At the same time, this is the first crisis, which Russia experiences as a reformed national market economy and as a real component of the global market economy.

Such a combination produces additional uncertainties, putting Russia before two main challenges of a general global and a specific national nature. To a considerable extent, the national dimension of the global turmoil determines the trajectory of the crisis as well as the anti-crisis policy of the Russian government. Nevertheless, the trends of the global economy dominate and forecasts of Russian economic development generally follow the changes of estimates about the world economy. Recently, the IMF and a few other international organizations and banks announced that the bottom of the crisis had already been reached. Practically at the same time, the Russian minister of finance (who is in practice responsible for macroeconomic anti-crisis measures) announced that our economy is coming out of the recession. He did not point out the duration and form of that process. But one thing is now completely clear – recovery and further growth of the Russian economy is closely interdependent (maybe even dependent) on the pickup of the global economy, especially of the economy of Russia's main trade and investment partners (the EU, China, Republic of Korea). But many uncertainties remain. If we look at the past, one year ago, each new forecast of international organizations was more pessimistic than the previous one *(see Graph 1)*.



Graph 1

One can see how the IMF forecasts have changed. Practically, their estimates decreased each month and decreased quite substantially. The last two were certain exceptions, but improvement took place by split-percentage points only (leaving aside statistical error). This is unprecedented for the reputation of prognosis-makers. All this reveals uncertainty – if not perplexity, confusion, incomprehension of the causes and the real depth of the current crisis.

[1]The article is based on a presentation made at a Korea Foundation Forum Lecture (October 7th, 2009)

That is why we have to be very cautious regarding forecasts. Many complex uncertainties remain. When will credit markets recover? What will happen with the toxic assets? What will the recovery of the U.S. economy be like: quick or lingering? What will happen to the Chinese economy? It is obvious already that China, notwithstanding high growth rates, plunged into difficult social and political problems and challenges. Suffice it to say that there are 25 million migrant workers from rural areas who cannot find jobs in the cities, additionally, nobody looks for them in the villages anymore. With 1 million unemployed university graduates in the last year and 5 million more in 2009, the problem in labor and consumer markets can become serious for as many as 1,300 million people in China. Can new leading emerging economies (known as the BRIC group) replace the USA and the EU as the world economy "locomotives"? It is clear that in 2009 the expected economic growth of China by 8.5% and India (by 4.2%) in tandem with an estimated economic decrease of Russia by 7.5% and Brazil by approximately 1% would be insufficient to compensate the economic slump in the developed economies. The comparative analysis of the current and previous world scale economic crises may help in tracking the answers.

The global economy – entering the era of changes in the world order?

To all appearance we have entered the next crisis era, an era of changes in the world order. We know that the future grows out of the present, while the present comes out of the past. After each serious crisis, a reshuffle of the balance of power in the world and in international relations occurs. That happened after the crisis of 1929 – 1932 and the Great Depression, which followed it. Or, after the crises of 1969 – 1970. In the first case, the Second World War was triggered, which generated a "bipolar world". In the second case, the crises were conducive to the mobilization of American society and economic renewal. As a result, the United States managed to occupy the position of the sole superpower. It is likely that new global changes in international politics will take place now as well.

Nevertheless, I categorically disagree with the thesis that the crisis of 2008-2010 can be compared to the Great Depression of 1929-1930. The framework of this article gives no space for detailed argument. But one can see the principal differences – basically less developed productive forces, absence of global trade, financial and information spaces, authoritarian political and self-sufficient economic regimes in a number of main world economic actors (Germany and Italy economically dominated part of Europe and Japan dominated parts of Asia, not to mention the Soviet Union at the time).

On the contrary, a recent analysis by IMEMO RAS demonstrates significant parallels between the current geo-economic and geopolitical situation and the one, which the world lived through in the 1970s *(see Schedule 1)*.

.This comparison brought us closer to a correct picture of reality, but questions still remain.

Will a new world order be more stable? What will a new world order be like? How will the leading positions of the US in the world change? We may come closer to the answers to these questions by analyzing the political consequences of the crisis at the beginning of the 1970s. Of course, all historical parallels are relative. Their uncritical usage is dangerous. Nevertheless, research has practically no other possibilities for analysis and prognosis than departing from a comparison with the historic precedents.

It is well known that the financial crisis, which shook the United States and other countries in 1969 – 1970 was preconditioned, on the one hand, by increased competition between the United States and Japan and Germany, and on the other hand, by an overstraining of the American economy during the Vietnam war. The current crisis of 2008-2009 in many respects is caused, on the one hand, by the economic rivalry of the United States with China and other Asian countries, but also by a financial overload of the US in the course of protracted warfare in Afghanistan and Iraq on the other. Still, as well as in the 1970s, nobody can seriously contend American economic, political and military leadership. But today, similar to 40 years ago, the American Administration seems to be running out of cash.

The staggering economic development of China and the gradual growth of its political impact is an important factor. But in the 1970s, the situation was more or less similar: on the one hand, there was the rapid, export-based economic growth of Japan, then of the Republic of Korea, and on the other hand, the growth of the political and economic might of the Soviet Union. Nevertheless, after a temporary decrease of America´s political role in the world during the 1970s, we saw a recovery of US power. Of course, it was achieved by mobilization and reforms in different spheres of social life. But nowadays, American society

Modern Period as Compared With 1970s

	Crisis period of 1970s	Crisis period of 2008-2015
1.	**The Vietnam War of the USA** (1965 - 1972, occupation of South Vietnam till 1975)	**The Wars of the USA in Afghanistan and Iraq** (since 2002 in Afghanistan, since 2003 in Iraq)
2.	**Financial Crisis in the USA, Increase of State Debts** (1969 - 1971)	**Financial Crisis in the USA, Increase of State Debts** (2008 - 2009)
3.	**Changes in the World Financial System** Abolition of Bretton Woods gold standard, devaluation of dollar in 1971 and in 1973	**Changes in the World Financial System** Discussion about the new financial architecture, new world reserve currency, possible devaluation of dollar
4.	**Relative Weakening of the American Position in the World. Relative Strengthening of the Position of the USSR and Japan and EU** (1970s)	**Relative Weakening of the American Position in the World. Relative Strengthening of the Position of China and India** (since 2007)
5.	**Changes in American Society, Anti-War Movement, Social and Economic Reforms** (since 1968)	**Changes in American Society, President B. Obama, Social and Economic Reforms** (since 2008)
6.	**Disequilibrium of the world order:** - Growing impact of Chinese factor (Nixon in Beijing) - Iranian factor (1978-1979) - Middle East and Israel-Arab problem	**Disequilibrium of the world order:** - Growing role of China, a new competition of China - Iranian factor - Middle East und Israel-Palestinian problem (Obama in Cairo)
7.	**Basic arms control treaties negotiated and signed:** ABM (1972 - US 'left' the treaty in 2002) SALT-1 (1972) and SALT-2 (1979)	**New chances for arms control agreements:** START-2 (expires in Dec. 2009) and antiballistic missile defense
8.	**Strengthening of the energy levels:** -OPEC (established 10-14/10/1960) introduced oil embargo in 1973 against US and European states, who supported Israel in the "October War" - Oil prices up?	**Strengthening of the energy levels:** - Competition for resources Discussion over 'gas OPEC' (since 2006) Gas and oil transit scandals - Oil price down?

