German Economic Team Belarus

IPM Research Center

Policy Paper Series [PP/02/2013]

Recent Trends and Challenges in the Labour Market in Belarus

Maryia Akulava, Robert Kirchner, Gleb Shymanovich

Berlin/Minsk, August 2013

IPM RESEARCH CENTER
Research · Forecasting · Monitoring

About the IPM Research Center

The IPM Research Center was established in 1999 within the mutual project of the Institute for Privatization and Management (Minsk, Belarus) and CASE – Center for Social and Economic Research Foundation (Warsaw, Poland). It is a member of the CASE research network, William Davidson Institute NGO Alliance, and Economic Policy Institutes Network (project of the UND-P's Regional Bureau for Europe and the CIS). The IPM Research Center actively cooperates with the German Economic Team in Belarus (GET Belarus). Within this cooperation the IPM Research Center provides independent policy advice on economic issues to the different official agencies, namely to the Council of Ministers, National Bank, Ministry of Economy, Ministry of Finance and other organizations involved in the process of formation and implementation of economic policy.

The Mission of the IPM Research Center is to enhance national competitiveness through elaboration of the research-based economic policy recommendation and the promotion of professional dialogue on the urgent issues related to economic performance.

IPM Research Center

50B Zakharova Street, 220088, Minsk, Belarus

Tel: +375 (17) 2 100 105

Fax: +375 (17) 2 100 105

E-Mail: research@research.by

http://www.research.by

About the German Economic Team Belarus (GET Belarus)

The main purpose of GET Belarus is to conduct a dialogue on economic policy issues with the government, civil society, and international organizations. Experts of German Economic Team have experience in policy advice in several transition economies, including Ukraine, Russia, and Moldova. In Belarus the IPM Research Center and the German Economic Team provide information and analytical support to the Council of Ministers, the National Bank, the Ministry of Foreign Affairs, the Ministry of Economy and other institutions involved in the process of formation and implementation of economic policy.

German Economic Team Belarus

c/o Berlin Economics

Schillerstr. 59

D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

E-Mail: info@get-belarus.de

http://www.get-belarus.de

Recent Trends and Challenges in the Labour Market in Belarus

Executive Summary

The labour market plays an important role in the Belarusian economy. It is characterized by state dominance, as the private sector is relatively small, and overregulation. The policy of sustaining low wage disparities and excessive employment allows the authorities to eliminate inequality and curtail poverty, thus includes important functions of social policy. However, the economic costs of this policy are quite high, and are present in form of an inefficient allocation of the labour force due to its low mobility and weak motivation.

Against this background, a number of challenges have arisen, which make a policy reaction necessary. First, Belarus' labour market is experiencing a shortage of labour supply due to long-term negative demographic factors. Second, this problem is aggravated by labour migration, which seems to have picked up recently, even though exact numbers are difficult to obtain. A main reason for this outflow of labour is the significant wage differential with Russia, which increased during the recent crisis in 2011. Russia is a key destination country, as there is no language barrier and limited regulation barriers due to different integration agreements between Belarus and Russia, the most prominent being the common economic space (CES).

Labour migration is accompanied by a brain drain, as highly motivated and educated persons (top managers, engineers) are leaving the country. Another structural problem aggravated by the labour outflow is the growing dependency ratio, which puts pressure on the social security system. Ultimately, the factors mentioned above create downward pressure on the productivity and competitiveness of Belarus' economy. A vicious circle might be the result of these adverse dynamics.

How should policy makers respond to this uncomfortable situation? So far, their response to the migration pressure has been limited to hikes in salaries and incomes, coupled with certain administrative measures to restrict cross-border mobility for certain industries. This approach is problematic, as broad-based wage increases that are not covered by productivity gains will lead to an unsustainable macroeconomic situation. It should well be remembered that such a situation was one of the reasons for the 2011 balance-of-payments crisis, and thus should not be repeated.

Thus, another approach of structural changes should be followed, which tackles the existing problem at its root with a different set of instruments. The key issue is to ensure productivity gains, which form the basis for subsequent wage increases. For this to happen, a wide-ranging liberalization of the labour market is a key condition. This implies also a de-coupling of social policy issues from labour market policies to a certain degree. Increasing the mobility of the labour force (relocation) across sectors will certainly have a positive impact in this respect, as a lot of potential is still underutilized. Higher mobility means also creating more opportunities for private sector initiatives, and here SME development should be an important focus. In this context, a favourable business environment plays a key supporting role as a driver. However, it is also a key attraction for return migration, which should be supported officially. It is often argued that return migration transforms the previous brain drain into additional gains to the economy, as returnees brings new knowledge, technologies and investments.

Authors

Maryia Akulava[*]	akulava@beroc.by	+375 17 / 277 04 04
Gleb Shymanovich	gshymanovich@gmail.com	+375 17 / 210 01 05
Robert Kirchner	kirchner@berlin-economics.com	+49 30 / 20 61 34 64 2

[*] Maryia Akulava is a researcher at Belarusian Research and Outreach Center (BEROC), http://eng.beroc.by/people/researchers/akulava/.

Contents

1. Introduction

The labour market plays an important role in the Belarusian economy. It is characterized by state dominance, as the private sector is relatively small, and overregulation. The policy of sustaining low wage disparities and excessive employment allows the authorities to eliminate inequality and curtail poverty, thus includes important functions of social policy. Moreover, state regulation of the labour market is a key element of the political business cycle, which functions in Belarus for a long period of time (Haiduk (2007)). The economic costs of this policy are also high and are present in form of an inefficient allocation of the labour force due to its low mobility and weak motivation. This implies labour shortages in some sectors, and high unit labour costs in others because of excessive employment.

An important feature of Belarus' labour market is an open border with Russia and low barriers for getting employed there. The presence of this opportunity of labour migration is actually treated as an element of a social contract in Belarus (Silitsky (2010)). Those who are not satisfied with their well-being, either by being underpaid due to employment in loss-making enterprises, or striving for a better living and self-fulfillment are provided with the opportunity to exit from the contract and search for employment abroad. However, the scale of labour migration was not large enough to influence the domestic labour market and economic policy.

The situation changed fundamentally after the balance of payments and currency crisis in 2011. It resulted in a rapidly growing wage differential between Belarus and Russia, which amplified labour migration. The consequences of this migration flow were labour shortages faced by numerous sectors of the economy. That included construction which has been a crucial sector for Belarus economic policy. The short-term solution to the problem by policy makers was to increase wages to pre-crisis level, even though this led to other problems in terms of loss of competitiveness. In general, a solution to labour migration issues needs a long-term approach. The establishment of the common economic space (CES) implies that employment opportunities in Russia, Kazakhstan and perhaps also other new members will remain open in the long-run, and will correspondingly impact the socio-economic development.

