

Regional development in Belarus

The Republic of Belarus consists of six regions. The smallest in territory is the Grodno region (25 thousand sq. km) and the largest is the Gomel region (40.4 thousand sq. km). The difference in population is not very large. Gomel has 1,527,500 inhabitants, while the Mogilev region, the smallest in population, has 1,191,800 people.



Figure 3. Administrative map of Belarus

Table 4 . Employment by major sectors of economy in Belarusian regions in 2001, %¹.

Regions	Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
Sectors of economy						
Industry	24.2	26.5	28.8	25.3	27.4	29.5
Agriculture	18.8	14.4	13.1	19.9	19.3	13.9
Trade and public catering	10.5	10.0	10.7	10.0	9.7	9.7
Transport	7.3	6.2	6.1	4.5	3.7	5.6
Construction	6.3	7.0	7.1	6.4	7.1	6.0

Source: Modified from Statistical Yearbook (2)

The Belarusian regions are very similar in economic structure (Table 4). As shown in the table, the biggest part of the labor force in all regions is employed in industrial production. Agriculture accounts for between 13 and 20 % of the employed. This more or less equal structure of the economy in all the regions appeared during the Soviet period when the industrial production was centrally planned. Factories were located in various regions according to strategic and geopolitical but not economic reasons. In the 1970s to '80s Belarus became the "assembly workshop" of the USSR. Many giant factories were built in the regions to serve the needs of the whole country. The break-up of the Soviet Union had severe consequences for the Belarusian economy because most of the former industrial connections were broken and those giants had to work at half or even a third of their original capacity. This was one of the motives of re-integration with the Russian Federation in the mid-1990s (Tarasevich and Lobatch, 2001).

Unlike in Poland, the Belarusian regions have a smaller share of employment in agriculture. The agricultural sector is almost 100% state owned and the old Soviet-style collective farms have

¹ To have more precise results here and later, the capital city, Minsk, is excluded from the statistical analysis.

been preserved. For the last ten years, the efficiency of Belarusian agriculture has been continuously declining, which has led to a situation where 80% of the farms **appeared** to have enormous debts. The government has been heavily subsidizing the agricultural sector, but no reforms have yet been introduced. As a result, the costs of agricultural production—of foodstuffs in particular—have increased to a level higher than that in Russia, the Ukraine or Lithuania. In many cases, foodstuffs imported from those latter countries are cheaper and of better quality than the local products. Such a situation had never happened before. During the last eight years, most of the rural population has been living in poverty and, therefore, the outflow of the labor force to the urban centers has been very intense (Statistical Yearbook (2)).

Traditionally, the western regions of Grodno and Brest had a much more efficient agricultural sector. The volume of agricultural production per capita has always been bigger in the western than in the eastern regions (Statistical Yearbook (2)).

Table 5. Main branches of industry in Belarusian regions, share in total volume of production in 2001 (%)².

Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
Food (30.9)	Fuel (21.3)	Fuel (21.0)	Food (28.2)	Chemicals and petrochemicals (32.2)	Chemicals and petrochemicals (29.0)
Engineering, machine-building and metal working	Electric power (18.9)	Ferrous metallurgy (16.9)	Chemicals (23.6)	Food (23.1)	Engineering, machine-building and metal working

² Branches of industry are defined according to Belarusian statistics. The table contains only those branches that have more than 10% in total regional production.

(22.4)					(16.3)
Light industry (14.5)	Food (15.9)	Engineering, machine-building and metal working (15.0)	Engineering, machine-building and metal working (13.1)	Engineering, machine-building and metal working (21.0)	Food (15.6)
Woodworking, pulp and paper (10.9)	Light industry (12.3)	Food (14.7)			Electric power (10.7)
	Chemicals and petrochemicals (12.1)				Light industry (10.5)

Source: Modified from Statistical Yearbook (2)

Although the economic structure of the Belarusian regions is quite similar, the structure of the industry is somewhat different. As shown in Table 5, the fuel, chemical and petrochemical, and food industries occupy the biggest shares of production in the regions. Although machine-building and metal working have a relatively big share of the total production of the regions, the economic situation in this sub-sector resembles the situation in Slaskie in Poland. Most of the companies are inefficient, the equipment is 80% worn out, and no reforms, including privatization, have been introduced. The longer these companies stay in the property of the state, the fewer chances there would be to attract investors. A big share of this sub-sector of the regional economy is rather a potential burden than an advantage.