Schedule 1

American society also seems to be ready for the implementation of a new set of important reforms.

It is well known that the crisis of 1969-1970 caused significant changes in the international financial system, in particular, the refusal of the United States to continue the dollar-gold exchange and the abolition of the Bretton Woods System gold-exchange standard. But no dramatic shifts in the financial system happened: the dollar has remained the world reserve currency. It seems likely that nowadays the world is moving rather towards the bi-currency (dollar, euro) system than to a new supranational world reserve currency. The situation on the world financial markets won't change radically, if, of course, nothing extraordinary happens.

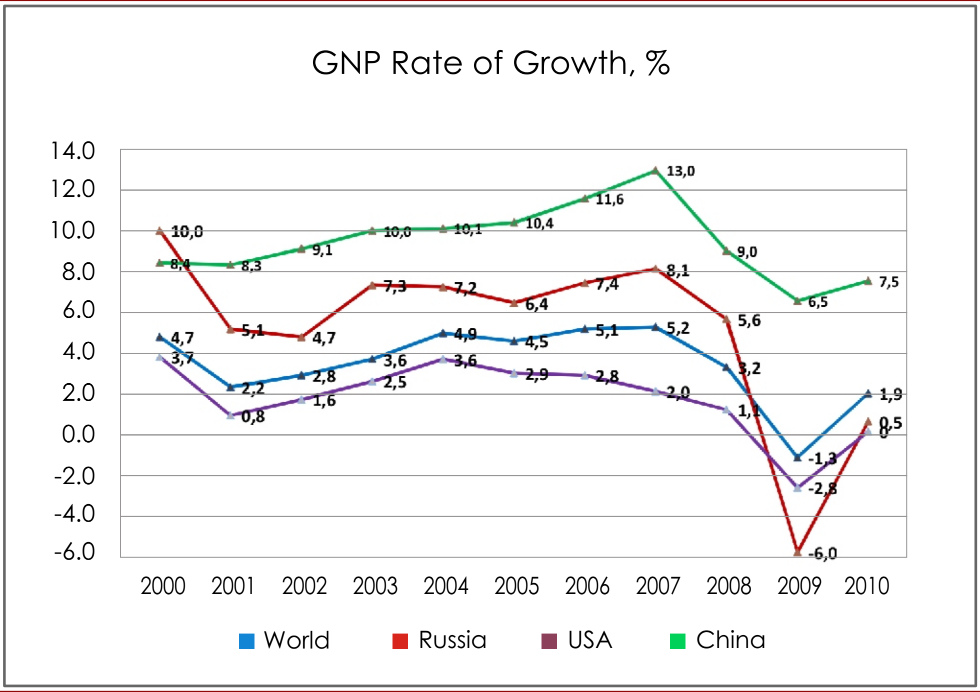
It is true, anyway, that this time the situation is more dangerous than in the 1970s. Terrorism has reached a global scale; the "arc of instability" has extended from Northern Africa and Palestine to Northern Korea, Indonesia and the Philippines. The activities of terrorists in Afghanistan and Pakistan and eventual conflicts in the countries of Central Asia cause the biggest concern. The economic and social crises in Central Asian states may already in the nearest future lead to a situation, where many young unemployed people become members of international terrorist networks. In Russia`s Northern Caucasus the situation also worsens. Probably, we already hear the first shots of the civil war between violent Islamic fundamentalists and moderate Muslims, who are supporting Moscow. All these factors make closer cooperation between all market democracies necessary: the United States, European Union, Russia, Japan and the Republic of Korea to rebuff terrorists and to stabilize the situation in the world.

Moreover, however paradoxical, notwithstanding all shifts and changes, the arrangement of the main political forces of the world in the new millennium, in a way recalls the 1970s. International revolutionary communism has been in fact replaced by Islamic fundamentalism. China plays the role of the second superpower instead of the USSR. The ambitions of Germany and France are implemented by the European

Union. The role, which in the 1970s was played by a rapidly developing Japan, nowadays is claimed by South Korea, India and Brazil. This trend is strengthening. As the "guru" of the current global crisis, Nouriel Roubini noted, the composition of the club of major emerging market economies is revised constantly by widening it from BRIC (Brazil, Russia, India, China) to BRICET (adding Eastern Europe and Turkey) or BRICKET (the former plus the Republic of Korea). Moreover, the BRIC index inventor Goldman Sachs is introducing the new term "Next – 11" (adding to BRIC Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, R. of Korea, and Turkey). Naturally, the world has become more complex, globalized, interdependent and transparent than in the 1970s. But the political mise en scene remained mostly the same, though the actors have partly changed. This is testament to a certain conservatism (or continuity) in the development of the very structure of international relations and world politics.

Russia – "the sick man" of BRIC?

The global financial crisis hit the Russian economy, breaking its most prosperous period of development since 1991. From 2000 to autumn 2008, the Russian economic rate of growth was about 7% annually, positioning the country among the most dynamic economies in the world. The Russian budget surplus was about $ 80 billion. Russia, in 2008, had a record export ($468 billion) and payments balance ($200 billion). Its international reserves in August 2008 were equal to $597 billion. The exchange rate of the ruble had risen steadily since 2001. At the end of the year, the situation dramatically changed *(see Graph 2)*. Nevertheless, even at the end of 2008, Russia kept the 3rd position in the world in reserves of foreign exchange and gold, the 5th in current account balance, the 7th in GDP, the 9th in export and the 10th in stock of direct foreign investment, while it occupied a dismal 22nd rank in external debt and 117th in public debt.



Graph 2

Such a sharp economic slump, which is especially obvious in comparison with other BRIC member states was mainly determined by specific features of the Russian national economy. Russian financial institutions did not fall for the game with financial derivatives. Thus, the impact of the crisis differs from that which is taking place in the advanced market economies. Starting from August 2008, our economy has suffered from three simultaneous shocks.

Firstly, the fall of oil prices: in Russia, the export of hydrocarbons contributes up to 40 % of budget revenues.