Alongside substantial parts of the low-skilled construction labour force, which are highly paid in Russia, Belarus was left by healthcare personnel, top and medium level managers, and other high-skilled labour force. Their migration resulted not only in a reduction of labour supply, but also falling total factor productivity due to the brain drain. Furthermore, Belarus demographic prospects imply growing pressure on the social security system. Thus, a reduction of employment means additional tax burden on the remaining labour force. These challenges, facilitated by the recent crisis and the creation of the CES, have a structural nature and need to be addressed by economic policy in order to sustain prospects of economic growth in Belarus. The goal of this paper is to present policy measures that may contribute in mitigation of negative consequences of labour migration within CES agreement.

The paper is structured as follows: The second chapter provides some information on labour market regulations in regional integration agreements. Apart from theoretical considerations on the effects that regional integration agreements may have on the labour market, we study the labour market regulations within the CES and Belarus-Russia bilateral agreements. The third chapter discusses labour market challenges, arising from labour migration within the CES for Belarus. The fourth chapter concludes and provides policy recommendations.

2. Labour market regulations in regional integration agreements

2.1. Theoretical considerations

One of the stages of a regional economic integration process is a common market which is based on a customs union and guarantees not only free movement of goods and services, but also certain mobility of labour and capital within member states. The main idea of these agreements is to boost economic development through trade liberalization between the economies and accelerate the investment process. The number of common markets is not that high globally, as it prerequisites a high degree of economic policy unification. The EU and its agreements with non-EU Western Europe states (like EEA, EFTA), CARICOM and the Common Economic Space of Belarus, Kazakhstan and Russia may be used as examples of integration agreements that include a common market.

The creation of a common market doesn't assume that its member's economic development will be equal by any definition. Thus, in case one of the members is more effective with a higher level of living that will simultaneously imply an outflow of the labour force from other members to the most successful one, i.e. migration. The answer to the question on who of the members gain more in terms of migration is ambiguous as there might be both benefits and negative consequences (Handijski, et. al (2010)). Pros and cons for receiving countries depend on the affected group. For example, an increased inflow of immigrants will likely lead to a decrease of wages in the labour market. Thus, local employees will lose because of newcomers. On the other hand the economy in general will benefit, as the level of labour competitiveness will go up, and the allocation of labour improves. Speaking about sending countries, losses are mostly connected with the brain drain. On the flip side, possible benefits for the countries might be gained through return migration, remittances, technological transfer and expansion of network, which is beneficial in terms of trading.

2.2. Belarus' participation in the common economic space (CES)

Belarus actively participates in regional integration initiatives that regularly arise within CIS countries. However, the economic value of most of these initiatives has been rather low due to political and economic reasons, leaving integration within CIS at the level of an incomplete free trade area (Tochitskaya (2010)). The custom union between Belarus, Kazakhstan and Russia, established in 2009, seems to be the first multilateral arrangement that has gone beyond official documents and is being implemented in reality. The main achievement of the union was the introduction of a common customs tariff.

The creation of the common economic space (CES) is viewed as the next level of the integration process between Belarus, Kazakhstan and Russia. The related agreement came into force in 2012; however, a full-fledged common market is anticipated to start functioning only in 2016. There have been talks that the integration process should be accelerated, which is politically motivated. Nevertheless, Belarus, Kazakhstan and Russia have already signed and ratified several agreements on free labour force movement, which is an important step towards a functioning common and single market.

Provisions of the agreement regarding the legal status of labour migrants and members of their families are claimed to facilitate labour mobility between Belarus, Kazakhstan and Russia. The most important terms are summarized in EDB (2012) and include:

- CES citizens can be freely employed in any CES country; no permissions or any other additional documents are required. For non-CES citizen employment in Russia requires i) employer applying for the permission for hiring foreigners, ii) the employee applying for a permission for employment in Russia, and iii) foreigner falling within quotas for labour migrants set yearly. In Belarus, employment of non-CES citizens is complicated by similar barriers: permission for employment for labour migrant and permission to hire labour migrants if their number exceeds 10 persons.
- The period for registration in hosting country for labour migrants is increased from 5-7 to 30 days.
- The period of uninterrupted residence in hosting country for labour migrants and their family members is limited only by the term of employment contract. For non-CES citizens this period ranges from 30 to 90 days depending on local legislation provisions.

However, as far as Belarus-Russia labour migration is concerned, all these norms were in place prior to the CES agreements. According to the resolution of the Supreme Council of Belarus and Russia Community #4 of 22 June, 1996 citizens of Belarus and Russia were exempted from labour migration regulations and were addressed as local labour force. So the key innovation of CES agreement is that these norms are geographically extended to Kazakhstan.

Furthermore, the experts of the EBD stress that there is clause in the agreement that allows CES members to introduce barriers for labour migrants from CES countries. This can occur in case it is necessary to protect the national security, among other strategic sectors of the economy, or combat unemployment. Moreover, national legislation, at least in Belarus, implies that international agreements are not necessary higher in legal hierarchy than national legal acts.

In addition to labour market issues, agreements signed by Belarus and Russia cover also social services provision for labour migrants. They imply that labour migrants and their relatives are

provided with free emergency services and any health care services on a fee basis. Furthermore, family members of labour migrants have access to secondary and vocational education on an equal basis with the local population. The same terms are set in "Convention on Legal Status of Labour Migrants and Their Family Members within CIS", ratified by Belarus in 2010. However, it has not entered into force yet as other countries didn't ratify it. Belarus has also an agreement with Russia on pension provision. According to it, if a person worked in both countries during his/her lifetime, he/she receives a pension from both states proportionally to the period of contributions (Bobrova, Shahotska, Shymanovich (2012)). So a part of pensions of labour migrants is exported to the country of permanent residence. The same is true if a pensioner moves from one country to another. Besides, there is a clause that a person can give up receiving exported pension, and apply for pension according to local legislation. In this case, years of employment abroad are counted into service record at the same basis as years of local employment.

So there is a broad range of agreements that create favorable environment for labour migration to Russia. The main drawback is that most of these agreements cover only regular migration, while a big portion of labour migrants are employed in the shadow economy.

3. Challenges to Belarus' labour market

3.1. Demographical challenge

Belarus' labour market is characterized by widespread direct and indirect regulations in wage setting, hiring and firing procedures. These regulations aim at sustaining a low level of inequality and absolute poverty, and both of these tasks are largely achieved. For instance, the level of absolute poverty in Belarus in 2012 was just 6.3%, and the GINI coefficient was estimated at 0.265 in 2011, which is close to the level of Scandinavian countries (see IMP Research center (2012)). Furthermore, regulations ensure a relatively low level of unemployment even at turbulent times (6.1% according to Census of 2009[1]). However, the drawbacks of active labour market regulation are also evident. First, it is the low labour force mobility which hinders its reallocation from inefficient to efficient sectors of the economy. Second, low wage differentials produce little incentives for employees in terms of investing in their human capital and looking for better employment possibilities (see World Bank (2010)). Third, state-owned enterprises play a key role in Belarus economy and labour market, as the private sector stands for only 30% of GDP. Labour productivity at state-owned enterprises is proved to be substantially lower compared to private companies, implying high potential for productivity increases in Belarus (see World Bank (2012)).