The chemical, petrochemical and fuel industries are the only ones that maintain relatively high levels of efficiency. The companies are quite attractive for Russian investors, and the process of privatization in these sub-sectors has been commenced recently.

Unlike in Poland, regional disparities in Belarus, according to the official statistics, are extremely small. Average incomes and GDP per capita are almost equal in all the regions. Excessive

intervention of the state into the economy and the extremely low share of the private sector (less than 5% of the country's GDP) distorts the real state of affairs. Many state owned companies and agricultural farms have been heavily subsidized from the state budget which has kept them away from inevitable bankruptcy. One of the indicators that may show the potential disparities in the Belarusian regions is the number of the loss-making enterprises (Table 6).

Table 6. Share of loss-making companies in all sectors of the economy of the regions in 2001 (%).

Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
28.9	45.4	41.5	32.3	37.1	47.1

Source: Statistical Yearbook (2)

In the western regions, Grodno and Brest, the share of loss-making companies in all sectors of the economy has been the smallest. Traditionally, most subsidies from the state budget have been directed to the Gomel and Mogilev regions. This may indicate that the western regions are comparatively more developed. The share of direct foreign investment in total investments in those regions has also been comparatively higher. It comprised 2.5% in Grodno and 2.3% in Brest, while the share of FDI in eastern regions such as Vitebsk and Mogilev was just 0.8% and 0.2% respectively (Statistical Yearbook (2)). In general, Belarusian officials and scholars state that the Belarusian economy suffers an investment crisis. The total flow of FDI in recent years has been extremely small, and even the free economic zones that were created in every region did not help to attract more investment (Zaiko, 2003).

The structure of foreign trade in the Belarusian regions is also similar: 50% or more is done

with Russia. The share of the EU in total Belarusian trade in 2001 was 12%; five percent of the total turnover was with Germany. The candidate countries embraced 11.8% of total foreign trade in 2001. The biggest partners among the candidates were Poland (3% of total turnover), Latvia (3%) and Lithuania (2.5%) (Statistical Yearbook (2)).

Table 7. Cross-border trade of Belarusian regions in 2001, %.

Regions	Brest	Vitebsk	Gomel	Grodno	Minsk	Mogilev
Neighbouring states						
Russian Federation						
turnover	52,93	55,12	49,60	49,66	44,88	73,67
exports	72,22	47,39	39,43	51,90	39,02	75,83
imports	30,77	64,65	63,78	46,81	53,95	70,94
Ukraine						
turnover	4,25	6,26	7,81	6,00	4,17	3,57
exports	4,28	8,05	9,09	4,30	3,86	3,67
imports	4,21	4,06	6,03	8,15	4,64	3,44
Poland						
turnover	6,63	1,71	5,38	9,03	3,62	1,47
exports	1,53	2,20	7,66	11,57	3,97	1,84
imports	12,50	1,11	2,20	5,80	3,08	1,01
Lithuania						
turnover	1,48	5,76	1,14	6,98	2,25	1,37
exports	1,71	8,97	1,60	11,25	1,82	1,61
imports	1,23	1,81	0,51	1,56	2,91	1,07
Latvia						
turnover	0,62	9,47	2,75	2,31	0,56	0,50
exports	0,72	16,69	4,60	3,68	0,66	0,73
imports	0,51	0,58	0,17	0,57	0,40	0,21

Source: Modified from Statistical Yearbook (2)

The Mogilev region (Table 7) has the biggest share of trade with Russia (74%). The western regions, Grodno in particular, have the biggest share of trade with the neighboring candidate

countries. As shown in the table, Vitebsk and Gomel have a relatively big share of exports to Poland, Latvia and Lithuania. The major export to these countries is oil-based products (Statistical Yearbook (2)). Therefore, the volume of exports from these regions is very fragile as they depend on oil prices fixed by Russia. If for any reason Russia raises the oil prices for Belarus, Vitebsk and Gomel exports to the candidates would drop.

It should be noted that the western regions have unregistered (or “gray”) flows of imports from Poland. These mainly consist of light industry products, clothing and footwear in particular. Private traders simply carry those in bags through the border to avoid very high customs duties. This sort of trade became a popular source of income for many inhabitants in Grodno and Brest as well as a significant part of the economy in those regions (Zaiko, 2003).