Secondly, the capital outflow from the stock market. Some of our politicians and experts were very proud of the fact that before the crisis, stock market capitalization was higher than the GDP volume. Anyway, the professionals were fully aware that the Russian stock market is rather shallow: the bulk of its value is set up by the shares of 15 – 20 blue chips, predominantly from mining and quarrying. No more than 15% of shares of each company are freely floating. Such markets are notable for high volatility. Capital massively rushes to such markets in the time of boom and no less rapidly flows out when problems start. It is interesting that the number of individual investors at the Russian stock market amounts to 850 thousand people. For comparison, in China, as many as 100 million people are investors.

Finally, thirdly, Russian companies appeared to be very much over-indebted. They have accumulated foreign credit of as much as 600 billion dollars. When the price of loans or the value of money sharply increased, Russian companies faced margin calls and rushed to the Government for support. Of course, massive borrowing abroad has been partly forced by the rigid credit and monetary politics in the country over the last years *(see Schedule 2)*.

Why has the 2008-2009 Credit Crunch seriously affected Russia?	
1.	A high share of foreign capital in the Russian stock market has resulted in a more than four-fold meltdown
2.	Heavy debt incurred by Russian companies to foreign investors - up to US$ 500 billion. US$160 are to be returned to creditors by the end of 2009
3.	Dependence of social and economic development and national budget income on export oil prices. In the second haft of 2008 oil price fell from US$140 to US$34-35 per barrel (Urals). Oil price less than US$60-70 per barrel (in 2009) would result in a budget deficit up to US$80 billion.
4.	A maximum reduction of the liquidity of Russian banks and companies on the eve of the crisis due to the Russian Central Bank's anti inflation policy(tightening the money supply)
5.	Excessive budgetary expenditures due to the huge inflow of foreign currency in 2003-2007 and the first half of 2008 as well as high social and economic commitments made by the government
6.	Law adaptation capabilities of industry

Schedule 2

Trying to neutralize these problems during the last 6 months, the Central Bank sold $210 billion of international reserves. Approximately 60% of this sum represents capital outflow. Substantial amounts of foreign currency were bought by domestic banks, non-financial sector companies and households. The raids of customers on the banks were successfully managed, though this threat was imminent for a short period in October, when the Ruble drastically went down.

The stock prices dropped by 80%. The Ruble has depreciated against the dollar since July 2008 by 60%. The recent GDP rate of growth forecast for 2009 is minus 7-8%. Budget revenues, according to the Ministry of Finance estimates, will fall by up to 40%, and the budget deficit will amount to approximately 8%. A decline of production of up to 20-30% is expected in many sectors, including steel, non-ferrous metals, housing construction, textiles, retail, and bank credits *(see Schedule 3)*.

Unemployment became a very serious problem, exceeding a share of 7% of the economic active population and causing a social conflict situation in some regions, for example, in the center of the Russian car industry, the city of Togliatti, where twenty-five thousand employees are endangered by unemployment.

The trade balance is still positive, and so is the current balance of payments. A question of crucial importance for Russia is whether financial speculations on oil futures will stop. Generally, at least in Russia, there were many talks about "the end of the epoch of cheap oil". Is that true? What will the global financial architecture and correspondingly, the security architecture look like? Will G-20 countries manage to come to an agreement and what will this consensus look like? The summits in Washington and London were not very

Expected cuts in the supply of goods/services in 2009				
Industry / sector	**Prior growth rate**	**Possible cuts in supply**	**Decrease of employment**	**Possible investment downturn**
Ferrous metals	3-5% per annum Historical price peaks in 2008	20-30%	10-30%	Investment programs to be slashed by 50-150%
Nonferrous metals	3-7% per annum Historical price peaks in 2007-2008	Up to 20% with price plummeting	10-20%	Investment programs to be slashed
Gas	Historical price peaks in 2008	Export prices to fall from the end of 2008	10-20%	Exploration of shelves fields in Yakutia and Irkutsk region to slow down
Oil	Production peak in 2007. Price hike - in June 2008 (prices grew 3 times over 1,5 years)	10-20% (cuts in profits of US$15 billion in August 2008	10%	Some projects in eastern Siberia, northen shelves, etc. to be frozen
Automotive industry	Sales of new foreign-made cars by 40% per month until September 2008	Up to 5% with prices falling slightly	Manufacturers - 5% Dealers and service stations - up to 20%	New investment initiatives to be abandoned
Retail, advertising, services	10-20% per annum	Up 20% (advertising - up to 30%)	10-30%	Investment programs to be slashed by 100-200%
Construction, construction materials	Price multiplied 300-400% over 10 years	20-30% (prices set to fall 20-50%)	10-30%	New projects to be abandoned and existing projects to be frozen
Banking	30-40% per annum	(30-50%)	30-40%	Liquidity levels to be maintained with budget monies

Schedule 3

successful. According to World Bank data, after November 2008, when G-20 met in Washington D.C., 17 countries out of 20 (Russia included) introduced protectionist measures. Pittsburgh appeared to produce more tangible results, despite disagreements about off-shore zones. Maybe the 5th meeting in Seoul will put this important grouping of leaders on track. In the IMEMO our economic outlook for 2020, published in 2008, we have made prognoses of the average annual growth of the world economy in 2005-2020 at the level of 4.1 – 4.2%. However, including a reservation that in case of a wave of protectionism, the tempo will be 2.1 – 2.2% lower. When I sent the book to the publishing house at the very end of 2007, it seemed to me that this reservation was too optimistic.

Thus, the main reasons why the Russian economy has proved to be so vulnerable in the face of the crisis are the following:

- weak financial system,
- high share of foreign capital in the stock market (around 60%),
- heavy debt of Russian banks and companies to foreign investors,
- dependence of social and economic development on export oil prices; energy exports account for 40% of budget revenues, and 70-80% (with gas) of all export earnings,
- extremely high reduction of the liquidity of Russian banks and companies on the eve of the crisis due to the Russian Central Bank's struggle with inflation by tightening the money supply,
- excessive budgetary expenditures due to the huge inflow of foreign currency in 2003-2007 and the first half of 2008, as well as high social commitments made by the state,
- overvaluation of the ruble. Since 2001 its real effective rate rose by 145%.

The situation in Russia resembles that in countries with relatively developed financial markets (India, Brazil, South Africa). On the one hand, there are many similarities with countries which are highly dependent on export of a limited number of commodities. In the Russian case, these are energy, basic chemicals, timber and metals *(see Table 1)*.

Export as a percentage of basic production (estimates for 2005-2007)	
Energy	
Crude oil	54-58
Petroleum products	46-48
Natural gas	28-32
Mineral coal	49-53
Fertilizers	
Chemical fertilizers	75-85
Timber	
Wood pulp	80-84
Newsprint paper	60-65
Plywood	59-63
Untreated timber	55-60
Metals	
Rolled iron (averaged)	45-48
Nickel	90-95
Cobalt	90-95
Primary aluminium	80-85
Titanium	70-75
Zink	45-55
Copper	30-40

Table 1

Thus the impact of the crisis in Russia is also similar to many emerging and even developing economies:
- slowdown of production activity,
- domestic credit crunch,
- capital outflow,
- depreciation of the national currency and increased inflation.