These problems are aggravated by another challenge that Belarus has recently encountered. It is the reduction of the working force due to demographic factors. Labour resources, comprising employable working age individuals and employed people aged below or above working age, have been falling since 2008 (see Figure 1). The demographic forecasts provided either by UN or Belstat imply further deterioration of the demographic situation in Belarus. The structure of population will change: Share of elderly population will go up, while share of working age population will gradually fall, thus reducing employment.

According to Belstat's 20 years demographic forecasts, Belarus' working age population will reduce by more than 0.5 m within the 2013–2020 period (see Figure 2). Consequently, the share of the working age population[2] will fall from 60.1 to 55.6%. UN Population Department forecasts are even more pessimistic. According to the medium scenario, Belarus will suffer from a working age population reduction by 0.7 m in 2010 – 2020, and its share will drop from 66 to 60%[3].

Long-term UN population forecasts show that the share of Belarus working age population (individuals 15-59 years old) will fall until 2050, reaching a minimum of 51.7%. The number of working age individuals will be only 4.1 m at that time, which is lower than current employ-

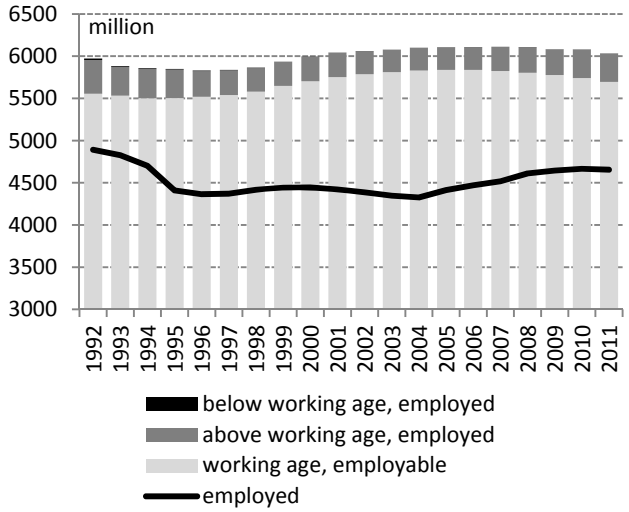
[1] See Belstat (2011). Census 2009: Social-economic characteristics of Belarus population, http://belstat.gov.by/homep/en/census/2009/volume6.zip.
[2] Official definition. i.e. individuals aged between 15 and 55/60 for women and men, respectively.
[3] Working age population is defined as individuals aged between 15 and 60. See http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm.

ment figures. Even optimistic UN population forecast, implying higher fertility rates (by 0.5 than in medium scenario)[4], does not improve the situation until 2050.

The negative trend in employment, subsequent to working-age population reduction, appeared in the end of 2011, i.e. with a three years lag. The reason for this short-term postponement was the growing economic participation rate at the end of the last decade (see Figure 3). In 2004, only 69.6% of employable working age population was employed, while in 2011 this ratio was 75.8%.

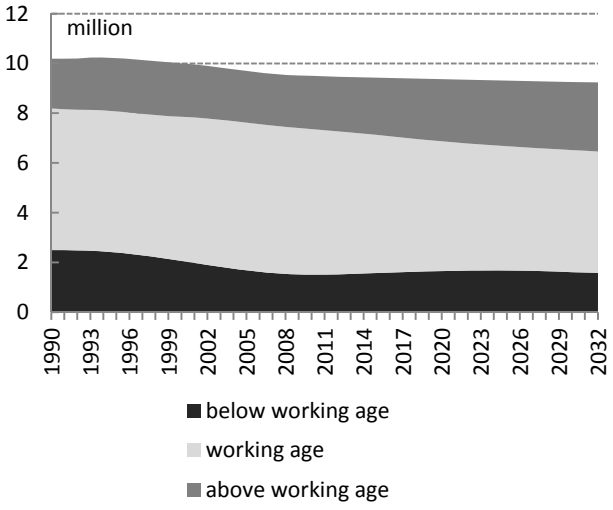
Increase of economic activity is not related to labour market policies, but should be attributed to the demographic factor, as the structure of working age population shifted towards prevalence of middle and upper working age groups. It implies that the share of students, characterized by low economic activity, among working age population has reduced, as those born in 1980s have graduated from the universities and entered the labour market. The size of the following generation born in 1990s and graduating nowadays from universities is much less due to low birth rates during the first decade of transition. So, the share of students among working age population has stabilized and the trend of economic participation rate growth stopped. It immediately affected the number of employed individuals: employment reduced by 2% in 2012 compared to 2010.

Figure 1. Labour resources and employment



Source: Belstat.

Figure 2. Expected population dynamics

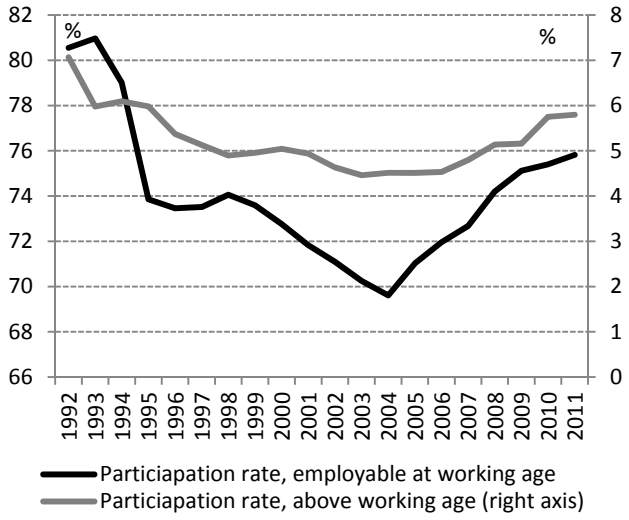


Source: Belstat.

Besides, a reduction of the labour force and employment are restrained by growing participation rate among individuals in the pension age (see Figure 3). In 2011, the share of those in the pension age continuing to work was 5.8%, which is significantly higher than half a decade ago (4.5% in 2006). Census data shows that economic activity remains high between women aged above 55-60 (39.4%) and men aged 60-65 (31.6%). Moreover, economic activity grows significantly with the level of education (see Shymanovich (2013)). Among individuals with higher education aged slightly above the pension age, economic activity rates are 56.5 and 49.4 for women and men, respectively. Moreover, economic activity among men aged 65-70 and women aged 60-65 with higher education is also relatively high (26.9 and 28.7% respectively). The share of pension aged individuals within the labour force in Belarus reached 7.2% in 2011. It has potential for further growth, as the size of this group of population is growing and the level of education is increasing (Chubrik, Shymanovich (2013)), i.e. the propensity to stay employed among them will also increase. However, the productivity of pension-aged employees may be questioned.

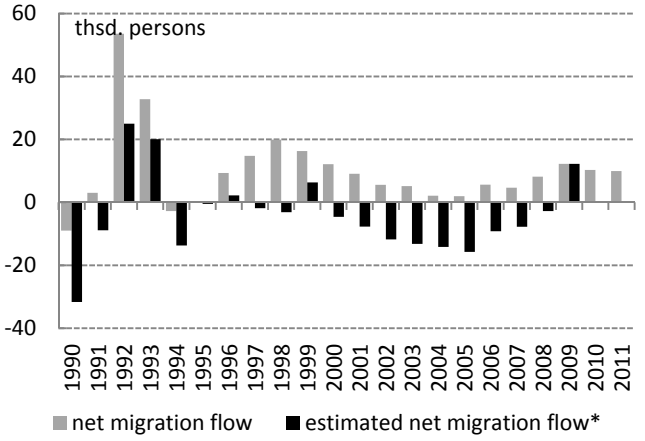
[4] UN population forecast has been published prior to 2009 census data. Consequently, it does not take into account current upswing of birth rates. Hence, optimistic scenario provides currently better fit to actual population dynamics than medium scenario.

Figure 3. Participation rates



Source: Belstat.

Figure 4. Net migration



Note. * Estimated for 1990–2009 as difference between actual population decrease, corrected after Censuses 1999 and 2009, and natural decrease.
Source: Chubrik, Shymanovich (2013).

3.2. Scale and profile of labour migration

Population forecasts, as presented in the previous section, are based on official migration data which underestimates the outflow of population, which in turn makes the labour market supply perspective even gloomier. The scale of migration underestimation can be traced through comparison of population dynamics, adjusted after the census 2009, natural increase/decrease of population and official migration balance. Official data shows that Belarus enjoys a permanent net inflow of population. However, the difference between census adjusted population change and the natural decrease reveals that the migration balance is steady negative (see Figure 4). If one assumes that official migration statistics correctly estimates immigration, while underestimating emigration, it is possible to reconstruct realistic emigration dynamics. This exercise was done in Chubrik, Shymanovich, (2013) and it revealed that 254 thsd persons left Belarus in 2000–2009; meanwhile official number of emigrants in this period is just 113 thsd persons. Hence, 2.5% of Belarus population left the country during the last decade. Overall, the number of emigrants in 1995–2011 is estimated at 430 thsd persons[5].

Another trend affecting Belarus' labour market is temporary labour migration. Statistics on this phenomenon is very limited, as most of labour migration flows occur to Russia. Integration agreements between Belarus and Russia imply the absence of a border, and minimal barriers for Belarusians to get employed in Russia. Alongside with wide spread employment in the shadow economy, it makes a precise assessment of Belarusian labour migrants impossible. The most reliable source of information might have been the labour force survey that started in 2012, but its results are not published and are considered to be for official use only.

The only sources of information on labour migrants in these circumstances are census and official data on Belarusians employed abroad (registered as leaving Belarus based on the contract with foreign company). However, both of them significantly underestimate true scale of labour migration. Official statistics argues that only around 4 thsd of Belarusians are employed abroad, while census data revealed that 41.9 thsd people were employed abroad in 2009. Actual numbers are much higher, as part of labour migrants was not covered by census as they were abroad, and those covered might have preferred not to reveal their employment abroad for different reasons (see Chubrik, Kazlou (2013)). Experts of the Eurasian Development Bank (EDB) claim that the number of labour migrants in Russia may be in the range of 78.5 to 170.9 thsd people. The estimates were based on 2010 balance of payments data, and different assumptions on the share of income transferred home by labour migrants (EDB (2012)).

Nevertheless, official and census data are the only sources of information casting light on the profile of labour migrants. Official data has been analyzed in Bobrova, Shahotska, Shymanovich (2012), while Chubrik and Kazlou (2013) have focused on the census. The key fea-

[5] 1995 is chosen as a base year, as it is the end year of the migration wave, occurred after Soviet Union dissolution (see Bobrova, Shahotska, Shymanovich (2012)).

ture of Belarus' labour migration is the domination of the Russian vector. According to census data, more than 90% of labour migrants are employed in Russia (60% according to official data). Another characteristic is that the average labour migrant to Russia differs greatly from a migrant to other countries. First, Russia is a male-dominated direction (more than 90% by census data). Men also prevail among migrants to other countries, but that dominance is less strong. Women constitute around one third of all labour migrants to other countries, and are even prevalent in some directions (i.e. Italy according to official data). Second, the place of residence plays an important role in determining choice of employment abroad. Most of labour migrants to Russia are inhabitants of small and large cities other than Minsk. Besides, residents of eastern regions (Vitebsk, Mogilev) are more inclined to move to Russia, compared with average citizen of Belarus. Countries other than Russia are relatively attractive for citizens of Minsk and western regions (in absolute terms they also prefer employment in Russia). Third, the education level of labour migrants to Russia is lower than the average for the economic active population. In contrast, the level of education among non-Russia labour migrants is higher than the average. Fourth, most of migrants to Russia are employed in the construction (47.2%) and transport sector (11.1%). Among non-Russia labour migrants, the distribution of employment sectors are more even. Only transport sector stands out with the share of 22.8%.

3.3. Labour migration effects across the economy

The trends discussed above had only a narrow effect on Belarus' economy during the pre-crisis period. The only sectors of the economy that suffered from labour migration were construction and transport. Employed persons abroad constituted 4.6% and 2%, respectively, of Belarusians employed in these sectors[6]. These numbers should have significantly increased in 2011 – 2012, when Belarus faced a severe currency crisis. Anecdotal evidence shows that the outflow of labour intensified in this period, which affected labour market, as there were shortages of labour supply in some sectors. This thesis can indirectly be supported by official statistics on labour mobility and wages.

Labour mobility has been traditionally low in Belarus due to regulations of firing and hiring procedures and low wages differential. However, the termination turnover rate showed an increase in last years. At the same time, hiring turnover rates remained largely unchanged, boiling down to a reduction in employment in some sectors. It can be traced via the ratio of hires to terminations, presented in Table A6. The most intensive reduction of employment that took place in 2011 – 2012 is in construction, transport, and light industries (see Table 1). An especially low level of hires compared to terminations was in construction (and related to it, in production of non-metallic mineral products) in 2011, when the sector began to contract.