On the other hand, by a number of factors Russia strays from the world anti-crisis trend, apart from the logic of anti-crisis measures of G –8 and the majority of G-20 countries. The comparison of crisis management measures in the USA, China and Russia, demonstrates these differences in the logic and practice of anti-crisis policy *(see Schedule 4)*.

One can see that Russian anti-crisis policy was oriented rather toward the stabilization (if not conservation) of the existing ineffective structure of economics, than to using anti-crisis regulation for the rationalization and modernization of that structure, aiming at creating a new technological and economic basis for the improvement of the starting position in a post crisis global economy.

Such a policy produced a number of serious problems. First and foremost, there is the problem of the Central Bank discount rate. In Russia it is still two-digit, even though it was lowered a bit. Meanwhile, in world economies an obvious trend dominates, decreasing the rate to split-fraction percentage points (in the US,

Russia and foreign countries:
comparison of crisis management measures

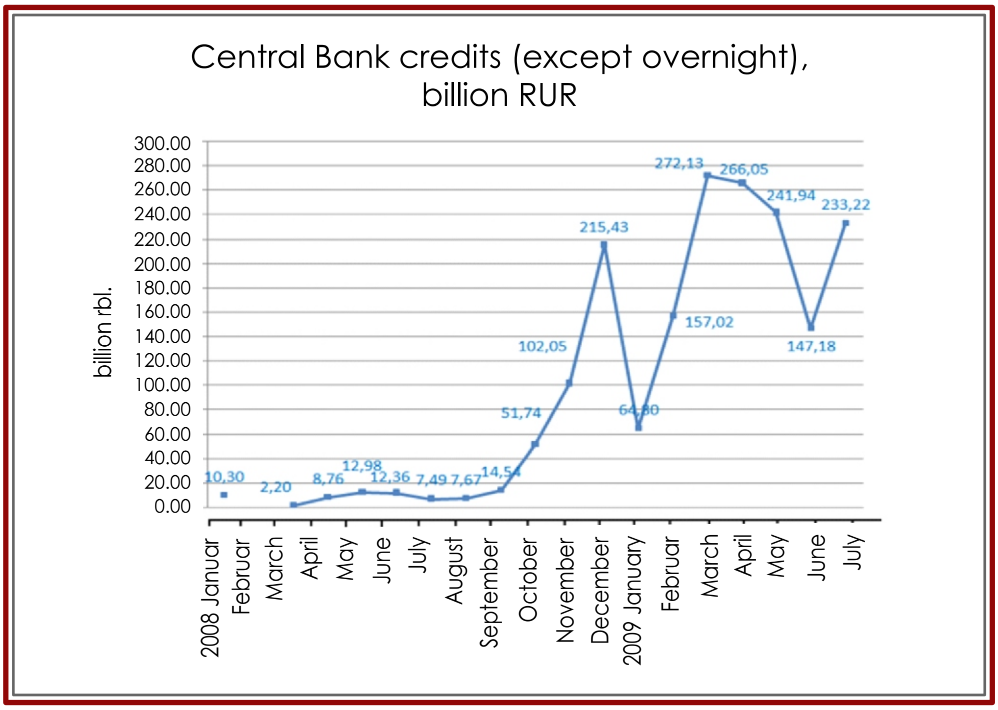
Principal measures	Countries		
	USA	China	Russia
Change of the base rate of the Central Bank	Lowered up to 0.25%	Lowered from 7.6% up to 5.3% in some receptions	Raised since December 1, 2008 up to 13 %. Decreased from April 2009 10%
Nationalization of banks and/or other financial institutions	No	No	No
Recapitalization of financial institutions. The repayment of control packages of troubled banks	US$145 billion (Federal Reserve System), US$250 billion (Department of Finance)	Recapitalization of the State Agricultural Bank - US$20 billion	Additional capitalization of the Russian Agricultural Bank (45 billion RUR) and the Russian Agro Leasing (25 billion RUR)
Guarantees under interbank credits	FRS guarantees on a turn of bills of the enterprises - US$250 billion	The question will be considered in 2009	It is limited, only on banks with withdrawn license
Interventions in the share market	No	No	Yes 145 billion RUR
Anti-crisis support of real sector	Automobile companies - US$17.4 billion, the beginning of procedure of bankruptcy is considered	Still in the process of consideration	The number of recipient enterprises is increasing. The final sum is uncertain. AUTOVAZ - interest-free 25 billion RUR loan, subsidizing of automobile purchase crediting - 25 billion RUR
Support of small and medium business	Additional FRS credits, including consumer ones US$200 billion; 100% insurance of current accounts of small enterprises	Easing of the control over credits for the small and medium enterprises	Refinancing of credits: additional 27.5 billion RUR is allocated; Preferential size of a rent
Tax stimulation of innovation process	Long term support of R&D and Innovations - primarily in the energy savings	Activization of innovation policy	Increase in amortization premiums (on 100 billion RUR)
Decrease (including time) the VAT	No	Administrative costs of collection of the tax are lowered	Installment of payment of the VAT (nearby 500 billion RUR a quarter)
Restrictions of payments for top-managers and of stock dividends	Yes	Yes, for the state companies	No
The general volume of expenditures, including guarantees, fo 2009-2010	US$2.5 billion[1]	US$600 billion up to the end 2010	6 trillion RUR, including credits of support of bank system. The same amount of financial resources is needed

[1] Without taking into account operation FRS on refinancing credit establishments. For 2008 FRS short-term crediting of American banks reached US$1.8 trillion

Schedule 4

Japan, Great Britain) or to 5 or fewer percentage points (China, Mexico) *(see Graph 3).*

When it comes to this aspect of anti-crisis measures, Russia, until spring 2009, followed the road of such countries as Iceland, Ukraine, Belarus, Indonesia, Turkey, and Azerbaijan. We know where Iceland “wound



Graph 3

up" along this way. Among the sustainable and big developed economies only one increased the national bank interest rate, namely Norway (though by a split-fraction percentage point and no earlier than by the end of October 2009).

The logic of such an approach is simple. The increase of the interest rate restrains inflation and – by making credit more expensive and less available – impedes capital flight.

But simultaneously, such a policy deals the economy a heavy blow, limiting the increase of goods and services supply. The limitation of supply naturally aggravates the problem of inflation, which remains the most important indicator targeted by the Ministry of Finance.