Table 1. Labour mobility and wages differential between Belarus and Russia by sectors, believed to be suffering from labour outflow

	Ratio of hires to terminations, %				Wage gap between Russia and Belarus, %*			
	2010	2011	2012	2013 H1	2010	2011	2012	2013 M5
Average	*102.0*	*92.8*	*95.2*	*86.6*	*-41.6*	*-54.8*	*-48.8*	*-39.3*
manufacture of textiles and textile articles	86.7	86.0	79.6	66.9	-11.5	-23.4	-11.9	3.9
manufacture of leather, articles of leather, and footwear	102.8	96.8	78.5	88.5	-4.1	-26.3	-8.5	10.2
processing of wood and manufacture of products of wood	98.8	85.5	83.8	81.2	-16.1	-37.3	-25.3	-6.5
Construction	108.3	72.8	84.0	106.5	-27.6	-49.3	-38.2	-19.7
trade; repair of motor vehicles and household and personal goods	107.9	100.6	110.9	99.2	-39.9	-51.3	-41.7	-26.2
transport and communications	100.0	89.7	91.1	85.8	-43.8	-59.0	-50.1	-41.5
health and social work	104.3	102.4	104.5	78.0	-37.8	-49.6	-46.2	-46.5

Note. * Wages prior to income taxation and 1% social contribution in case of Belarus.
Source: Belstat, Russian Statistical Committee.

[6] According to specialization, 9.2% of Belarus' non-qualified construction and mining workers were employed abroad (see Chubrik, Kazlou (2013)).

Obviously, a big portion of the workforce that left was employed in Russia. While Russian construction and transport sectors have traditionally been attractive for the Belarusian workforce, light industry labour migration was a new trend. There was a lot of anecdotal evidence that workers from the Eastern part of Belarus from textile manufacturing, as well as wood products manufacturing, got employed by Russian companies allocated in the regions close to Belarus' border. The reason for this was a growing gap between wages in Russia and Belarus as a consequence of currency crisis of 2011. Average wages in construction and transport in Russia were two times higher than in Belarus in 2011. For light industry, the average annual gap was around 30%. Obviously it was even higher at the second part of the year when the exchange rate of the Belarusian rouble to the Russian rouble reached its minimum.

In 2012, the wage differential began to narrow. It mainly had effect on pre-border migration; as wages in Smolensk or Briansk regions are much lower than average in Russia[7]. Wage increase and falling labour migration can be attributed to public policies aimed at a recovery of household incomes, enterprise wage policies that had to raise wages in order to stop the outflow of the workforce, as well as administrative decisions to limit labour mobility. Furthermore, the current economic slowdown in Russia also contributed to the gap reduction. In fact, in May 2013 wages in some sectors of light industry were even higher in Belarus than in Russia, for instance in textile manufacturing (see Table 1 and A6 for details). In construction, the gap has reduced to 20%. It is still a pull factor for Belarus construction workers, but it won't lead to labour migration at a scale which was observed in 2011. Moreover, there might be a return flow of labour migrants, as currently a number of hires (in January-June 2013) exceed the number of terminations in construction by 6.5% (see Table 1). This trend may have a middle-term nature, as construction is currently discussed to become once again the locomotive of the Belarus economy.

4. Conclusions and Policy Recommendations

In the following part, we sum up the previous discussion on the challenges Belarus currently faces in its labour market, and give some concrete policy recommendations on how to tackle them.

4.1. Challenges

- Belarus' labour market is experiencing an increasing shortage of the labour supply due to long-term demographic factors. The problem might be aggravated at different time horizons by labour migration, which is increasingly driven by wage differentials between Belarus and Russia. Russia is a key destination country as there is no language barrier, cultural proximity and limited regulatory barriers due to different integration agreements between Belarus and Russia.
- The most inclined persons to get employed abroad are male non-qualified construction workers. However, low incomes may push also female workers from light industry and services to look for employment possibilities abroad. Besides, labour migration is accompanied by a brain drain, as highly motivated and educated persons (top managers, engineers) are also leaving to Russia, where they can enjoy higher salaries.
- Another structural problem is the growing dependency ratio, and the observed labour outflow aggravates the problem. Possible negative consequences of regular labour migration on the social security system are partly mitigated by the agreement with Russia on the export of pensions. However, the scale of regular labour migration is currently not that big, and irregular migration creates pressure on the social security system, as migrants do not pay contributions (i.e. do not contribute to pay the current pensions), but will need to be supported later on during retirement (i.e. additional expenditures, that might have been carried by the Russian budget, if migrants had been officially employed).
- Thus, challenges related to labour migration have a short-, medium- and long-term perspective. While the reduction of labour supply immediately transforms into a labour shortage (or reduction of unemployment in theory), the associated brain drain and growing fu-

[7] In the first half of 2013 wages in Smolensk and Briansk regions were 33.4 and 36.8% lower than average in Russia.

ture expenditures in the social security system create additional downward pressure on productivity and competitiveness of the Belarusian economy.

4.2. Solutions

- Economic policy has reacted in different ways to the pressure from the existing wage differential, which is a main factor for short-term migration decisions. On the one hand, broad-based domestic wage increases lowered the wage gap, and thus tried to slow down (or reverse) migration outflows. On the other hand, administrative decisions in certain industries affected (e.g. the wood processing industry) created new barriers for migration. Taken together, one can speak of a “stick and carrot” approach followed by the authorities.
- While the domestic wage increases made employment in CES partner countries (e.g. Russia) less attractive, and thus were in line with their objective, they created new problems. The current situation is characterized by significant increases in unit-labour costs, as nominal wage and income gains are not supported by productivity gains. Thus, the sustainability of this move is in doubt, and in a negative scenario, this might lead to a similar situation prior to the 2011 balance of payments crisis, which was also caused by overly expansionary macroeconomic policies. Similarly, the administrative restriction of labour mobility (at least in economic terms) is problematic, as it interferes with an optimal and welfare-enhancing allocation of resources.
- Thus, another approach should be followed, which tackles the existing problem with a different set of instruments. Such a new strategy of structural changes would include the following components:
    - Sustainable domestic wage increases should not lead productivity gains, but follow them. Thus, the key focus is on generating such gains. Increasing the mobility of the labour force (relocation) across sectors will certainly have a positive impact, as a lot of potential is still underutilized.
    - For this, a wide-ranging liberalization of the labour market is a key condition. This implies also a de-coupling of social policy issues from labour market policies to some extent.
    - Mobility means also creating more opportunities for private sector initiatives, i.e. SME development should be further facilitated.
    - In this context, a favourable business environment plays a key role as a driver. However, it is also a key attraction for return migration. It is often argued that return migration transforms the previous brain drain into additional gains to the economy, as returnees brings new knowledge, technologies and investments. Therefore reduction of tax rates, introduction of different privileges and provision of financial and technical support together with concessional loans to small enterprises may be especially effective in mitigating labour market challenges.
    - Next might be the introduction of specific and attractive job opportunities for those who work abroad and have western experience. That might include consulting and training services and managing positions in enterprises. Moreover, measures should also include promotion of foreign education and recognition of diplomas received abroad.

Annex 1: Labour migration in Poland and Baltic countries after EU enlargement

Scale of migration, push and pull factors

The enlargement of the EU in 2004 had a great impact on migration flows in Poland and Baltic countries. Free access to European labour markets stimulated a substantial outflow of labour force from that region. People from EU-8 were no longer subject to any working restrictions and obtained a possibility to work without any work permit, which was a requirement before. However most of EU-15 countries used the possibility to introduce transition periods (up to 7 years) before opening labour markets for citizens of EU-8. The only countries that immediately provided opportunities of a common labour market for EU-8 citizens were the UK, Ireland, and Sweden. As a result, the UK and Ireland became key destination countries for labour migrants from CEE. In addition, Germany remained an attractive market for low skilled seasonal workers from Poland, where the duration of stay equalled to two-three months on average. Even though Germany was one of the last who opened its market for emigrants from Eastern Europe, it was quite easy to obtain a work permit there in case of proving existence of German ancestry or registering as an individual entrepreneur.

Table A1 shows the number of emigrants that left LT, LV, PL during 2002-2011, proving the increasing number of people leaving the countries after the accession to the EU. Statistics from receiving countries also proves growing labour migration (Table A2). According to UK data, the number of emigrants from LT, LV, PL with a resident permit in 2011 equalled to 64, 134 and 687 thsd, respectively. Taking into account that the level of employment in the UK for people from EU-8 amounted to 80%, it is possible to say that in 2011 the number of working emigrants from LT, LV, PL was equal to 51, 107 and 550 thsd of people, correspondingly. In turn, this forms around 5%, 7% and 3% of the active labour force of the country of origin. As for Germany, the situation looks similar. As the data shows, in 2011 the amount of emigrants from these three countries was 18, 27 and 469 thsd, which equals to around 2% of active labour force in the countries.

Table A1. Emigrants by country of origin statistics

	Latvia	Lithuania	Poland
2002	3 262	7 086	24 532
2003	2 210	11 032	20 813
2004	2 744	15 165	18 877
2005	2 450	15 571	22 242
2006	5 252	12 602	46 936
2007	4 183	13 853	35 480
2008	6 007	17 015	74 338
2009	7 388	21 970	n/a
2010	10 702	83 157	n/a
2011	30 380	53 863	n/a

Source: EUROSTAT.

Table A2. Number of immigrants from Baltic states and Poland in UK and Germany by country of destination statistics

	Latvia	Lithuania	Poland
	UK		
Number of immigrants	51000	107000	550000
% in active labour force	4.96%	7.22%	3.09%
	Germany		
Number of immigrants	18200	27800	468500
% in active labour force	1.77%	1.87%	2.63%

Note. Data for UK is presented after adjustment to economic activity rate of immigrants. For Germany no adjustment has been done.
Source: Office for National statistics, Population by Nationality and Country of Birth Report, August 2012, and LFS (EMP06: Employment levels and rates by country of birth and nationality, May 2013) for UK, and Statistisches Bundesamt, Ausländische Bevölkerung: Ergebnisse des Ausländerzentralregisters 2011 for Germany.

The main reasons for such active migration processes were pretty much the same in all new members of the EU (Frelak, Kazmierkiewicz (2007); Kadziauskas (2007)). Low wages, espe-

cially compared with the EU level, high unemployment rates, a large gap in GDP per capita, lack of confidence in further improvement of life quality and lack of opportunities pushed people towards the West European labour market. As it can be seen from Table A3 in 2004-2005 minimum wages in Poland and Baltic countries were almost 10 times lower compared with the level in UK and Ireland. However, if we compare average wages, the difference is smaller (Table A3). Thus, this is evidence that earnings distribution in EU is flatter as compared with LT, LV, PL. Therefore, low skilled labour force has more incentives to migrate, as opportunity costs of their migration are higher compared with qualified specialists, which proves statements provided earlier (Kahanec, Zimmermann (2009)). Thus, it is possible to claim that the wage gap was a strong pull factor towards migration for low skilled labour force in LT, LV, PL.

High risks of unemployment in CEE were a key push factor for labour migration. On the other hand, unemployment rates in key destination countries were low. The reason for high unemployment in LT, LV, Pl was rooted in the low quality of the education system, provoking mismatch of labour supply and demand. The problem was that the share of people with higher education was relatively high compared with developed countries. However, these specialists didn't meet the requirements of the market due to quality of education they obtained while studying in universities. As a result, the employers were not satisfied with the quality and were not ready to hire them.

The global economic crisis of 2008/09 led to the second wave of emigration out of these countries. High rates of GDP growth (Table A5) were followed by recession. Reduction of exports and foreign investments together with decrease of domestic consumption caused new outflows of the labour force towards Western European markets.

Economic outcomes of labour migration in Poland and Baltic states

Emigration of workers from Poland and Baltic countries to Western Europe influenced the economic situation in different directions. On the one hand, it allowed increasing the level of wages in the countries and as a result, the average level of earnings in general. The outflow of labour force stimulates employers in taking efforts to attract employees' staying in the companies through increasing wages and providing other non-pecuniary benefits. Besides, emigration had a positive impact on reduction of unemployment in the country. Unemployment rates started to decrease in LT, LV, PL after the access to the EU (see Table A3). The global economic crisis contributed negatively and was followed by sharp growth of unemployment in the countries. However, a new migration wave helped to stabilize these threatening tendencies of a rapid growth of unemployment. In addition, the labour force that migrated from the countries positively influenced the home economy through the flows of remittances, which were sent to their home countries.

On the other hand, the dynamics of emigration raises concerns regarding possible effects it may have on the economies in the future. One of the negative consequences of outflow of labour force from Poland and Baltic countries is that all three countries have problems with aging populations. Thus, emigration may aggravate a demographic problem for the countries, especially in Latvia and Lithuania. The problem becomes even more serious if we keep in mind that after the EU enlargement, the proportion of young people who decided to emigrate from Baltic countries was higher compared with the emigration wave of early 90s. Therefore, the pressure on the social security system in the countries becomes much more severe. Another problem widely discussed is brain drain. The accession to the EU allowed not only low-skilled (like workers from construction sector and agriculture), but also talented and well-qualified workers to move abroad in order to obtain much higher earnings there. That was a particular problem with medical workers and engineers. However, such a brain drain may also have a positive effect on the economies. That might occur in case of stimulation of return migration. Experience abroad might be a great opportunity to improve and upgrade the level of knowledge and skills, develop networking, which will be very useful after returning back home.