Our economy did not manage to diversify. Against this background and taking into account the fact that during the years of "oil and gas prosperity", households accumulated certain savings. In Russia, we nevertheless see effective demand, which is oriented towards imported goods. Still, in the Ist quarter of 2009, compared to the Ist quarter of 2008, the import of plasma TV sets decreased by 75%, and the import of cars by 34%. The fall of world energy prices caused the devaluation of the ruble. At the same time, more expensive imports put additional pressure on the ruble exchange rate.

As a result, in Russia unlike in the majority of the other G-20 countries, which suffered deflationary pressure in the economy, the crisis caused stagflation, meaning the rise of prices along with the fall of production. The combination of the abovementioned factors provides grounds for the assumption that the period of stagflation in Russian economy will last for a minimum of two more years.

Unlike many other countries, Russia accumulated large foreign currency reserves, which now are a main source of financing anti-crisis measures. The bulk of anti-crisis financial support was channeled into the banking system in order to overcome the domestic credit crunch. The result was not encouraging. in comparison with many other countries. The banks prefer to buy dollars and Euros and transfer them abroad instead of crediting the real sector of economy. In a situation where the ruble devaluates, the non-financial sector companies, as well as households, save their assets, avoiding the falling ruble and a two-digit dollar inflation. In general, a bi-currency mentality is typical for the majority of economic agents, companies and households.

Simultaneously, support is extended to the producers. Some production taxes were reduced. Credit was extended to large companies (mainly in the energy and metallurgy sectors) with big foreign exchange denominated debts. Selective financial support is in progress to approximately 300 enterprises, whose activity is crucial for regional employment. Import tariffs (automobiles, steel, tubes) were increased (albeit not substantially). As for stimulation of domestic demand, it is rather limited (some schemes were adopted for refinancing mortgage and domestically produced automobile credit) because of the danger of inflation and import growth.

The emphasis in stimulating business activity will be on public demand through financing large - scale projects. So this year we began tintensive construction in the region of Sochi, where the Winter Olympic Games will take place in 2014, as well as in Vladivostok for the 2012 APEC summit.

Up to now, social protection schemes have been comparatively modest, but are expected to be increased in line withchanges in unemployment.

Meanwhile, the anti-crisis measures adopted in Russia were quite expensive. At the end of 2009, the costs of planned measures were equal to 15% of the GNP. Over the next one to two years, their overall cost may double.

The large volume of anti-crisis measures is explained by the fact that the crisis has aggravated Russia's acute longstanding structural problems. Besides, modernization, which has begun in many sectors (food processing or metallurgy, for example), has not yet been completed. Anti-inflationary credit and monetary policy in Russia, as I have already said, substantially differed from the world trend and only since April started the turn in the correct direction.

Apparently, Russia needs a dose of - what in economic literature is called - supply side economy. Its standard levers are: 1) cheap credits; 2) low taxes. This last point is most important. The stimulating of supply requires changes not only in our monetary policy, but our budget policy as well. Otherwise, the actual depression in Russia cannot transform into recovery and post crisis growth as in other BRIC states, but into long term creeping stagnation.

Russian - South Korean Relations: Main Trends and Prospects

To prevent such negative trends, potentially fraught with Russia´s removal from the leading group of emerging economies and its relegation to the peripheral group, it is important to use the experience of our partners as well as technological and economic cooperation. The Republic of Korea is quite a good example of such a perspective partnership in bi-lateral and multi–lateral relations (both regional and global).

There are several aspects which influence Russia's policy towards the Korean peninsula: security issues, nuclear weapon proliferation, the political activity of the great powers, and access to the markets. Political relations between Russia and the Republic of Korea improved significantly, especially since the beginning of the 2000s. Moscow`s and Seoul`s views on key issues of political and security stability on the Korean Peninsula and in North East Asia coincide or are very close. Both sides oppose the North Korean nuclear and missile program and support six party talks. At the same time Russia is ready to support inter-Korean cooperation.

During the 1990s economic ties between Russia and the ROK were unstable, while bilateral trade fluctuated around a point of $3 bln. Nevertheless, joint efforts and improvement of domestic economies in Russia and the ROK were the main reasons for positive trends in economic relations between the two countries after 1998, when both Russia and the ROK suffered under the crisis. As a result, the debt problem has been successfully resolved, bilateral trade reached $18 billion in 2008 or increased six times since 2000. However, average trade with Russia makes up only 1.2-1.5% of South Korea's foreign trade, and trade with South Korea makes up 2.2%-2.5% of Russia's foreign trade.

Total South Korean investments in Russia in 2008 reached $1.2 bln (70% were carried out during 2006-2008), while envisaged investments are estimated at $3 bln. The insignificant scale of Russian investment in the ROK (estimated at $20-30 mln) is an important symbol of the misbalanced economic relations between the two countries. It is evidence of the low level of Russian business involvement in North East Asian economies as well as in regional economic cooperation.

Regional co-operation mainly reflects the difference in involvement of European Russia and the Russian Far East in economic exchange with the ROK. South Korean car producers, leading electronics companies and some others firms pay more attention to the European part of Russia. The role of South Korean direct investments in the Russian Far East has been insignificant over the two last decades and was incommensurate with the regional economic potential.

Meanwhile, the Russian Far East began to play a prominent part in the accumulation of foreign investments in Russia: the share of the Russian Far East increased from 7% in the 1990s to 18% in the middle of the 2000s – mainly because of foreign investments in the Sakhalin 1 and Sakhalin 2 oil and gas projects. Hence, among the main investors to the Russian Far East are Japan, the United States, the European Union and India, not yet the Republic of Korea.

It is also necessary to stress that dynamic bilateral trade exchanges in 2002-2008 were closely connected with the period of high prices on oil and raw materials as well as with unprecedented growth of demand on consumer goods in Russia. The world economic crisis in 2008-2009 undermined the positive trend in Russian-Korean economic relations. Bilateral trade from January to June 2009 decreased to 47.5% of the level of Russian-South Korean trade during the fist half of 2008, while Russia's total foreign trade reached 55% of the 2008 figure. The problem is that Russian-South Korean trade is based on a very limited number of goods and services. Non-ferrous metals (aluminum and nickel) and oil make up about half of the total exports from Russia to the ROK. Another part of export consists of fertilizers, wood and pulp, fish and marine products, coal and steel. Cars, consumer electronics and IT products prevail in South Korean exports. Besides, Russia imports other consumer goods, chemical products and sea ships. Russia supplies the ROK with 5 mln t of oil (4.2% of total South Korean imports in 2007), 6 mln t of coal (7.4% in 2007) and 1.5 mln t of LNG (5% in 2009, preliminary estimate).

From the global economic aspect, the worldwide economic crisis stimulates the two countries to find non-conventional ways of cooperation under the new situation in the world economy.