Policy adjustment to high labour mobility

It should be noted that the authorities took several steps in order to activate a remigration process. However, these measures didn't have a strong effect so far. Mostly, the authorities raised worries regarding the situation with the outflow of labour force. On the one hand, there were attempts to stimulate business development in the countries as well as communication with people who decided to move abroad. On the other, these measures were rather general

and didn't help to achieve a goal and make people to come back home. Thus, nowadays countries are in a need of more specific actions that will turn back the migration process, otherwise they will have to make an accent on attraction of foreign immigrants into the countries.

Currently the inflow of immigrants is much lower compared with outflow (see Table A4). Among immigrants, who moved to these countries were people from neighbouring Ukraine, Belarus and Moldova, which are going through a difficult transition period. Poland can be highlighted as a country that already has in place policy measures aimed at attracting employees from ENP countries to cover the deficit in low skilled labour force, observed in some sectors due to labour migration to the EU. However, before 2011 it was to a large extent presented in the form of illegal employment. First, these were seasonal workers mostly from Ukraine, who came to Poland to work in the agricultural and construction sectors. Second were those who came working as housekeepers and attendants. Third were those who worked in Polish enterprises without properly registered and formalized documents. In order to cope with that situation, Poland introduced in 2011 a reduced employment system, meaning that a polish employer who wants to hire workers from Belarus or Ukraine have just to inform local employment bureau and provide evidence that foreigner doesn't have any debts or claims from law enforcement agencies back home. It should be noted that nevertheless this situation didn't attract much people from Belarus, who are mostly interested not in seasonal agricultural jobs but in receiving a Pole's card (document that confirms belonging to Polish nation) that will permanently legalize their status in the country.

Summing up, there were no distinct successful results achieved by LT, LV, PL in coping with their labour outflow after EU accession. Thus, the international organizations advise to put more emphasis on clear policy actions. According to the International Organization for Migration (IOM), the possible directions of a policy focused on activation of return migration should include measures on improvement of macroeconomic situation as well as business environment and stimulation of development of small and medium business. That includes reduction of tax rates, introduction of different privileges and provision of financial and technical support together with concessional loans to small enterprises. Next might be the introduction of specific and attractive job opportunities for those who work abroad and have western experience. That might include consulting and training services and managing positions in enterprises. Moreover, according to IOM, measures should also include promotion of foreign education and recognition of diplomas received abroad.

Table A3. Wages, unemployment rates and GDP per capita in Poland, Baltic States and several EU-15 member states

	Ireland	Latvia	Lithuania	Netherlands	Poland	UK
Average monthly earnings (EUR)						
2003	1 200.10	181.72	177.59	1 765.03	292.65	1 831.71
2004	1 264.16	196.78	216.90	1 838.18	290.33	1 955.40
2005	1 309.37	219.53	239.56	1 875.07	337.46	2 008.72
2006	1 353.13	269.44	281.36	1 844.40	365.58	2 087.18
2007	1 409.82	345.93	345.63	1 903.97	415.28	2 200.20
2008	1 471.53	419.24	404.41	1 956.43	459.05	1 897.22
2009	1 437.72	428.10	376.90	2 010.25	385.44	1 693.00
2010	1 460.59	424.64	369.93	2 054.16	432.44	1 808.03
2011	1 484.71	442.99	379.60	2 080.80	447.50	1 779.51
Minimum wages (EUR/month)						
2003	1 073.15	114.01	124.55	1 249.2	198.96	1 063.80
2004	1 073.15	118.96	130.34	1 264.8	175.25	1 054.20
2005	1 183.00	114.63	144.81	1 264.8	207.86	1 134.67
2006	1 292.85	129.27	159.29	1 272.6	232.90	1 212.61
2007	1 402.70	172.12	173.77	1 300.8	244.32	1 314.97
2008	1 461.85	229.75	231.70	1 335.0	313.34	1 242.24
2009	1 461.85	254.13	231.70	1 381.2	307.21	995.28
2010	1 461.85	253.77	231.70	1 407.6	320.87	1 076.46
2011	1 461.85	281.93	231.70	1 424.4	348.68	1 136.22
2012	1 461.85	285.92	231.70	1 446.6	336.47	1 201.96
Unemployment						
2003	4.6	11.3	12.4	4.2	19.8	5.0
2004	4.5	11.2	11.3	5.1	19.1	4.7
2005	4.4	9.6	8.0	5.3	17.9	4.8

	Ireland	Latvia	Lithuania	Netherlands	Poland	UK
2006	4.5	7.3	5.2	4.4	13.9	5.4
2007	4.7	6.5	3.8	3.6	9.6	5.3
2008	6.4	8.0	5.3	3.1	7.1	5.6
2009	12.0	18.2	13.6	3.7	8.1	7.6
2010	13.9	19.8	18.0	4.5	9.7	7.8
2011	14.7	16.2	15.3	4.4	9.7	8.0
2012	14.7	14.9	13.3	5.3	10.1	7.9
GDP per capita in Purchasing Power Standards/PPS, index (EU28=100)						
2003	142	44	50	129	49	121
2004	143	47	52	129	51	123
2005	144	50	55	131	51	123
2006	145	53	58	131	52	121
2007	145	57	62	132	54	117
2008	131	58	65	134	56	113
2009	128	54	58	132	61	111
2010	127	54	61	131	63	111
2011	129	58	66	131	64	109
2012	129	62	70	128	66	110

Source: EUROSTAT.

Table A4. Number of immigrants in Poland, Baltic states

	Latvia	Lithuania	Poland
2002	1 428	5 110	6 587
2003	1 364	4 728	7 048
2004	1 665	5 553	9 495
2005	1 886	6 789	9 364
2006	2 801	7 745	10 802
2007	3 541	8 609	14 995
2008	3 465	9 297	47 880
2009	2 688	6 487	n/a
2010	2 364	5 213	n/a
2011	7 253	15 685	n/a

Source: EUROSTAT.

Table A5. Real GDP growth in Poland, Baltic states

	Latvia	Lithuania	Poland
2003	7.6	10.3	3.9
2004	8.9	7.4	5.3
2005	10.1	7.8	3.6
2006	11.2	7.8	6.2
2007	9.6	9.8	6.8
2008	-3.3	2.9	5.1
2009	-17.7	-14.8	1.6
2010	-0.9	1.5	3.9
2011	5.5	5.9	4.5
2012	5.6	3.7	1.9

Source: EUROSTAT.