During President Lee Myung-bak's visit to Moscow and his negotiations with President D. Medvedev in September 2008, some significant projects were discussed. Thus, both sides agreed to cooperate in the energy industry: The South Korean company KOGAS and its Russian partners intend to take part in the joint development of Kamchatka oil and gas fields, LNG production and transportation, the construction of oil refining complexes and of gas pipelines. Russia and the ROK also agreed to cooperate in production and export of raw materials in Siberia and in the Russian Far East. At the same time, both sides intend to realise joint programmes in nanotechnology, aerospace industry, protection of environment, etc. South Korean business also will participate in the construction of facilities for the APEC Summit in Vladivostok.

In this respect, it is necessary to mention that President D. Medvedev and President Lee Myung-Bak agreed to upgrade bilateral relations between the Republic of Korea and the Russian Federation to a “strategic partnership” level. But this kind of declaration must be corroborated by some political and economic measures.

However, some of the important projects are now postponed; mainly for financial and political reasons. Thus, the project of TSR and TKR linkage as well as the project of the construction of the gas pipeline between the Russian Far East and South Korea can be realized successfully, only if Pyongyang agrees to be involved in cooperation with Moscow and Seoul. But this triangular cooperation is closely connected with political and security issues on the Korean peninsula. It will depend on the situation in the DPRK and inter-Korean relations, which are characterised by negative trends since the beginning of 2008.

The construction of the oil pipeline from East Siberia to the Russian Pacific Coast is one of the most important national strategic projects in Russia. When this project is realized, it will be possible to export 30 mln tons of oil directly to Daqing and 50 mln tons of oil from Pervoznaya to Pacific countries. There are several possible consequences of this project for Russian-South Korean cooperation: export of oil to South Korea, new investment opportunities for South Korean investors as well as new demand for capital and consumer goods in Siberia and the Russian Far East.

It is necessary to note that cooperation between the two countries in R&D, education, and medicine is underdeveloped. Russian and South Korean cooperation in science and technology are mainly developing at corporate level (Samsung research center in Moscow, etc), but still is limited. One of the most urgent reasons for upgrading the level of bilateral (as a part of international) cooperation in medicine, is the real danger of a spread of mass diseases across the borders of North East Asia. Separate measures by any country are not enough to prevent the danger of “import” of such diseases as the bird or swine flu. It is impossible to be sure that any disease can be stopped at the border. Cooperation in medical care and in medical R&D may be a more efficient mechanism than administrative measures. Russia understands this reality and is ready to cooperate with the ROK and other North East Asian countries. A new type of institutional, legal, administrative and information conditions would be created in order to stimulate bilateral economic, scientific, cultural and humanitarian exchanges. Coordinated measures of two administrations are on the agenda. There is a deficit of information on economic and business issues of the two countries. It is necessary to determine the goals and stages of development of Russian – South Korean cooperation, taking into account priorities of bilateral exchanges as well as a main trend of multilateral cooperation in NEA.

Although recent trends in economic cooperation between Russia and the ROK should be characterized as positive, it ought to be said that Russian involvement in bilateral as well as regional trade and investment cooperation in NEA is insignificant, to date. Russia's economic ties with the ROK and NEA countries are very traditional by nature. Although Russian companies are expanding actively in Europe and the United States, Russian business isn't deeply involved in economic partnership with South Korean, Chinese and Japanese business. Economic relations between Russia and NEA countries have not been institutionalized yet. Consequently, there is a danger that trade and economic exchanges between Russia and the Republic of Korea will stagnate in the future.

It is necessary to analyze regional economic trends and carve out an institutional basis for Russian-South Korean economic relations as an adequate element of regional economic cooperation in NEA. Special studies of Russian-Korean cooperation (including government, business and academic expert analysis) should be initiated. Prospects for free trade agreements and NEA economic cooperation, energy and transport projects, investments exchanges, etc may be among the primary themes.

Cultural exchanges and tourism could play an important role in bilateral relations. After the establishment of diplomatic relations, cultural exchanges increased greatly, but ceased to be impressive in later periods. New stimulus can be created through measures bilaterally connected with the 20th anniversary of diplomatic relations and cultural ties in 2010; and multilaterally, with the future APEC Vladivostok summit. But it is necessary to create a long-term program of cultural and humanitarian cooperation, in order to prevent a slow-down of exchanges in the future.

Bilateral and NEA regional cooperation should also strengthen Russian and Korean positions in solving the global problems of the world economy through existing international political and economic institutions (UN, IMF, World Bank, FAO etc.) as well as through new legal and institutional structures aiming at coordinating national efforts in effectively facing globalization challenges■

Bernhard FELDERER

The Crises of Financial Markets and the Real Economy

The current crisis has been adumbrated by a normal slump of the real economy and dramatically exacerbated by the financial crisis (as of fall, 2007), leading up to the most acute recession of the post-war period. A global recovery will not succeed without a shore-up of the financial system. This contribution attempts at outlining the main aspects of the expansion of leveraging as well as of the decrease of the debt-equity ratio (deleveraging).

Historically speaking, the debt finance/equity finance ratio has never been higher than during the last years. Debt finance facilitates economic expansion, but pushes up systemic risks accordingly. It was the explicit philosophy of this period that when the prices of goods do not exceed a specific benchmark (ECB: 2%), this is not considered a jeopardy for economic stability. It went largely unnoticed that simultaneously, asset inflation bubbles were forming. Generally, it may be stated that economies with a high share of debt finance are significantly less shock-resistant than those with a low share: Debts have to be repaid with interest on a specific day, otherwise problems occur; in the case of several debtors, also problems for the bank. In case equity capital quota are high, equity is devalued for some time. This can be compensated after the crisis.

Several factors have caused this unique leverage level

- The Basel II regulation system mainly decrees that instead of a general level of 8% capital requirement for credit risks the banks now have to calculate a differentiated capital backing quota on the basis of risk classes defined through a rating procedure. This means that risks with high credit ratings require less and risks with low ratings require more capital backing. During the economic boom in the last years, many assets had received top ratings, among other things the famous ABS securities, by which US risks were traded worldwide. In the final analysis, Basel II has led to an expansion of the possibilities to generate credit. Unfortunately, it turned out that Basel II generated pro-cyclical effects during the downturn. During the slump, the client and borrower ratings deteriorate, which necessarily entails a higher capital backing of the bank. One of the consequences of this process is that the participation capital, which has been placed at the disposal of the banks by the Austrian state, has primarily been used to raise their equity stock.

  The transition from the traditional creditor-oriented balancing system according to the Enterprise Act (UGB) to an investor-oriented balancing system under the International Financial Reporting Standards (IFRS) includes, as an essential innovation, valuation at actual market prices. This principle, in tandem with a fixed capital backing rate, is sufficient to spawn a pernicious pro-cyclical effect, which leads to a strong expansion during the boom and to a disproportional contraction of debt finance by banks during downturn.