Annex 2: Detailed labour market statistics by sectors of the economy

Table A6. Labour mobility and wage differentials between Belarus and Russia

	Ratio of hires to terminations, %				Wage gap between Russia and Belarus, %*			
	2010	2011	2012	2013 H1	2010	2011	2012	2013 M5
Average	**102.0**	**92.8**	**95.2**	**86.6**	**-41.6**	**-54.8**	**-48.8**	**-39.3**
Agriculture, hunting and forestry	92.8	92.8	94.4	93.4	-19.0	-39.0	-26.3	-6.3
Fishing and fish farming	103.5	104.4	94.4	87.5	-62.2	-69.1	-64.2	-57.7
Industry	99.0	94.7	91.7	89.2	--	--	--	--
Mining and quarrying industry	107.9	106.0	89.4	80.7	-51.4	-63.9	-58.6	-52.0
Manufacturing	98.7	94.4	91.3	87.4	-27.8	-43.1	-35.0	-24.2
manufacture of food products, including beverages, and tobacco	109.3	100.5	100.4	103.6	-24.4	-39.7	-30.2	-17.4
manufacture of textiles and textile articles	86.7	86.0	79.6	66.9	-11.5	-23.4	-11.9	3.9
manufacture of leather, articles of leather, and footwear	102.8	96.8	78.5	88.5	-4.1	-26.3	-8.5	10.2
processing of wood and manufacture of products of wood	98.8	85.5	83.8	81.2	-16.1	-37.3	-25.3	-6.5
manufacture of pulp and paper; publishing	97.2	86.0	83.9	75.8	-37.4	-50.0	-43.7	-31.4
manufacture of coke, petroleum products and nuclear materials	111.1	108.1	101.8	74.3	-39.0	-52.9	-47.1	-34.9
manufacture of chemicals and chemical products	108.1	89.1	82.2	83.5	-1.3	-19.7	-15.4	-8.9
manufacture of rubber and plastics products	102.5	99.6	97.9	86.5	-12.5	-21.9	-4.6	4.3
manufacture of other non-metallic mineral products	104.0	80.4	92.1	93.6	-20.2	-44.3	-34.6	-19.2
manufacture of basic metals and fabricated metal products	101.3	96.1	104.3	79.4	-24.5	-38.9	-31.3	-21.6
manufacture of machinery and equipment	91.9	94.0	91.5	79.9	-29.9	-45.3	-36.2	-27.2
manufacture of electrical, electronic and optical equipment	97.3	84.3	72.4	63.0	-40.8	-54.5	-48.5	-39.1
manufacture of motor vehicles and equipment	81.3	112.9	96.2	76.4	-30.8	-46.1	-36.7	-31.7
other manufacturing	106.7	105.7	95.2	91.4	-16.7	-27.0	-17.9	2.0
Production and distribution of electricity, gas and water	99.5	95.4	94.1	73.5	-42.2	-58.8	-52.4	-44.6
Construction	108.3	72.8	84.0	106.5	-27.6	-49.3	-38.2	-19.7
Trade; repair of motor vehicles and household and personal goods	107.9	100.6	110.9	99.2	-39.9	-51.3	-41.7	-26.2
Hotels and restaurants	97.9	94.1	102.2	119.6	-40.1	-50.1	-40.5	-26.8
Transport and communications	100.0	89.7	91.1	85.8	-43.8	-59.0	-50.1	-41.5
Financial activities	122.2	105.5	104.1	95.2	-56.9	-66.7	-61.3	-55.6
Real estate, renting and business services	106.3	95.7	94.8	98.7	-38.2	-52.8	-46.7	-34.0
Research and development	98.0	89.3	88.7	84.6	-44.0	-59.8	-57.1	-50.2
Public administration	97.9	95.8	93.8	33.3	-38.4	-56.2	-59.0	-51.5
Education	104.2	102.9	93.5	63.2	-35.7	-46.9	-45.7	-48.4
Health and social work	104.3	102.4	104.5	78.0	-37.8	-49.6	-46.2	-46.5
Community, social and personal services	103.2	97.5	98.4	80.1	-32.7	-50.7	-46.3	-40.0

Note. Wages prior to income taxation and 1% social contribution in case of Belarus. Wages comparison at industry level is not available.
Source: Belstat, Russian Statistical Committee.

Literature

Bobrova, A., Shakhotska, L., Shymanovich, G. (2012). *Belarus Country Report: Social Impact of Emigration and Rural-Urban Migration*, European Commission, DG Employment, Social Affairs and Inclusion.

Chubrik, A., Kazlou, A. (2013). *Costs and Benefits of Labour Mobility between the EU and the Eastern Partnership Partner Countries: Belarus Country Study*, CASE, Warsaw.

Chubrik, A., Shymanovich, G. (2013). Labour Supply in Belarus: Challenges for Economic Policy, *Policy Discussion paper* PDP/13/01, IPM Research Center (in Russian).

EDB (2012). *The Analysis of the Economic Effects and Legal and Institutional Consequences of the Agreement on the Legal Status of Migrant Workers and Members of Their Families and the Agreement on Cooperation between the Member States of the Common Economic Space in Preventing Illegal Labour Migration from Third Countries*, Eurasian Development Bank.

Frelak, J., Kazmierkiewicz, P. (2007). Labour Mobility: The Case of Poland. In: Smith-Bozek, J. (Ed.) *Labour Mobility in the European Union: New Members, New Challenges*. Washington DC (Center for European Policy Analysis).

Haiduk, K. (2007). Redistributing Policies in Belarus: Economic Growth, Labour Markets and The Political Business Cycle. In: Chubrik, A., Haiduk, K., Pelipas I. (Eds.) *Growth for all? Economy of Belarus: Challenges Ahead*, IPM Research Center.

Handijski, B., Lucas, R., Martin, Ph., Guerin, S. (2010). Enhancing Regional Trade Integration in Southeast Europe, *Working paper*, 185, World Bank.

IMP Research Center (2012). *Poverty and social Inclusion in Belarus*, Yearbook, IPM Research Center (in Russian).

Kadziauskas, G. (2007). Lithuanian Migration: Causes, Impacts and Policy Guidelines. In: Smith-Bozek, J. (Ed.), *Labour Mobility in the European Union: New Members, New Challenges*. Washington DC (Center for European Policy Analysis).

Kahanec, M. Zimmermann, K. (2009). Migration in an enlarged EU: A challenging solution? *European Economy - Economic Papers* 363, Directorate General Economic and Monetary Affairs (DG ECFIN), European Commission.

Shymanovich, G. (2013). Economic Policy Challenges Stemming from Ageing Population of Belarus, *Discussion paper* DP/13/01, IPM Research Center (in Russian).

Silitsky, V. (2010). From Social Contract to Social Dialogue: Some Observations on the Nature and Dynamics of Social Contracting in Modern Belarus. In: Haiduk, K., Rakova, E., Silitsky, V. (Eds). Social contracts in Contemporary Belarus, Belarusian Institute of Strategic Studies (BISS).

Tochitskaya, I. (2010).The Customs Union between Belarus, Kazakhstan and Russia: An Overview of Economic Implications for Belarus, *Policy paper* PP/02/10, GET/IPM Research Center.

World Bank (2010). Belarus – Industrial Performance Before and During the Global Crisis, *Belarus Economic Policy Notes*, Note 3, World Bank.

World Bank (2012). *Country Economic Memorandum for Belarus: Economic transformation for growth*, report 66614-BY.