- Special vehicles: In hindsight, the mushrooming of the so-called special purpose vehicles viz. special investment vehicles was particularly surprising. These facilities were regularly 100% subsidiaries of a bank. The outsourced companies neither had an obligation to consolidate, nor were they audited by the financial supervision authorities or the national banks. These special vehicles were an additional possibility to expand debt finance, leaving equity wholly or partly untouched.

- Credit default swaps (CDS): Although this development did not directly promote the expansion of credit capital, it did permit risky business ventures which did not have to be backed by large equity quotas. The emergence of CDS markets thus led to higher banking risks. Issuing bank guarantees for a fee is no recent innovation, but a hoary business practice. During the last years, however, this sort of business has led to the emergence of huge markets. The real economy made ample use of it since this promised more predictability and security. The only concern was that the institution extending the guarantee did not have to provide equity backing or did so with insufficient means only.

Which changes of the financial system will be necessary?

1. The above considerations warrant the conclusion that as a first step, special purpose vehicles should be outlawed by a new European financial regulation package, which is still to be elaborated. All risks must be made visible in the balance.

2. The collapsed ABS/ABCP markets will only slowly recover. In principle, hedging risks by securitizing claims in a new instrument is a good idea, as along as the purchasers of this security are able to assess the quality of the debtor themselves. If they have to resort exclusively to the recommendations of a rating agency, developments like those we can observe at present cannot be excluded.

3. Balancing according to IFRS has the advantage that the investor obtains a much better insight into the company as was the case with the previous balancing rules. Many managers regret that building silent reserves is no longer possible under IFRS and that therefore shock sensitivity has increased. A return to a creditor-oriented balancing system according to the Trade Act (HGB) or the Enterprise Act (UGB) does, however, not seem to be a viable solution.

4. The fact that the Basel II regulation system has strong pro-cyclical effects and is causing the banks headaches at this point, is a property of this principally rational innovation, which should be taken into account in the current haggling about new provisions.

5. Generally speaking, the financial system and the real economy will need proportionally more equity than prior to the crisis, because the expansion of debt capital can no longer occur in its unbridled pre-crisis form. Naturally, during the boom, the Basel II system viz. the improved rating of borrowers will scale down the necessity of capital backing. This implies that a part of the committed equity will be available for expansion. Balancing under IFRS will have the same effect. Whether there will be sufficient equity for the new financing vehicles, remains undecided. Probably, banks and other financial agents will be more active as equity procurers than in the past ■

Michael LÖWY

Current Developments in Austria and the CEE

I. The current development in Austria

Necessary optimism aside, it is highly likely that the full impact of the crisis will be felt only in 2010, since a sustainable uptick is not in sight. Staggering challenges for our enterprises, the workers and employees in the private economy and politics will remain also during the following year.

What is the status quo of the country during the worst recession in 70 years?

- Different branches of the Austrian economy were affected differently. While the export-oriented industries are just beginning to emerge from the state of shock caused by the Great Recession, retail trade has remained stable to date. Nevertheless, the crisis has engulfed additional branches and enterprise categories.
- While the increase of purchase power of private households in 2009 (generated by high wage increases during the preceding year in tandem with a strong deflationary process and the positive effects of the tax reform) had stabilized private consumption, this effect has been levelling off in the meantime.
- At the same time, the situation of industrial enterprises continues to be difficult given the underutilization of capacities and the pressure on returns resulting from such. Consequently, the propensity to invest has remained on a low level and the employment situation is gloomy. The economically most difficult phase is yet to come, particularly in consumer-orientated sectors.
- The most imminent risk lies in the failure to achieve a sustainable upswing after the numerous one-time effects from the stimulus packages have abated. In order to achieve recovery, further efforts are necessary. Also, the homework in terms of re-structuring has to be done.

The first year of the Austrian government under Federal Chancellor Werner Faymann and Vice Chancellor Josef Pröll was marked by getting a handle on the crisis. The results were rather impressive: For one thing, the financial meltdown was prevented in an internationally concerted effort and the impact of the Great Recession on the real sector was mitigated by numerous interventions. This certainly was and is a success. Yet, what is the outlook for the coming year?

One thing is clear, the crisis has not been overcome yet. Authorities worry that the level of income and production of 2008 will be reached no earlier than 2012. In this perspective, the reform options yielded by the crisis have not been wasted, although a much higher ground speed is necessary. It is imperative to prime the pump for enhanced competitiveness of Austria as a location for industry. A smart economic policy will invest in the conditions which warrant an optimal participation in the coming economic upturn.

For Austria in 2010, this, among other things, implies the following:

- The most formidable task, not only for the coming year, but the entire next decade, will be budget consolidation. Structural reforms must be initiated now, in order to make consolidation possible by 2011.
- Additionally, growth has to be stimulated. A sufficiently high growth rate goes with increased employment and tax returns. Despite the crisis, an additional growth corridor has to be opened in terms of expenditure for research and development, including an increase of the research premium to 12% and a special package for lead enterprises. Investment in infrastructure across the board is absolutely necessary!
- Social security systems are in need of an incentive-based transformation. Regarding the pension system, the retirement age must be raised.

What is abundantly clear is that budget consolidation will fail without growth. We We must therefore try to return to a growth trajectory as swiftly as possible. Admittedly, the prospects for rapid and significant growth are far from bright.

Against this backdrop, it is even more important to resort to smart incentives which can serve as a model. This can be illustrated by three examples.

1. Higher growth through investments into a knowledge-based society.
In order to reach the government-set target figure of 3% of the GDP earmarked for research (2008: 2.63) until 2010 or 4% until 2020, a further increase of R&D expenditures must be pursued - also during the crisis.

The most important measures in this context would be:
- To pass legislation on research finance, which would enable planning reliability for research until 2020.
- To increase the research premium to 12%. When it comes to tax relief for research, Austria occupies a position somewhere in the lower half of the European ranking list. In order to reach upper-end positions, attractive tax incentives must be introduced.

2. Higher growth through the establishment of a foundation for energy technology.
The EU targets for energy and climate policy necessitate increased innovations in the field of energy-related technologies. We can expect that as a result of the succinctly formulated targets and the ensuing planning reliability, the above-average growth rate of this branch will continue during the coming years.

An important step in this context would be:
- The establishment of an Austrian Carbon Trust mandated to develop a high-growth low-carbon economy.

3. Higher growth trough removing logjams in infrastructural investments.
We all are aware of the fact that the speedy implementation of infrastructural projects (highways, railroads, power stations, power lines, broad band viz. next generation networks) is still hobbled by the lack of political resolve, time-consuming bureaucratic procedures as well as fragmented jurisdictions in territorial zoning.

Important measures in this field:
- Speedy implementation of the amendment to the Environmental Audit Act (2009).
- Mandatory federal comprehensive regional planning for infrastructural corridors.
- Statutory definition of the security of supply as an issue of public interest.
- Implementation of a hydropower master plan.

Summary
1. Budget consolidation is indispensable, a necessary condition; otherwise the state will lose its capacity to shape its future and to respond to future crises. This is a commitment we owe the coming generations.
2. Budget consolidation is possible through smart and time-sensitive reduction of expenditures as well as economic growth. In a high-tax country like Austria, revenue-side reductions entail lower growth and, consequently, less prosperity.
3. Austria needs long-term commitment to achieve consolidation. Laying down this principle in the constitution must be the appropriate legal response.

II. Austria and its economic ties to Eastern Europe

Permit me to begin with a brief look back: when the Iron Curtain came down twenty years ago in 1989, this dramatic political change was heartily welcomed by Austria and its business community. The artificial division of the continent was finally overcome and our Eastern neighbours embarked on a road towards a market economy and a democratically oriented society that had been denied to them for many decades.

What followed were years of intensive reforms which our neighbouring countries implemented in a time span of just a few years. The reform efforts made are remarkable and deserve our full recognition. Without any doubt, they also contributed a great deal to the dynamic development within the European Union and created a positive reform pressure for Austria as well.

Austrian companies have taken full advantage of the opportunities offered by the political transformation in Eastern Europe. Twenty-three per cent of Austria's goods exports go to Central and Eastern Europe, and a total of € 59 billion have been invested in the region. Austrian enterprises are the number one investors in

Bosnia-Herzegovina, Slovenia, Bulgaria, Romania, Serbia and Croatia, and rank third in Slovakia, the Czech Republic, Hungary and Macedonia.

In a nutshell, Austria has seen an excellent development over the past 2 decades. Today, 20 years after the dismantling of the Iron Curtain, we should not forget that this success story would have been impossible without open borders.

The CEE countries will continue their dynamic development in the years to come. In fact his region continues to have strong benchmark data and excellent long-term growth and performance prospects. The process of catching up will take at least another two generations, and according to IMF estimates, in 2001, growth rates in the region will be 2 % above those of the "West" again.

Frequent contacts with our industrial companies operating in the region, our sister federations, as well as the statistical data available to us, confirm our assessment of the situation. The countries of Central and Eastern Europe continue to be our markets of the future. This also holds for the Caspian and Black Sea regions with the huge markets of Turkey and especially Russia.

If we were to lose sight of the enormous potential of this region in the current crisis, we would be acting against our own interests. In fact, the CEECs have highly efficient industrial facilities, a competitive wage level and a well-trained, flexible and dynamic labour force. Moreover, rumours about the excessive level of debt of households and enterprises are unjustified. Furthermore, the volume of loans to households and enterprises in the CEECs lies between 30 % and a maximum of 80 % of GDP. The corresponding average in the Euro currency area lies at 125 % of GDP.

We must make every effort to keep the "Central and Eastern European growth engine" running and maintain our presence in the region throughout these turbulent times. This is not without risks, but, above all, full of great opportunities. If we succeed in our efforts, the success story of the past 20 years will be continued.

Against this background, we welcome the package of rescue measures for countries in distress adopted by the EU and the IMF during the first half of this year. This is a course which needs to be consistently pursued in order to build liquidity and strengthen the economy as a whole.

In this context it is essential to advance the process of European integration. We must not allow economic developments to put a lasting halt to future enlargements. We continue to advocate Croatia's speedy accession to the EU and support the European integration of the Western Balkan states with the objective of future EU accession.

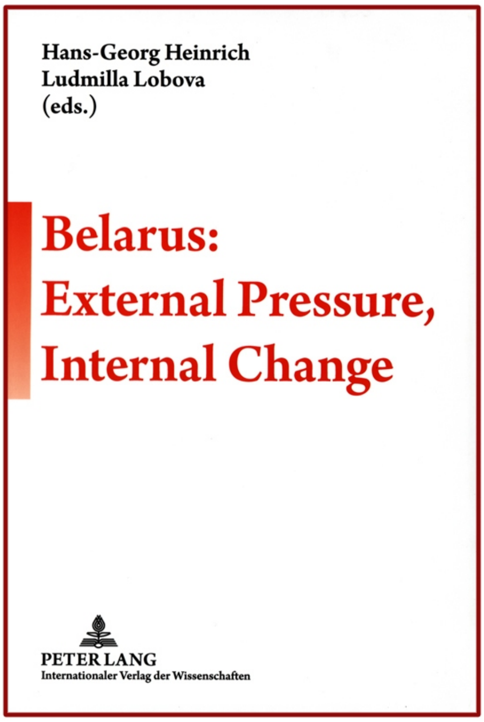
In addition, not only do we want our own companies to succeed in the Eastern European markets, we also hope to attract successful companies from that region as investors for Austria. To reach this goal, we will need an investor-friendly fiscal policy, a more liberal visa policy as well as the early creation of sustainable networks, such as scholarship programmes.

The Federation of Austrian Industries itself has been cooperating closely with industry and employer federations in Central and Eastern Europe for several years. We have been developing common positions on crucial industry-policy issues, such as energy and climate policy, international trade and the need for fast infrastructure modernization, above all between the Central European centres of economic activity.

Moreover, our Federation is a member of UBCCE, the Union of Black Sea and Caspian Confederation of Enterprises, a structure still in its early years. Through these contacts, we hope to intensify our relations with political and economic decision-makers in the region.

In conclusion, let me underline once again that we look with confidence to the further intensification of our economic relations with Eastern Europe. Regardless of the current crisis, we are determined to continue our activities in the region.

For us, the economic development of Eastern Europe is just as paramount as that of Austria. Only a prospering Central Europe and a strong and efficient European Union which prioritizes competitiveness in the framework of an integrated industrial policy, will guarantee growth and prosperity in Europe and Austria ■



Heinrich, Hans-Georg / Lobova, Ludmilla (eds.)

Belarus: External Pressure, Internal Change

Frankfurt am Main, Berlin, Bern, Bruxelles, New York, Oxford, Wien, 2009.
394 pp, 1 fig., num tables, 1 graph
ISBN 978-3-631-59301-1

This volume is a synopsis of various perspectives as well as a trans-boundary and interdisciplinary analysis of the Belarusian model. It is the result of a dialogue among authors who, for various reasons, take a supportive or critical approach towards the present regime. Their views are supplemented by contributions written by authors from neighboring countries. The findings support the thesis that Belarusian society, economy and the political system have begun to adapt to the new challenges the country faces. This study marks an important step forward in the analysis of the intractable Belarusian model and helps to identify its unique and ephemeral features

Contents: