

**The London School of Economics and Political Science**

*The Dynamics of the Domestic-Foreign Policy  
Relationship in Transition States*

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A thesis submitted to the Department of International  
Relations of the London School of Economics for the  
degree of Doctor of Philosophy, London, April 2009

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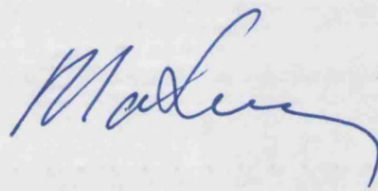
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## ABSTRACT

The thesis demonstrates that viewing transition as a political process of the complex interaction and interplay of different issue policies – economic, political, and security – within the transition state (horizontal) and among three different levels – domestic, state and international (vertical) – can further explain the dynamics and various outcomes we currently witness in the countries of post-communist transition.

The thesis adopts an integrative approach by trying to combine functionalist and genetic schools of democratisation theories. The theoretical framework goes beyond existing democratisation theories and includes the core approaches of those international relations theories that tackle the issues of domestic-foreign policy interaction and explain how international norms are transferred and institutionalised in states. It also implies that it is not only the economic situation but also the political and security conditions that matter if transition is to progress. The thesis proposes a new framework to analyse the transition process which takes into account 1) the initial socio-economic, political and security conditions and the changes in those conditions that result from government policies and their interaction, 2) based on those conditions, elite choices and government policies and their interaction, and 3) the initial domestic and external demands and supports, their interplay and the change resulting from government policies. This framework allows one to follow the developments while they are in process, to trace the direction and dynamics of change within each policy area and at each level in the early stages, and their impact on the overall transition process, as well as to predict and explain the subsequent foreign and domestic policy changes.

The thesis analyses the transition in the twenty-five post-communist countries, with a specific focus on Moldova and Kyrgyzstan. The analysis proves that (1) There is a strong interconnectedness among economic, political and security policies during transition, and success in one dimension often comes at the expense of success in another. It is hard to achieve progress in all dimensions, unless there is sufficient external support; (2) There is also an essential link and interplay among different levels – domestic, state and international – within the overall transition process. In order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably distributed in a timely manner, among those levels; and (3) deriving from the first two points, there is a substantial link between the domestic and foreign policy dynamics of states in transition.

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## ABBREVIATIONS

ADP	Agrarian Democratic Party
BA	Braghis Alliance
BBC	British Broadcasting Corporation
CDPP	Christian Democratic People's Party
CEECs	Central and East European Countries
CEE	Central and East European
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States
CoE	Council of Europe
CPM	Communist Party of Moldova
EBRD	European Bank for Reconstruction and Development
ENP	European Neighbourhood Policy
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GUUAM	Georgia, Uzbekistan, Ukraine, Azerbaijan, Moldova (an international organisation)
ICG	International Crisis Group
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMU	Islamic Movement of Uzbekistan
IO	International Organizations
INGO	International Non-Governmental Organization
NATO	North-Atlantic Treaty Organization
NGO	Non-Governmental Organization
ODIHR	OSCE Office for Democratic Institutions and Human Rights
OSCE	Organisation for Security and Cooperation in Europe



PCA	Partnership and Cooperation Agreement
PfP	Partnership for Peace
RFE/RL	Radio Free Europe/Radio Liberty
TACIS	Technical Aid to the Commonwealth of Independent States
SDR	Special Drawing Rights
SEE	South Eastern Europe
SEEC	South Eastern European Cooperation Process
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

## ACKNOWLEDGEMENTS

I would like to express my great appreciation to my Supervisor, Professor Margot Light. Our numerous discussions and her detailed comments on my work enabled me to write and fine-tune the thesis. I am grateful for her invaluable advice, strong support and encouragement at all stages of my work that made it possible to complete my Ph.D.

I would also like to extend my thanks to Professor James Hughes and Professor Mark Webber for their valuable comments. I have benefited greatly from the intellectually stimulating environment at the London School of Economics, and I am proud of my association with this finest academic institution. I extend my profound thanks and love to my family and especially to my wife Dr. Anna Aghumian, for her inspiration and enormous support. I dedicate this dissertation to my parents with gratitude and to my sons with hope.

## INTRODUCTION

Eighteen years after the collapse of the Soviet Union, we witness different degrees of development in the twenty-five post-communist states. At the beginning almost all of them embraced democracy and market principles. Some of them can be called full-fledged democracies today, while others oscillate between authoritarianism and democracy. Since then, a plethora of research has been conducted to understand where these countries are transitioning and what causes such a divergence in their paths.

To date, the analysis of post-communist transition is conducted in the framework of the existing democratic transition theory that has been built on the democratisation experiences of Latin America and Southern Europe. The two schools of thought on democratic transition theory, the genetic and the functionalist, emphasise different aspects and causalities of the transition process.

The functionalist school focuses on structural and environmental factors and sees long-term socio-economic or cultural development as the main determinants for political change. The core of the functionalist argument is the link between the economy and democracy. Although it may be seen to target longer-term, pre-transition developments that bring about change more successfully, it is less equipped to effectively analyse the incomparably short subsequent period of early transition. Here the genetic approach is more useful since it concentrates on the depth of the transition process, notably on the institutions, actors, their choices, and strategies. In other words, it emphasises the political determinants of change.

Certainly, past experience, legacies, and historical background play an enormous role in causing differences in the progress of states in transition. However, there is little, if any, essential difference between Ukraine and Belarus in terms of their Communist past, legacies, or level of national identity. In that case, what causes such a difference in the transition trajectories of these two countries? In the same way, one cannot explain the failures in democratisation in Yugoslavia, Belarus, and Turkmenistan within the concept of geographic proximity. In this respect, there is a need for a more comprehensive approach to the study of transition phenomena. While the existing theories of democratic transition provide some useful insights when explaining post-communist transitions, they are clearly

unable to explain the reasons for the diverse trajectories and destinations of those countries, ranging from heavily authoritarian states to democracies.

Much of the transition literature originally emphasised the role of domestic factors. Yet post-communist transition has increasingly demonstrated the significance of the international dimension. The limited writings on the impact of external factors on the transition process examine to what extent a particular transition is “top-down” or “bottom-up” in its dynamics. I suggest that one should look at it as a combination of, and an interaction between, the two.

One of the most egregious omissions in existing studies of democratisation is analysis of the process of political interaction during transition – both internal and external – within which each government moves to achieve its foreign and domestic policy goals, in this case towards establishing democracy, a market economy and international integration.

Neither of the schools of democratic transition theory treats the transition process as a dynamic process of interaction across domestic and international levels on the one hand, and a trade-off between values and policy priorities within each of those levels, on the other. My thesis aims to fill that gap.

Theories of International Relations (IR) also have limited applicability to post-communist transition. Discussing transition as a dynamic process of political interaction within the state and across all three levels – domestic, state and international – means touching upon one of the core, and yet controversial, topics of IR theory – domestic-foreign policy linkages. There are number of theories and concepts on domestic-foreign linkages that are either narrow in their scope or static. The concepts discussed do not say much about the dynamics of the changes in a state’s structural position itself. They rather describe only in general terms the possible tactical reactions of a statesman or a government to this or that situation.

The model I propose in my thesis aims to follow the developments while they are in process, to trace the direction and dynamism of the change within each policy area and at each level in the early stages and their impact on the overall transition process, so as to predict and explain the subsequent foreign and domestic policy changes.

In general, measuring change is a difficult task, both in terms of methodology and in terms of methods. Tracing patterns of political and economic development and change or correlation, or revealing the patterns of change and interaction of foreign and domestic policy, requires following longer-term developments. On the other hand, the longer the time period, the less chance there is to effectively analyse often incommensurate and subjectively interpreted political and economic data. This often makes accurate analysis difficult, if not impossible, which makes it difficult to come to correct or useful conclusions. In this respect, transitional countries suggest themselves as attractive cases for empirical study because of the bold shifts in both foreign and domestic policy processes that occur within a short and observable period of time. It is not only transition theories that may benefit from this approach. IR theories may also benefit, since transitional countries may provide valuable empirical input into the area of domestic-foreign policy linkage.

The theories and approaches mentioned above explain transition dynamics to some extent. However, they do not account for the process of political interaction and interplay during the transition – both internal and external. My approach aims to fill that gap by suggesting a more dynamic framework for analysing transition as a multi-faceted and multi-level interaction and interplay. I suggest that transition can be better understood if it is viewed as a political process of complex interaction and interplay of different issue policies within the transition state and among three different levels – domestic, state and international. Based on this, I have constructed three hypotheses that will be tested within the suggested framework on twenty-five post-communist countries in transition, and on Moldova and Kyrgyzstan in particular.

### **Structure of the Thesis**

Chapter 1 of this thesis reviews the theoretical propositions of the existing transition and democratisation theories and their applicability to post-communist transition. It reveals the key domestic factors crucial for the survival and consolidation of democracy. It also highlights those core issues of transition that are not explained sufficiently within the existing theories and substantiates the need for a new approach.

Chapter 2 explores the role of external factors in the overall transition. This chapter also discusses theories and approaches in IR that explain how international norms are

transferred and institutionalized by domestic actors. It discusses the theories of international regimes and complex interdependence. It also examines the international dimension of post-communist transition and the role of international institutions, socialisation and conditionality.

Chapter 3 reviews the theories that analyse various aspects of the domestic and foreign policy relationship and tries to identify the concepts that can be useful in analysing the multi-issue and multi-level dynamics of post-communist transition. It also highlights the gaps in the current literature. The chapter elaborates a schematic framework to study transition as a dynamic process of interaction between domestic (horizontal) and international (vertical) levels, sets out the main hypotheses and constructs the core arguments.

Chapter 4 is largely empirical and applies some macro-level analysis to explore what domestic and international factors impact on the transition paths of the twenty-five post-communist countries. The chapter tests empirically the validity of my assumptions about the transition phenomenon as a dynamic process of multi-level and multi-issue interaction and interplay. It finds that the results generally support my assumptions, with only Kyrgyzstan and Moldova looking as if they present a challenge.

Chapters 5 and 6 empirically test my assumptions, based on the framework developed in chapter 3, on the transition experience of Kyrgyzstan and Moldova. These chapters show that these countries fit the pattern and are not exceptions.

The Conclusion summarises the findings and draws theoretical and practical conclusions.

## CHAPTER 1

### **Transition To Democracy: Is There a Need For a New Approach?**

The domestic transformation and integration of countries in transition into the international system is the general or, at least, formal task for those countries. Concurrently, that is the goal the international community desires to achieve. However, states in transition that have embarked on democratisation and marketisation, state and nation-building processes on the one hand, and integration into the international system on the other, present a serious challenge for the existing international relations theory and practice. The purpose of this chapter is to explore the extent to which the existing theories of democratic transition explain the multidimensional and complex processes of transition in the post-communist space and to examine whether the existing theoretical framework of democratic transition is capable of explaining the transition phenomenon as a dynamic process of multi-issue and multi-level interaction and interplay.

#### **Theories of Democratisation and Democratic Transition**

Democratisation is defined as a “complex historical process, consisting of several analytically distinct but empirically overlapping stages. Those stages include: (1) decay of authoritarian rule, (2) transition; (3) consolidation, and (4) the maturing of a democratic political order.<sup>1</sup> Of these four stages, in the literature the transition and consolidation stages have been subject to the most research. I do not make a sharp distinction between democratisation studies and studies of transition, although there is a difference in their substance. Donnell and Philippe Schmitter refer to “transition” as the interval between one political regime and another:

Transitions are delimited, on the one side, by the launching of the process of the aftermath (i.e. dissolution of the authoritarian regime) and, on the other, by the installation of some form of democracy, the return of some

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<sup>1</sup> Doh Chull Shin, “Review : On the Third Wave of Democratization: A Synthesis and Evaluation of Recent Theory and Research”, *World Politics*, Vol.47, No.1, 1994, pp.135-170, p. 143.

form of authoritarian rule, or the emergence of a revolutionary alternative. Our efforts generally stop at the moment that a new regime is installed, whatever its nature or type... While we and our collaborations have paid some attention to the aftermath (i.e. consolidation).<sup>2</sup>

As we see, for objective or subjective reasons, transitologists have also been engaged in post-installation studies. Therefore, for all their differences, studies of democratisation and of democratic transition have much in common.

The transition stage is considered complete when a new constitution is adopted and free elections are held. However, even a successful transition to democratic regime does not guarantee its stability and sustainability. As Adam Przeworski puts it, the central question concerning transitions is whether they lead to consolidated democracy, that is, a system in which the politically relevant forces subject their values and interests to the uncertain interplay of democratic institutions and comply with the outcomes of the democratic process. A democratic regime is consolidated when, under given political and economic conditions, a particular system of institutions becomes the only game in town; that is, when most conflicts are processed through democratic institutions. It becomes self-enforcing when all relevant political forces find it best to continue to submit their interest and values to the uncertain interplay of the institutions.<sup>3</sup>

There are several theoretical questions related to this phenomenon. Although there is a clear understanding of what it means to move in a democratic direction, there is still extensive discussion on why some political regimes move in a democratic direction and others do not, or why these processes have different historical trajectories. Why have democratisation processes at certain points in time been more successful in certain regions and more occasional in others?

Democratisation was a global phenomenon during the twentieth century, especially in its last quarter. While in 1975 at least 68 percent of the world's countries were

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<sup>2</sup> Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead, *Transition from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*, Baltimore: The Johns Hopkins University, 1986, p. 6.

<sup>3</sup> Adam Przeworski, *Democracy and Market: Political and Economic Reforms in Eastern Europe and Latin America*, Cambridge University Press, 1991, p. 96.



authoritarian, by 1995 only about 26 percent remained as such. This rapid political transformation started in Southern Europe in the mid 1970s, then spread to Latin America, and, to an extent, to Asia, in the 1980s. In the late 1980s and early 1990s, democratisation moved on to parts of Sub-Saharan Africa, Eastern Europe, and the Soviet space.

Samuel Huntington separates three waves of democratisation: First, the long wave of 1828-1926; second, the short wave of 1943-1962; and finally, the third wave which started in 1974 and continues today.<sup>4</sup> The geography of democratisation was different during each of these waves. Between 1975 and 1995 there was little regime change in North America, Australia, and Western Europe, apart from Spain and Portugal moving to liberal democracy. The third wave embraced Latin America, with 68 percent of regimes being authoritarian in 1975 and only 10 percent in 1995.<sup>5</sup> Some authors, however, consider post-communist transition as a distinct, fourth wave. Michael McFaul, for example, argues that although they occurred within the same time span, transitions to democracy in Southern Europe and Latin America and transitions after the collapse of the Soviet Union should not be combined in one wave because the regime changes in Southern Europe and Latin America did not trigger or inspire communist regime change. Therefore, “they should not be grounded under same rubric.” He argues that “de-communisation triggered a fourth wave of regime change- to democracy and dictatorship.”<sup>6</sup> I agree with McFaul’s argument. The post-communist transitions indeed have sufficient distinctive characteristics that one can classify them as a separate fourth wave. It will also create less confusion when discussing post-authoritarian and post-communist transitions. However, the theoretical framework that is currently applied to explain post-communist transitions is mostly built on the experience of, and the lessons derived from, the third wave of

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<sup>4</sup> Samuel P. Huntington, *The Third Wave: Democratisation in the Late Twentieth Century*, Norman, University of Oklahoma Press, 1991.

<sup>5</sup> Paul G Lewis, “Theories of Democratisation and Patterns of Regime Change in Eastern Europe”, *Journal of Communist Studies and Transition Politics* Vol. 13. No. 1, 1997, pp. 4-26, p. 9.

<sup>6</sup> Michael McFaul, “The Fourth Wave of Democracy and Dictatorship: Noncooperative Transitions in the Postcommunist World”, *World Politics* Vol. 54, No. 2, 2002, pp. 212-44, p. 213.

democratisation. Therefore, regardless where the transition from communist regimes is placed, the third wave of democratisation remains a key source for reference and comparison.

Several theoretical approaches have been put forward so far to explain patterns of democratisation. These approaches can be grouped into two general schools, the *functionalist* and the *genetic*.<sup>7</sup> The functionalist school searches for the necessary conditions and prerequisites for the emergence of stable democracy and emphasises the importance of socio-economic and cultural factors. It incorporates the modernisation and structural approaches, as well as studies that underscore the importance of political culture conducive to democratisation. The genetic school emphasises political contingency and the role of change agents in explaining how democracy comes into existence. It emphasises political processes and elite initiatives and choices, which are necessary for moving from an authoritarian to a democratic regime. Although there are many shared views both within and among these schools of thought, the difference is that each group emphasises certain causal relationships when explaining the process. I will go into the details of each of these approaches, to see where I can position myself within the existing research spectrum.

### **The Functionalist School**

The *modernisation approach* views the level of social and economic development as a necessary precondition for successful democratisation. It was initially introduced by Seymour Lipset in his book entitled *Political Man*. Distinguishing among stable democracies, unstable democracies, stable dictatorships and unstable dictatorships, Lipset tested how regime types are correlated with indices of wealth, industrialization, education, urbanization. Conducting comparative analysis, he showed that there are certain socioeconomic prerequisites of democracy. He came to the conclusion that “the more well-to-do a nation, the greater the chances that it will sustain democracy.”<sup>8</sup>

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<sup>7</sup> Geoffrey Pridham, E. Herring and G. Stanford, *Building Democracy: The International Dimension in Eastern Europe*, New York: St. Martin's Press, 1997.

<sup>8</sup> Seymour M. Lipset, *Political Man*. London, Heinemann, 1960, p. 31.

Lipset's argument initiated a discussion about the impact of socio-economic development on democracy - the "modernisation theory." His argument was widely accepted and developed in 1960s, when new democracies emerged.<sup>9</sup> It was, however, challenged in the 1970s when democratic regimes started to break down in wealthy Latin American countries and Southern Europe. Considered as too "deterministic", the modernization perspective of democracy appeared irrelevant in the 1970s, when the issue of democratization became a subject of political agenda of those countries.<sup>10</sup> The new realities stimulated a new direction of research focusing on political actors and their strategies and rational choices.<sup>11</sup>

At a later stage, however, Lipset himself admitted that the existence of correlation does not mean the existence of a causal relationship; socioeconomic development does not necessarily bring democracy. Also, it is accepted that the suggested correlations do not hold for all countries and for all democratisation waves.<sup>12</sup>

The "third wave" of democratization renewed interest in the relationship between economic development and democracy. However, again, the research did not reach a clear

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<sup>9</sup> Walt W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press, 1960; Phillips Curtright, "National Political Development: Its Measurement and Social Correlates", in Nelson W. Polsby et. al. (eds.), *Politics and Social Life*, Boston, Mass. Houghton Mifflin, 1963; Deane E. Neubauer, "Some Conditions of Democracy", *American Political Science Review* 61, 1967, pp.1002-9; Gabriel A. Almond and G. Bingham Powell, Jr. *Comparative Politics: a Developmental Approach*, Boston Mass: Little, Brown, 1966; Samuel Huntington, *Political Order in Changing Societies*, New Haven, Conn: Yale University press, 1966.

<sup>10</sup> Adam Przeworski and Fernando Limongi, "Modernization: Theories and Facts", *World Politics* Vol. 49, No. 2, 1997, p.176.

<sup>11</sup> See Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead, *Transition from Authoritarian Rule: Southern Europe*, Baltimore: The Johns Hopkins University Press, 1986; *Transition from Authoritarian Rule: Comparative Perspectives*, Baltimore: The Johns Hopkins University Press, 1986; *Transition from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*, Baltimore: The Johns Hopkins University, 1986; Shain Y and Juan Linz (eds.), *Between States: Interim Governments and Democratic Transitions*, Cambridge, Cambridge University Press, 1995.

<sup>12</sup> See Seymour Lipset, *Political Man: The Social Bases of Politics* revised, Baltimore: Johns Hopkins University Press, 1983.

consensus on the casual relationship between economic development and democracy. Some scholars contend that democracy promotes economic development. Democracy is more conducive to economic growth than even benevolent autocracies. One can attribute better economic performance of democracies to their commitment to such features of democracy as the protection of private property rights, the exercise of political rights and civil liberties.<sup>13</sup>

Others argue that there is no systematic relationship between economic development and democracy for two reasons. First economic development is a necessary but not sufficient condition of democratic development. As Arat puts it:

Democracy is not a one-way ladder that countries climb as their economy and social structures develop... What might be the other conditions of democracy or which components of middle range development and what other factors might be related to the destabilization of democracy?<sup>14</sup>

Second, in the same way, economic development is affected by many factors; a democratic government by itself can have only limited impact on economic development.<sup>15</sup>

In the late 1990s, Przeworski and Limongi seriously challenged modernisation theory.<sup>16</sup> Based on empirical data, the authors tested two key theories, “endogenous” and exogenous” about the correlation between economic development and democratization. They contended that the “endogenous” or modernization theory, which argues that

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<sup>13</sup> Uke Heo and Alexander C. Tan, “Research Note: Democracy and Economic Growth in Developing Countries: A Causal Analysis”, *Comparative Politics* 33, 2001, pp.463-473.

<sup>14</sup> Zehra F. Arat, “Democracy and Economic Development: Modernization Theory Revisited”, *Comparative Politics* 21, 1988, pp.21-36, p.34.

<sup>15</sup> Arat, 1988; Tatu Vanhanen, *The Process of Democratization: A Comparative Study of 147 States, 1980-88*, New York: Crane Russak, 1990; Mancur Olson, “ Dictatorship, Democracy, and Development”, *American Political Science Review* 87, 1993, pp. 567-576.

<sup>16</sup> See Przeworski and Limongi, 1997; Adam Przeworski, Michael E. Alvarez, Jose Antonio Cheibub, and Fernando Limongi, *Democracy and Development: Political Institutions and Well- Being in the World, 1950-1990*, New York: Cambridge University Press, 2000.

development increases the likelihood that countries will undergo a transition to democracy, has no empirical basis.

In contrast, “exogenous” theory, which assumes that once established, development makes democracies more sustainable is supported empirically. In other words, economic development explains why democracy endures, but not why it emerges.

The emergence of democracy is not a by-product of economic development. Democracy is or is not established by political actors pursuing their goals, and can be initiated at any level of development. Only once it is established do economic constraints play a role: the chances for the survival of democracy are greater when a country is richer. Yet even the current wealth of a country is not decisive: democracy is more likely to survive in a growing economy with less than \$1,000 per capita income than in a country with an income between \$1,000 and \$2,000 that declines economically. If they succeed in generating development, democracies can survive even in the poorest nations.<sup>17</sup>

Przeworski’s study also generated a substantial amount of further research confirming that indeed, the level of economic development has more impact on the sustainability of democracy than any other factor.<sup>18</sup> One caveat of Przeworski’s work is that the data used in his study end in 1990 and, therefore exclude the new wave of democratisation that started in post-socialist countries. However, even at a glance, it is visible that Przeworski’s argument linking the sustainability of democracy to economic development can only partially pass the test in post-socialist transition. Economic growth does not immediately translate into economic development and a more complex approach should be adopted in analysing post-communist transitions experiencing such drastic reforms in socio-economic, political and state-building spheres at the same time. Moreover, I agree with Arat that even if it is necessary, economic development is not a sufficient precondition for democratisation to succeed.

In 2003, Charles Boix and Susan Stokes challenged the argument of Przeworski and his collaborators both empirically and theoretically. The authors demonstrated that a

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<sup>17</sup> Przeworski and Limongi, 1997, p. 177.

<sup>18</sup> See Przeworski, Alvarez, Cheibub, and Limongi, 2000; J. B. Londgren and K.T. Poole, “Does High Income Promote Democracy?”, *World Politics* Vol.49, pp.56-91.

more carefully conducted analysis of the same empirical data that Przeworski and others used yields results that more conform to “endogenous” theory of democratization. Furthermore, according to them:

... to sustain the conceptual distinction between endogenous and exogenous democratization, one would need a theory in which development induces actors in democracies to sustain that system but does not induce actors in dictatorships to change to democracy. Przeworski and Limongi fail to provide a persuasive theory linking development to democracy only under the condition of a pre-existing democracy.<sup>19</sup>

In a relatively recent study that included a wide range of countries and the empirical data used in the previous studies, Lipset and Lankin reaffirmed the key argument behind modernization theory: “national wealth is the single most consistent predictor of democratic success.” This time Lipset also took into consideration Przeworski’s counter argument that democracy is a rational choice made by elites who prefer democracy to other types of regimes because it gives sufficient economic opportunities outside the state to political losers. Lipset and Lankin contend that changes in elites values and attitudes (that occur in the process of modernization) regarding economic development also include the idea that “democracy is one, increasingly preferable way to defuse the tensions inherent in the conflict among opposing groups.”<sup>20</sup>

James Hughes makes an important observation, from the perspective of the extent to which modernisation theory can explain post-communist transition. He correctly notes that while modernisation pressures were critical for initiating transition in Russia,

It is less convincing as a predicative model, however, if one examines the transformative impact of transition on social conditions. The functionalist

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<sup>19</sup> Charles Boix and Susan C. Stokes, “Endogenous Democratization”, *World Politics* Vol. 55, 2003, pp.517-49, p.518.

<sup>20</sup> See Seymour Lipset, “Social Requisites of Democracy Revisited”, *American Sociological Review* 59, 1994, pp. 1-22; Seymour M. Lipset and Jason M. Lakin, *The Democratic Century*, University of Oklahoma Press, 2004; Cynthia McClintock, “Lipset’s Legacy”, *Journal of Democracy* Vol.16, No. 2, 2005, pp.164-166.

model is flawed in not recognizing that a systemic transition can devour the modernised social structures from which it is born.<sup>21</sup>

This observation is applicable to all post-communist countries and it is not surprising that the unprecedented triple (some even contend- quadruple) transition in those countries has brought new adaptations of modernization theory. Some studies started to test the immediate impact of economic reforms on democratization. Do economic reforms induce democracy or not? According to some analysts, economic reforms predict democratization better than any other variable. They argue that those countries that score higher on economic reforms (indicators include the private sector share of the economic product, trade and price liberalization) also score higher on measures of democratization (indicators include Freedom House indices of civil rights and political liberties).<sup>22</sup> In this regard, as Valerie Bunce notes,

This finding, however, does not detract in any way from the claims about economic development and democratic sustainability. Just as the richest post-Socialist countries dominate the group of consolidated democracies, the poorest post-Socialist countries are overrepresented in those cases of either compromised democracy or authoritarian rule. Moreover, at least some of the poorest countries in the region that jumped to democracy in the first years of post-Socialism - in particular, Albania and Kyrgyzstan - have been sliding away from democracy in more recent years.<sup>23</sup>

How can modernisation theory contribute to the theoretical framework of my thesis? The classical version of modernisation or endogenous theory, which argues that development increases the likelihood that the countries will undergo a transition to

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<sup>21</sup> James Hughes, "Transition Models and Democratisation in Russia", in Mike Bowker and Cameron Ross (ed.), *Russia After the Cold War*, London, Longman, 2000, p.24.

<sup>22</sup> See M.S. Fish, "The Determinants of Economic Reform in the Post-communist World", *East European Politics and Societies* Vol.12, 1998, pp. 31-78; J. S. Kopstein and D.A. "Explaining the Why of the Why" On Fish's "Determinants of Economic Reform in the Post-Communist World", *East European Politics and Societies* Vol. 13, 1999, pp.613-624.

<sup>23</sup> Valerie Bunce, "Comparative Democratization: Big and Bounded Generalizations", *Comparative Political Studies* Vol. 33, No. 6-7, 2000, pp. 703-734.

democracy, is not applicable to my thesis. On the one hand, while the collapse of the Soviet Union can be considered a result of modernisation pressures that Soviet society passed through, I think that the decision to transit to democracy after the breakdown of the Soviet regime was a choice made by the local ruling or counter elites, induced by certain domestic and international pressures. Moreover, my study focuses on countries that are already going through transition- that is, I concentrate on the post-instalment period and disparities in their starting social and economic conditions may be one among the relatively broad range of factors (along with elite choices, institutional constraints or political culture) that explain why they fail or succeed in their endeavours. In other words, whether the success of the richest post-socialist countries in institutionalising their democracies and the failures of the poor ones that Valerie Bunce observes can be attributed to their national wealth or to some other factors can be proved only when the research includes as many variables as possible.

To some extent, the “exogenous” theory, which assumes that once established, economic development makes democracies more sustainable, can be tested in my thesis. In the post-communist context, this would mean establishing whether success in economic reform would necessarily bring positive changes in democracy as the theory claims. Why are achievements in all reform directions sustainable in some cases, but not in others? The answer to this question, which is core to my thesis, goes beyond the exogenous argument of modernisation theory.

Another distinct approach in the functionalist school is the *structural approach*, which attributes core significance to changing structures of power conducive for democratisation. The structural approach was introduced by Barrington Moore and further elaborated by Dietrich Rueschemeyer.<sup>24</sup> Through all its various interpretations, followers of the structural approach are united in the belief that a country’s historical trajectory towards any political form -- be it liberal democracy or an authoritarian regime -- is contingent on changing structures of class, state, and transnational power driven by a

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<sup>24</sup> See Moore, Barrington, *The Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, London: Allen Lane, 1966; Dietrich Rueschemeyer, et al., *Capitalist Development and Democracy*, Chicago: University of Chicago Press, 1992.



particular history of capitalist development, including such structural processes as wars. Thus, the structural approach focuses on changing structures of class, state, and transnational power and suggests that certain changing structural patterns can lead to democratisation, while others cannot. Therefore, they conclude that it is the changing structures, not elite choices, which determine the route to democracy.

In the context of the third wave of democratisation, the ‘macrohistorical’ approach of the functionalist model was widely criticised and dismissed for being extremely deterministic and not leaving room for medium-term or proximate factors. As Przeworski describes it: “In this formulation [structuralist], the outcome is uniquely determined by conditions, and history goes on without anyone ever doing anything.”<sup>25</sup>

In search for a more profound explanation of the democratisation process, other theories emerged in line with functionalist thinking, focusing on the impact of such variables as the political culture and institutions, historical legacies, and international factors, in addition to socioeconomic factors.

One of these theories focuses on the importance of *political culture*. The founders of this approach, Gabriel Almond and Sydney Verba, argued that certain sets of values and beliefs are more conducive to the emergence of democracy than others.<sup>26</sup> Other proponents of the political culture argument are Diamond and Huntington, who explain democracy and the lack of democracy by political culture.<sup>27</sup> This approach is also largely deterministic since it argues that liberal democracy results from a ‘civic culture,’ a social consensus over a certain set of values such as respect for and trust in government. Certainly, the lack of historical experience with political pluralism, historically evolved structure of a society and cultural peculiarities play some role in the mode and the path of transition, as well as in the choice of institutions of market and democracy. However, it is questionable whether the political culture is an independent variable itself or a by-product of the functioning

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<sup>25</sup> Przeworski, 1991, p. 96.

<sup>26</sup> Gabriel A. Almond and S. Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations*, Princeton: Princeton University Press, 1963.

<sup>27</sup> See Larry Diamond, *Developing Democracy Toward Consolidation*, Baltimore and London: Johns Hopkins University Press, 1999; Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order*, New York: Touchstone.

political institutions.

One dimension within the functionalist framework which proves to be more applicable to post-communist transition, and which to some extent sees the transition process as extending beyond the state and domestic level, stresses the importance of the international context in which transition occurs.<sup>28</sup> The main argument of this approach is that the process of democratisation in a single country in transition is, to a large extent, affected by the international/regional context in which it takes place. This dimension will be discussed in detail in the next chapter.

### **The Genetic Approach**

Dankwart Rustow, who introduced the '*transition approach*', answered the question of how a democracy comes into being by arguing that a historical approach, which would rather focus on the commonalities of a general route that all countries travel during democratisation, provides a sounder basis for analysis than looking for socioeconomic prerequisites. In contrast to the functionalist approach, the genetic approach finds that democracy is produced by the initiatives of human beings. It is believed within this approach that certain elite choices, actions, strategies, and their timing are vital for democracy to happen.

Rustow argued that no particular level of socio-economic development is necessary for transition to democracy. Rather, he underscored the role of elites who make a conscious choice to negotiate a political settlement. Subsequently, Rustow identified four separate phases through which any country passes on its way to democratisation: the *Background Phase*, the phase of establishing national unity within a given territory; the *Preparatory Phase*, when new elite emerges and is engaged in an inconclusive political struggle with the old elite; the *Decisional Phase*, when the choice of democracy is made. This is the phase of what he called a "historical moment," when struggling parties come to the conclusion that they would rather make a compromise, thus establishing and maintaining common rules of the game and the *Habituation Phase*, when democratic

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<sup>28</sup> Pridham and Lewis, 1996.

values are appropriated and the rules of democratic governance become enduring.<sup>29</sup> This stage coincides with democratic consolidation.

The genetic approach has found further development in the works of O'Donnell, Schmitter and Whitehead, and Shain and Linz.<sup>30</sup> Their comparative study of transition in Latin America and Southern Europe came to support Rustow's argument about the importance of the elite's strategic choices. Analysing the democratisation paths of those countries, they concluded that the elite's political settlements, or pacts, achieved through negotiations, are almost the only guarantee for a successful transition from authoritarianism to democracy.

### **Elite Centred Approach to Democratization**

The elite centred approach to democratization argues that elites play a crucial role at all stages of democratisation. Not only does the "crafting" of democracy seem to depend on the interests, values, and actions of political leaders.<sup>31</sup> Elites also play a central role in the stability and consolidation of democracy by choosing the rules of the game and designing political institutions. Their strategic choices are critical for the very survival of democratic regimes. As Valerie Bunce observes, "in the periods of political and economic difficulties, they [elites] can use their power to either protect democracy or destroy it."<sup>32</sup> The elite-centred approach to regime change focuses on the interests and values of political elites. In particular, it attaches great attention to their views on and attitudes towards liberalism vs. authoritarianism, mutual trust, etc.

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<sup>29</sup> Dankwart Rustow, "Transitions to Democracy", *Comparative Politics* Vol. 2, 1970, pp. 337-363.

<sup>30</sup> See O'Donnell, Schmitter, and Whitehead, 1986; Shain and Linz, 1995.

<sup>31</sup> See Giovanni DiPalma, *To Craft Democracies: An Essay on Democratic Transitions*, Berkley: University of California Press; 1990; O'Donnell, Schmitter and Whitehead, 1986; John Higley and Richard Gunther (eds.), *Elites and Democratic Consolidation in Latin America and Southern Europe*. New York: Cambridge University Press, 1992.

<sup>32</sup> Bunce, 2000, p. 709.

The first attempt to incorporate political leaders into a democratic framework was a study by J. Schumpeter. He argued that the aim of a democratic regime must be to create a procedure for elite competition and not to increase mass participation.

This approach initiated a significant shift from the “power” theories of elite that argued that there is an integrated power elite in modern societies. A pluralist approach to elites argued that there are many elites and that creates an environment of free competition for power and makes them accountable to the masses. The basic argument of the pluralist approach posited by Higley is that a competitive elite system, which has a basic consensus about the rules of conduct of democracy, is an imperative for transition, democratic consolidation and stability of the regime. According to Higley, it is the absence of elite consensual unity that distinguishes unconsolidated from consolidated democracies. A democratic regime is consolidated when an elite consensus on procedures is coupled with extensive mass participation in elections and other institutional processes.<sup>33</sup>

The pluralist approach to elites distinguishes three types of elites: (1) the pluralistic or consensually unified elites, where normal political competition through political bargaining between elite groups takes place within accepted rules of the game, formalised in a constitution and electoral laws; (2) the ideologically unified elite, where ideology or common national interests in a situation of national crisis integrate the elites in actions resulting in a homogeneity in their attitudes; and (3) the divided or disunited elite, where elite legitimacy comes not from common goals or accepted procedures, but from the charisma of individual leaders.<sup>34</sup>

The studies within the elite-centred framework analysing the post-Communist transition mainly focus on continuities and changes in the composition, relations, and behaviours of elites that may or may not be associated with broad economic and social trends.<sup>35</sup>

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<sup>33</sup> Higley and Gunther, 1992.

<sup>34</sup> Robert Putnam, *The Comparative Study of Political Elites*, Englewood Cliff, NJ Prentice Hall, 1976; Higley and Gunther, 1992.

<sup>35</sup> David Lane and Cameron Ross, *The Transition from Communism to Capitalism: Ruling Elites from Gorbachev to Yeltsin*, New York: St. Martin's Press, 1999; John Higley, Jan

Pluralists, discussing post-Communist transitions, link the mode of transition to the question of what type of Communist elite was dominant during the regime breakdown. According to these theories, totalitarian states, such as the USSR, usually have ideologically unified elites.<sup>36</sup> In addition, some scholars argue that the choice of the regime type in post-Communist transition can best be explained by the structure of the old regime elites during the breakdown phase.<sup>37</sup> Two major schools of thought concerning the role of elites in post-communist transition have developed. David Lane argued that the transition involved the wholesale replacement of the old elite. According to Lane, in the later Soviet years ‘an incipient bourgeoisie in the form of an “acquisition class”’ arose from within the increasingly heterogeneous Soviet elite.<sup>38</sup> Benefiting from the reforms introduced by Gorbachev, this new class, drawn particularly from the professional segment of the population, gained access to the top bodies of the late Soviet system and promoted the dissolution of the Soviet system. In the end stages of state socialism and the early post-collapse era, members of this group were able to capture state assets and emerged as a ‘bourgeois property owning class’. Lane and Ross provided qualitative and quantitative data in support of their argument.<sup>39</sup> Other theorists, such as Kryshchanovskaya & White, argued that there is a high degree of old elite continuity and the new Russian ‘capitalist’ elite is largely drawn from the Soviet nomenklatura.<sup>40</sup> Further studies criticised

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Pakulski and Włodzimierz Wesolowski, “Introduction: Elite Change and Democratic Regimes in Eastern Europe” in John Higley, Jan Pakulski and Włodzimierz Wesolowski (eds.), *Postcommunist Elites and Democracy in Eastern Europe*, New York: St. Martin’s Press, 1998, pp. 1-34.

<sup>36</sup> George L. Field and John Higley, *Elitism*, London Routledge and Kegan Paul, 1980.

<sup>37</sup> Gerald Easter, “Preference for Presidentialism: Postcommunist Regime Change in Russia and the NIS”, *World Politics* Vol. 49, 1997, pp.184-211.

<sup>38</sup> David Lane, *The Rise and Fall of State Socialism, Industrial Society and the Socialist State*, Cambridge: Polity, 1996, p. 213.

<sup>39</sup> David Lane and Cameron Ross, *The Transition from Communism to Capitalism: Ruling Elites from Gorbachev to Yeltsin*, New York: St. Martin’s Press, 1999.

<sup>40</sup> Olga Kryshchanovskaya and Stephen White “From Soviet Nomenklatura to Russian Elite”, *Europe-Asia Studies* Vol.48, No.5, 1996, pp. 711-733.

Kryshtanovskaya's & White's continuity hypothesis.<sup>41</sup> By attributing such a great role to old elite continuity, this approach almost equates post-Communist transition processes to a mere elite reproduction and its ability to converge and underestimates other factors. More recent studies have tried to overcome that gap by introducing additional characteristics of elites to explain their impact on political change.<sup>42</sup>

For the purposes of my thesis, it is important to understand to what extent the successes and failures of post-communist transitions that I am going to analyse can be attributed to the ruling elite's structure, value orientation and policy choices? Are they the core predictors of the divergent paths of democratisation that those countries followed?

There is no doubt that the ruling elite plays a significant role in the fourth wave of transition which is considered mostly as an elite initiated, "top-down" regime change. The role of elites is important in post-communist transition simply because they built the key institutions of the new political and economic order from scratch and as such, at least in the initial stage of transition to democracy, they had a certain level of freedom in choosing among the variations of democracy and market economy institutions. However, I doubt that an old/new elite division matters at a later stage of transition. What would matter more when democratic institutions are already set up, or in other words at the stage of democratic consolidation, is the ruling elite's behaviour, interests and value orientation. The latter may help, along with other factors, to give at least a partial answer to why, for instance, a certain policy or an institution that proved successful in other countries, failed in that particular country.

As far as old/new divisions are concerned, perhaps at a later stage of transition an institutional learning process or the socialisation of new values may have a greater impact on the ruling elite's decision-making than their background in the old system. In sum, I think that, while the structure of the ruling elite, its values and orientations can be an

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<sup>41</sup> See James Hughes, "Sub-National Elites and Post-Communist Transformation in Russia", *Europe-Asia Studies* Vol. 49, No. 6, 1997, pp. 1017-36.

<sup>42</sup> James Hughes and Peter John, "Notes and Comments: Local Elites and Transition in Russia: Adaptation and Competition?", *British Journal of Political Science* 31, 2001, pp. 673-692.

important factor in the choice of a political regime, it cannot be the only determining factor. First, as Terry Karl asserts, structural and institutional constraints may determine the range of values and the range of options available to decision makers and the preferences of individual actors may be conditioned by institutional structures.<sup>43</sup> In other words, elites themselves are subject to certain structural constraints.

Second, as Huntington contends, elites may be the most proximate variable, but other variables - such as the level of economic development, institutional configurations, a population's cultural homogeneity or heterogeneity, etc. - must also be taken into account.<sup>44</sup> This conclusion is widely supported by others as well. More recent studies of democratisation that analyse comparatively the drastic differences in the degree of democracy that each of the 'third wave' countries achieved underscore the limits of the genetic approach. Thomas Carothers, for instance, argues that in the studies analysing the 'third wave' of transition the complications that different underlying conditions could present are underestimated and the power of elections to produce fundamental political change alone are overstated.<sup>45</sup> In an attempt to summarise the comparative experience of all the three waves of democratisation, Valerie Bunce also notes that there is, nonetheless, a recognition that, once established, the course of democracy depends on a complex array of factors, only one of which involves elites, their attitudes, and their behaviour.<sup>46</sup> One can easily conclude that, for all their merits, the approaches described above all fall short of capturing the democratisation process in its complexity, its differing geography, scope, depth, and dynamics. However, the shortcomings of particular approaches or the absence of a comprehensive approach does not remove the necessity of using theoretical generalisations from the academic agenda.

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<sup>43</sup> Terry Lynn Karl, "Dilemmas of Democratization in Latin America", *Comparative Politics*, Vol. 23, No. 1, 1990, pp. 1-21, p. 25.

<sup>44</sup> Samuel Huntington, *The Third Wave: democratization in the Late Twentieth Century*, Norman and London: University of Oklahoma Press, 1991.

<sup>45</sup> Thomas Carothers, "The Sequencing Fallacy", *Journal of Democracy* Vol. 18, No. 1, 2007, pp.12-27, p. 24.

<sup>46</sup> Bunce, 2000 p. 709.

There is obviously a need for a more comprehensive approach. Of course, while accepting the role of elites and leaders in making choices, we understand that those choices are limited to the ones made possible by structures. On the other hand, one should not underestimate the role of leaders and elites in shaping differing policy responses in similar structural circumstances. In addition, elite choices may have bigger impact during the transition process on shaping the same structures. To what extent transition developments should be attributed to the personality of a leader or to elite behaviour, and to what extent to national and international structural constraints and factors, is an issue worthy of scholarly discussion. To conduct such a study one needs a model that would combine the genetic and functionalists approaches in some way.

In fact, the genetic and functionalist schools of democratisation studies are not mutually exclusive, but rather complementary. Studies that are more recent take an integrated approach, interpreting the two schools as mutually interacting and, in some respects, reinforcing.<sup>47</sup> Huntington, for instance, suggested that “economic development makes democracy possible; political leadership makes it real.”<sup>48</sup> Terry Lynn Karl argued that while a structuralist approach alone leads to excessively deterministic conclusions about the origins and prospects of democracy, and a sole focus on choices that actors make produces voluntaristic interpretations, together they can be an efficient model for explaining democratisation processes.<sup>49</sup>

Tatu Vanhanen called this growing body of literature that started to emphasize the multivariate nature of the social requisites of democracy as “multivariate models.”<sup>50</sup> Among the authors who adopt this approach are Seymour Lipset, in his latest works (1994; 2005) and Larry Diamond, who gives a list of facilitating or obstructing factors such as

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<sup>47</sup> James Hughes, “Transition Models and Democratisation in Russia”, in Mike Bowker and Cameron Ross (ed.), *Russia After the Cold War*, London, Longman, 2000, p.21.

<sup>48</sup> Samuel P. Huntington, *Third Wave: Democratisation in the Late Twentieth Century*, Norman: University of Oklahoma Press, 1991, p.316.

<sup>49</sup> Karl, 1990, pp. 1-21.

<sup>50</sup> Tatu Vanhanen, *Democratization: A Comparative Analysis of 170 Countries*, Routledge, 2003.



socio-economic development, political culture, political leadership, legitimacy and performance, institutions, conflicts and international factors.<sup>51</sup>

Analysing the progress and set backs of democratic transitions in the third wave, Thomas Carothers underscores the importance of five factors, which should be thought not as preconditions but rather as core *facilitators or non-facilitators* that make democratisation harder or easier. They are the level of economic development, concentration of sources of national wealth (countries where national wealth comes mainly from highly concentrated sources experience significant difficulties with democratisation), identity based divisions, historical experience with political pluralism and non-democratic neighbours.<sup>52</sup>

Summarising the results of studies analysing democratic breakdowns in all three waves of democratisation, Valerie Bunce identifies three groups of studies. First are studies focusing on long-term factors, such as socio-economic conditions, institutional, and cultural legacies of authoritarianism as those undermining democratic regimes and contributing to their breakdown. In the second group are those studies that focus on medium-term issues critical for the sustainability of democratic regimes. Those factors include economic performance, social capital, the strength of civil society, and institutional arrangements. The third group of studies underscores the importance of two proximate factors - the role of political leaders and international influences.<sup>53</sup>

### **Institutional Design**

Another issue key for understanding post-communist transitions is the issue of institutional arrangements. There have been numerous comparative studies demonstrating the strong impact of institutional choices on political dynamics. It is argued that the choice

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<sup>51</sup> Larry Diamond and Juan Linz and Seymour Lipset (eds.) *Politics in Developing Countries: Comparing Experiences with Democracy*, (2<sup>nd</sup> edition), Boulder: Lynne Rienner Publishers, 1995.

<sup>52</sup> Carothers, 2007.

<sup>53</sup> Bunce, 2000, pp. 709-710.

of democratic institutions and the process of constitution making are critical for democratic consolidation. Studies based on comparative research argue that institutional arrangements such as the choice of political institutions, type of electoral systems, party systems have a strong impact on political dynamics and further democratic consolidation. While not going into details of studies analysing institutional design, I will highlight the core arguments that are particularly relevant in the post-communist context. First, it is argued that a parliamentary system is preferable to a presidential system. Parliamentary systems are more flexible and adaptable and offer an institutional framework for mediation of social conflicts, thus, promoting compromise and reconciliation that are crucial for democratic stability. In contrast, a presidential system leads to an excessive concentration of power in the hands of the executive branch and thus fosters authoritarianism. In the same way, a proportional rather than a majoritarian electoral system is preferable.<sup>54</sup> A key issue concerning the causal relationship between institutional arrangements and the prospects of democracy in a post-communist context is the factors that made the elites prefer a certain type of institution and whether those choices were structurally constrained. And, at a later stage of democratisation, it is important to understand to what extent political institutions constrain and shape the elites' decisions regarding the key policy directions. Some authors who analyse post-communist transitions from the standpoint of the political culture hypothesis argue that

In the light of history and culture, institutional choices such as presidentialism or parliamentarism, are more a consequence than a cause of the different levels of receptivity to democracy that we find in various countries... The choices of institutions can reinforce certain tendencies, but it cannot replace the causal role of historical experience and cultural formation, which create a predisposition for certain mechanisms to work or not work in this or that particular case.<sup>55</sup>

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<sup>54</sup> Alfred Stephen and Cindy Skach, "Constitutional Frameworks and Democratic Consolidation: Parliamentarism versus Presidentialism", *World Politics* 46, 1993, pp. 1-22; Matthew Shugart and John Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics*, Cambridge: Cambridge University Press, 1992, pp. 49-150.

<sup>55</sup> Zbigniew Brzezinski, "The Primacy of History and Culture", *Democracy After Communism*, Larry Diamond and Marc F. Plattner (eds.), Johns Hopkins University Press: Baltimore and London, 2002, pp. 194-205, p. 197.

While not disputing that past legacies may have played some role in the institutional preferences of the elites, I think that one should not underestimate the role that the ‘opening’ to the world after the collapse of the Soviet Union and the demonstration effect could have on those preferences. Also, and more important in this context, one should note the impact that the established institutions can have on the elite’s values and policy choices, thus contributing to the formation of a new political culture that is considered key for democratic consolidation.<sup>56</sup>

### **Mapping out Post-communist Transitions**

In the case of the post-communist transition, very clear democratic goals of transition were officially stated as the formal goals of the states’ foreign and domestic policy from the very beginning. This is a significant characteristic of post-communist transitions and it distinguishes them from transitions during the previous waves. This is not the only difference between post-communist and previous transitions and, since I shall focus on the post-communist transition for my empirical research, it makes sense to look at other features that differentiate it from previous democratisation waves. A depiction of these differences is important also for understanding the necessity for new analytical approaches.

Sarah Terry suggests five ways that the challenges confronting the post-communist countries in transition differ from those faced by post-authoritarian countries of previous transition waves.<sup>57</sup> Essential distinctions are observed also by Valerie Bunce.<sup>58</sup> According to Sarah Terry, the first difference is the dual-track character of the transition process in the post-communist states, which means that they have had to build democracy and a

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<sup>56</sup> Larry Diamond (ed.), *Political Culture in Developing Countries*, Boulder, CO, 1993; Robert D. Putnam, *Making Democracy Work: Civic Traditions in Italy*, Princeton: Princeton University Press, 1993.

<sup>57</sup> Sarah M. Terry “Thinking about Post-communist Transitions: How Different are They?”, *Slavic Review* 52, No.2, 1993, pp. 333-337.

<sup>58</sup> Valerie Bunce, “Comparing East and South”, *Journal of Democracy* Vol. 6, No. 3, 1995, pp. 87-110.

market economy simultaneously. Not only were these historically unprecedented tasks but they were also to some extent incompatible: “While the market and democracy are generally seen as mutually supportive in the long term, in their present formative stage they are proving to be mutually obstructive.”<sup>59</sup>

The second factor that Terry highlights is the fact that most of the earlier transitions took place in economically and especially industrially less-developed countries, where to introduce and implement economic reforms was socially less costly. This is not the case in post-communist countries, which have giant industries that are ineffective, if not useless, in a market environment. Industries often appeared to be not only economically incapable of recovering but also socially costly to abolish. The third element, which adds to the distinction of the post-communist transition, is the higher degree of ethnic complexity, which has not been the case during previous waves of transition. Apart from being a complex problem in itself, the ethnic issue added huge complexity to the overall democratic transition process wherever it emerged. The fourth difference between the countries of post-authoritarian and post-communist transition was the virtual absence of civil society in the post-communist countries. However weak, they existed in other countries undergoing transition.

The fifth divergence highlighted by Terry is the impact of the international environment on the outcomes of the post-communist and post-authoritarian transition. The Cold War division of the past served as a serious incentive for integrating post-authoritarian countries in a speedy manner into western political, economic, and security structures. In the case of post-communist transition, there is no such feeling of urgency on the side of the international community.<sup>60</sup> Valerie Bunce, mainly using the same distinctions identified by Sarah Terry, adds another one related to the influence of the military. In the Southern European transitions, the military had quite a strong role in politics. In contrast, the military in the post-communist countries played no autonomous political role, simply because traditionally they had been strongly subordinated to the

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<sup>59</sup> Terry, 1993, p. 334.

<sup>60</sup> Terry, 1993, p. 336

monopolist of political power – the Communist Party. Bunce observes another important distinction with regard to how the transition process was initiated in the two cases:

First, students of the Latin American and Southern European transitions seem to agree that, in both regions, political rather than economic and domestic rather than international factors were paramount in the collapse of authoritarian rule. By contrast, the collapse of state socialism was largely a response to the interaction of two factors: economic decline (with its attendant impact on domestic politics) and the international consequences of Gorbachev's reforms.<sup>61</sup>

Thomas Carothers, in his article "The End of the Transition Paradigm", conceptualises the differences that the record of the post-communist transition offers.<sup>62</sup> The title of the article speaks for itself. After going through the observed differences, the author concludes that the traditional transition paradigm based on the experience of the third-wave democratisation peak is not useful anymore. According to Carothers, there are five core assumptions that define the classical transition paradigm. The first core assumption is that any country breaking with dictatorial rule should be considered a country in transition toward democracy. Throughout the years, this has been the dominant approach in transition and democratisation studies. The second assumption is that democratisation tends to evolve in a set sequence of stages. First, there occurs the opening, and then follows the breakthrough with the collapse of the regime and the rapid emergence of a new, democratic system, with the coming to power of a new nationally elected government. The third phase is consolidation, when "the democratic forms are transformed into democratic substance through the reform of state institutions, the regularisation of elections, the strengthening of civil society, and the overall habituation of the society to the new democratic rules of the game."<sup>63</sup>

The third assumption is the crucial role ascribed to elections in establishing democracy. Elections were almost equated with democracy. There have been very high

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<sup>61</sup> Bunce, 1995, pp. 89-90.

<sup>62</sup> Thomas Carothers, "The End of the Transition Paradigm", *Journal of Democracy* Vol.13, No.1, 2002, pp. 5-21.

<sup>63</sup> Carothers, 2002, p. 8.

expectations that elections will be not only the criterion but also the main generator for further democratic reforms.

The fourth assumption put forward within the transition paradigm is that the underlying conditions in transitional countries – their economic development level, political history, institutional legacies, ethnic make-up, socio-cultural traditions, or other “structural” features – will not be major factors in either the onset or the outcome of the transition process. The entire necessity for starting the democratisation process has been ascribed to a country’s political elites, their willingness and ability.

The fifth assumption is that the transition paradigm rests on the premise that third-wave transitions are being built on coherent, functioning states. The transition from authoritarianism to democracy assumes some improvement, reform and sometimes rebuilding, of state institutions. However, this was mainly within the existing state machine and it did not go beyond modifying it. Therefore, it did not become a problem for the Latin American and Southern European transitions, either in practice or in theory. However, this is not the same for post-communist transition.

These are the main assumptions of the transition paradigm described by Carothers. In my study, I explore the extent to which these assumptions are true and applicable for post-communist transition studies. From this point of view, I am more interested in the distinctions observed by Thomas Carothers when comparing the two phenomena: “Taken together, the political trajectories of most third-wave countries call into serious doubt the transition paradigm.”<sup>64</sup> He has serious reservations about each of the above-mentioned assumptions. I fully share his disagreement with the first and the core assumption of the transition paradigm, which states that all countries breaking with dictatorship automatically take a path of democratisation. We already can distinguish at least three groups of countries in the post-communist transition with essentially different political trajectories of development. Some of them hardly can be called democracies or even countries undergoing democratisation.

Another disagreement Carothers has with the transition paradigm is that the suggested sequence of stages of democratisation is challenged by many cases of successful

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<sup>64</sup> Carothers, 2002, p. 14.

democratisation in the later phases of the third wave. In my opinion, this has been more the case in post-communist transition. If we witness such a consolidation in the Central and Eastern-European countries, we see stagnation in the western CIS countries and serious setbacks in Central Asia. Therefore, this not only does not fit into the transition paradigm, but also, in my opinion, needs to be explained. The third disagreement Carothers has is about the value that has been attached to the goal of achieving genuine elections. I agree with the view that free and fair elections are very important, but “greatly reduced expectations are in order as to what elections will accomplish as generators of deep-reaching democratic change.”<sup>65</sup> Elections reflect the already existing state of affairs in the society; thus, Carothers’ view that “the wide gulf between political elites and citizens in many of these countries turns out to be rooted in structural conditions, such as the concentration of wealth or certain socio-cultural traditions, that elections themselves do not overcome” is more than proper for the countries of the post-communist transition, which have embarked on a mass privatisation process.<sup>66</sup>

Another underlying assumption of the transition paradigm that Carothers challenges is about the preconditions of democracy. Again, referring to the experience of Latin American massive democratisation, many authors insisted that the starting conditions do not influence the outcomes of democratisation. The post-communist transition experience in many cases supports the opposite argument, that is, that the relative economic health of the country, past legacies, and the level of existing political pluralism do contribute to a successful outcome. While I agree with this, I further propose that the starting conditions do not explain all the differences existing among trajectories of transition countries.

The last debate is about the role and the substance of state-building within the transition paradigm. I will discuss this argument in more detail because, indeed, post-communist state-building appears to be a much more problematic, substantive issue than it was during the early third-wave democratisation. In this regard, Shin is right that a major problem for the third wave of democracies (especially the ones in the socialist camp) is

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<sup>65</sup> Carothers, 2002, p. 16.

<sup>66</sup> Carothers, 2002, p. 17.

that democratisation takes place backwards. These countries introduced competitive elections before establishing basic institutions of a modern state such as rule of law, institutions of civil society and the accountability of governors.<sup>67</sup>

If a third wave democracy is to develop into a complete democracy, it must do more than hold free and fair elections; it must also become a modern state. Here state-building does not refer to creating a common national identity among the populace, but to the development of institutions and procedures that effectively enforce the rule of law against corrupt public officials, promote popular trust by increasing the trustworthiness of political institutions and increase the accountability of government to ordinary people.<sup>68</sup>

In contrast with Latin American and Southern European countries -- where the essence of state-building was all about reform and improvement of the existing state machine -- in the countries of post-communist transition, especially those countries of the former Soviet Union, state institutions, apparatus, cadres, laws, and procedures are often built from scratch.

Not only a state but also a nation building process takes place in the post-communist space. The presence of ethnic conflicts and contested borders make the process of democratisation even more complicated in the newly independent states. The significant role that nation- and state-building played in post-communist transitions is fully in line with Dankwart Rustow's argument that establishing national unity within a given territory is a 'background condition' for successful democratisation.

One should not underestimate the challenge for both the theory and practice presented by the simultaneous undertaking of democratisation, marketisation, and state-building. In my opinion, the process of reconciling these parallel phenomena is undoubtedly a political process that needs further conceptualisation. Scholars started to pay attention to the complex relationship between the processes of democratisation, marketisation, and state-building in post-communist transitions relatively late, in the mid

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<sup>67</sup> Richard Rose and Doh Cull Shin, "Democratization Backwards: The Problem of Third-Wave Democracies", *British Journal of Political Science* Vol. 31, No.2, 2001, pp. 331-354, p.331.

<sup>68</sup> Rose and Shin, 2001, pp. 348-49.



1990s. Claus Offe was the first to distinguish three levels of transformation and to identify the fact that the issues of nationhood and state-building comprise the third level of post-communist transition.<sup>69</sup> Linz and Stepan stressed that the “stateness” problem (which includes state- and nation-building) must increasingly be a central concern of political activists and theorists alike and considered it as one of the two macro variables affecting transition.<sup>70</sup> The key argument of scholars raising the stateness issue is that the concomitance of state and nation building with political and economic reforms generates dilemmas that endanger the outcome of democratisation because “history shows few successful cases of state-building by democratic means.”<sup>71</sup> In the literature on the issue of stateness, state-building is often viewed as identical to nation building and, therefore, seen as more problematic, predominantly in multiethnic states. With the addition of stateness, post-communist transition became a triple transition. The specific feature of post-communist transitions is that a state does not have to be nationally heterogeneous to have a ‘stateness’ problem. A ‘stateness’ problem’ can emerge even in the most nationally homogeneous countries.

Taras Kuzio believes that the problem of nation building deserves to be looked at as a separate process, a separate dimension in the overall post-communist transition process. Thus, he defines transition as a quadruple process by not subsuming stateness and nationhood into one category.<sup>72</sup> Alfred Stepan and Juan Linz find that more attention should be devoted to these two processes that are overlapping, complementary, yet are “conceptually and historically different,” as they influence the success rate of democratic consolidation.<sup>73</sup>

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<sup>69</sup> Claus Offe, *Varieties of Transition: the East European and East German Experience*, Cambridge, UK: Polity Press, 1996, pp. 29-49.

<sup>70</sup> Alfred Stepan and Juan J. Linz, *Problems of Democratic Transition and Consolidation: Southern Europe, Southern America and Post-communist Europe*, Baltimore: Johns Hopkins University Press, 1996, p. 366.

<sup>71</sup> Bunce, 1995, p. 92.

<sup>72</sup> Taras Kuzio, “Transition in Post-communist States: Triple or Quadruple”, *Politics* Vol. 21, No. 3, 2001, p. 169.

<sup>73</sup> Linz and Stepan, 1996, p. 20.

Indeed, this adds another divergence to existing differences between the post-communist and the post-authoritarian third-wave transitions. The nation-building process is also political and therefore needs political resources. As Kuzio fairly observes, “this takes up energy and time which otherwise could have been devoted to political-economic reform.”<sup>74</sup> I would add that in light of democratisation, liberalisation, and the opening up to the world in general, there has been a serious need to rethink and reinterpret many national norms, traditions, and even values. In other words, in many societies of the early post-communist transition there has been a type of value vacuum in the early years of the transition process. In a sense this is also more typical for post-communist rather than for post-authoritarian transition. Authors like John Hall treated the transition as a four-dimensional process, although grouping it into two broad areas, democratisation / marketisation and state / nation- building.<sup>75</sup>

Another feature of post-communist transition that I would like to add to the above mentioned peculiarities is a state’s efforts of self-establishment and self-projection, both domestically and internationally. It represents an entire dimension in the transition process – autonomous but also strongly interactive with the other dimensions and it requires political resources. Adopting laws or making statements about adherence to international norms and principles is only the first stage. A state also needs to establish a pattern of implementation of these laws, norms, and principles. For the transition states that have just abandoned the socialist camp, and especially for the newly independent states, building international relations is not a secondary task at all. All these goals require certain political resources to be allocated. They are issues of huge political importance for any post-communist country and for the success of the transition process.

In sum, the parameters and features differentiating the current democratisation wave that have been revealed by the authors cited above are correct and important in my view. The distinctions, however, are not limited to domestic and state differences. The post-authoritarian and post-communist transition processes began and have occurred in

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<sup>74</sup> Kuzio, 2001, p. 169.

<sup>75</sup> John A. Hall, “In search of Civil Society”, in John. Hall (ed.), *Civil Society. Theory, History, Comparison*, Cambridge: Polity, 1996, pp. 1-31.

essentially different international environments. The bipolar international system that existed during the early transition phases has been replaced with a new system that has not yet taken its final shape and is still in the process of consolidation. In my opinion, what is new and essential is that the international system is being affected by the choices and policies of the states of the post-communist transition. Meanwhile, the global environment is also significantly different. One cannot compare the level of globalisation during the post-authoritarian and the post-communist transition. Globalisation today offers both greater opportunities and bigger threats and risks for the countries striving to become integrated into the world system.

### **Conclusion**

What accounts for successful democratisation and what are the key domestic factors, crucial for the survival and sustainability of democracy? The theories of democratisation discussed above point to different factors, ranging from social and economic prerequisites and political culture, important for the emergence of democracy, to elite choices and institutions key for its emergence, survival, and consolidation. It is obvious that none of those factors alone can determine the destiny of democracy in a particular country and explain all the differences existing among trajectories of transition countries.

Also, depending on what stage of democratisation we are talking about, different factors surface as critical. While establishing national unity and a strong state within a given territory are necessary, but not sufficient, starting conditions for democratisation, the decision to democratise and the mode of transition is mostly an elite choice, often made under compelling domestic and international pressures. On the other hand, the post-communist transition experience shows that starting economic conditions, geographic proximity to the West and past legacies do to some degree facilitate or obstruct democratisation efforts of a country.

In the later, lengthier process of democratic consolidation, institutional arrangements and economic situation prove to be decisive. This is the 'habituation phase' when the evolving political culture of the elite and the public may facilitate or obstruct the further consolidation of democracy. At that stage, structural constraints surface to various

degrees and influence the democratisation efforts. For instance, the negative side effects of liberal economic reforms, i.e. economic decline, increased poverty, and unemployment, start having a corrosive impact on the support that the incumbent democratic government and democratic and market reforms have, making international support not only more crucial but also more difficult to earn. In that situation, often democratic governments either are voted out or retreat from democratic commitments. The state-building and nation building problems can be translated into various state security issues that can be addressed at the expense of democracy or further market reforms.

In this regard, one of the objectives of my thesis is to understand how the interaction and interplay among these core policy dimensions and policy levels takes place in the process of transition, how the key policy goals and policy choices are reconciled and prioritised, and how all these impact the overall transition process.

To summarise, one can identify several key domestic factors that facilitate or hamper transition to democracy in post-communist transitions:

- Political actors,
- Initial socio-economic conditions,
- Past legacies/historical/cultural constraints,
- The existence/ severity of the '*stateness*' issue,
- Institutions (and the political culture evolving under the influence of those institutions)

Another key factor is the international/regional context that has proved to be significant in post-communist transitions.

In propelling the current wave of democratisation, domestic and international factors have been closely connected, with the particular mix of these two factors varying from country to country. In Eastern Europe, for example, international factors played the more influential role. By contrast, in the majority of democratic transitions in Latin America, domestic factors played the more powerful role. Despite such differences, it is this confluence of domestic and international factors that distinguishes the current wave from the previous ones.<sup>76</sup>

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<sup>76</sup> Shin, 1994, p. 153.

This observation points not only to the importance of the international/regional context but also to the issue largely left unexplored by transitologists: how do domestic, state and international levels interact to facilitate or to hold back the process of transition? The interaction and combination of what core domestic and international variables help some countries succeed in all their reform endeavours? How exactly those interactions take place?

Overall, the debate in this chapter brings us to the domestic-foreign linkage debate, in general, and to a search for an interdisciplinary theory that would incorporate domestic and international variables. For that purpose, in the next chapters I shall embark on a detailed theoretical debate and a concept-building effort.

## **CHAPTER 2**

### **Theories of Transition and International Relations**

While in Chapter 1 I discussed the theories that focus on the role of domestic factors in democratic transition, in this chapter I aim to discuss theories that can help explain the role of external factors in the overall process of democratisation. I shall begin by discussing the theories of international regimes and complex interdependence. I will also discuss the international dimension of post-communist transition and the role of international institutions, socialisation and conditionality.

Although they may not have direct relevance to post-communist transitions, regime theories and theories of complex interdependence, two related theories of international relations, are pertinent when discussing political processes of change in today's interdependent world. For that reason, I will briefly review those theories, before discussing the theories and approaches that are more focused on post-communist transition.

#### **Theories of International Regimes**

Barbara G. Salmore and Stephen A. Salmore, while talking about internal political regimes, argue that the internal political structure of a country is the major determinant of its foreign policy. They emphasise the structure and environment of the regime as the specific aspect of internal politics on which they concentrate. Regime is defined as that role or set of roles in national political systems, which entitle the power to make authoritative policy decisions. In examining the role that regime structure plays in influencing foreign policy, they adopt a model of rational decision making. The authors argue that a regime's primary goal is to maximise its political support and, hence, power. Regime members advocate policies in order to attract and retain support. The leaders of nations opt for war or peace, trade relations, détente, and other actions not so much

because of their intrinsic worth, but largely in terms of how they will affect the regime's political fortunes.<sup>77</sup>

Keohane and Nye, when discussing international regimes, argue that in world politics, rules and procedures are neither so complete nor so well enforced as they are in well-ordered domestic political systems, and the institutions are neither so powerful nor so autonomous. They point out that "The rules of the game include some national rules, some international rules, some private rules – and large areas of no rules at all."<sup>78</sup> Deeply embedded in the concept of regimes is the idea of interdependence among the entities constituting the regime. The greater the level and range of interdependence, the more extensive will be the shared interest in cooperation or collaboration, and hence the need to utilise existing regimes or to create new ones. Moreover, international regimes are likely to enhance the prospects for increasing transnational flows, although the international regime itself may arise from the prior existence of such flows rather than being itself a determining factor in their creation.<sup>79</sup>

There are three main approaches to regime analysis outlined in the regime literature, each of which gives different but related explanations for regime. The first set of regime analysts are those whom Krasner describes as followers of the conventional structural view. Writers such as Kenneth Waltz and Susan Strange maintain that the distribution of power and the interactions between it and self-interests are all that matter, and anything outside this set of relations does not matter. They conclude, therefore, that regimes do not matter and have no independent impact on behaviour. Since it discards regime analysis altogether, this approach does not offer any insight into utilising regime analysis to explain the dynamics of cooperation. However, it does offer a useful critique of regime theory.

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<sup>77</sup> Barbara G. Salmore and Stephen A. Salmore, "Political Regimes and Foreign Policy" in Maurice A. East, Stephen A. Salmore and Charles F. Hermann (eds.), *Why Nations Act: Theoretical Perspectives for Comparative Foreign Policy Studies*, Sage Publications, Beverly Hills, 1978, p. 103.

<sup>78</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston: Little, Brown, 1977, p. 16.

<sup>79</sup> Keohane and Nye, 1977, p.19.

Keohane and Stein maintain the structuralist-realist view. However, unlike the structuralists above, they maintain that regimes can have an impact on state behaviour. In other words, states' self interest in maximising power is weighed against customary international behaviour, codified within a regime. This is what Krasner calls the modified structural view. This approach to regime theory offers some very useful analysis both of the creation of regimes and their maintenance.<sup>80</sup> The third set of analysts of regime theory is those who are described as being of the "Grotian" tradition. They believe that a certain order does exist in international relations, even in the absence of a supranational authority. Writers such as Oran Young, Raymond Hopkins, and Donald Puchala maintain that regimes exist in all areas of international relations.

To understand international regimes that affect patterns of interdependence, according to Keohane and Nye, one must look at structure and process in international systems, as well as how they affect each other. They define international regimes as intermediate factors between the power structure of an international system and the political and economic bargaining that takes place within it. The structure of the system – the distribution of power resources among states – profoundly affects the nature of the regime, the more-or-less loose set of formal and informal norms, rules, and procedures relevant to the system. The regime, in turn, affects and to some extent governs the political bargaining and daily decision making that occurs within the system.<sup>81</sup>

According to Krasner, regimes may assume a life of their own, a life independent of the basic causal factors that led to their creation in the first place.<sup>82</sup> He finds that because regimes function as intervening variables, a change in the relative power of states may not always be reflected in outcomes. This is to suggest that once regimes have been created, they may themselves alter the distribution of power among the entities that originally formed them, or changes in the power balance may not immediately be reflected in the structure and operation of the regime. Moreover, regimes may contribute to strengthening

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<sup>80</sup> Stephen D. Krasner "Structural Causes and Regime Consequences: Regimes as Intervening Variables", *International Organisation*, Vol. 36 No. 2, 1982, pp. 185-205.

<sup>81</sup> Keohane and Nye, 1977, pp. 20-21.

<sup>82</sup> Krasner, 1982, pp. 185-205.



or weakening the capabilities of their members, for example, by transferring resources from one state to another.

Andreas Hasenclever, Peter Mayer and Volker Rittberger identify and discuss three schools of thought, each of which emphasizes a different variable to account for international regimes: interest-based neoliberalism, power-based realism, and knowledge-based cognitivism.<sup>83</sup> These authors find that an important arena for fruitfully advancing the further study of international regimes lies in the impact of domestic factors on international cooperation in regimes, and in combining rational choice approaches with sociological approach:

Such studies would also fill a frequently acknowledged and potentially significant gap in existing regime theory. Thus far, both rationalists and cognitivists have been rather silent on the role of domestic factors.<sup>84</sup>

Andrew Cortell and James Davis find that:

An investigation of the processes linking domestic and international norms may require explorations of the impact of various international regimes on states' domestic politics. This research should also lead to a better understanding of the domestic bases of the support for international institutions, a significant weakness of existing regime theory."<sup>85</sup>

John Pevehouse finds that there has been a serious lack of theoretical attention given to the international organisations-democratisation link, and that little empirical work investigates the relationship between international organisations and democratisation.<sup>86</sup> More importantly, he points out that:

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<sup>83</sup> Andreas Hasenclever, Peter Mayer and Volker Rittberger, "Interests, Power, Knowledge: The Study of International Regimes", *Mershon International Studies Review* Vol. 40, No. 2, 1996, pp. 177-228.

<sup>84</sup> Hasenclever, Mayer and Rittberger, 1996, p. 221.

<sup>85</sup> Andrew P. Cortell and James W. Davis, Jr., "Understanding the Domestic Impact of International Norms: A Research Agenda", *International Studies Review* Vol. 2, No. 1, 2000, pp. 65-88, p. 87.

<sup>86</sup> John C. Pevehouse, "Democracy from the Outside-In? International Organizations and Democratization", *International Organization* Vol. 56, No. 3, 2002, pp. 515-549, p. 516.

Unfortunately, the most well-developed literature on international institutions-neoliberal institutionalism largely ignores domestic politics. Most neoliberal institutionalist research has focused on international outcomes, so it is unclear whether the same causal mechanisms link these institutions with the domestic political process. Institutional theorists have recently called for more empirical research to outline well-delineated causal mechanisms to explain the impact of international institutions, especially with reference to domestic politics.<sup>87</sup>

These weaknesses, of course, limit the effectiveness of applying regime theory to the study of the transition process.

### **Theory of complex interdependence**

Without going into the details of the polemics in the literature on this subject, I will discuss only one of the best known approaches to the issue, namely the concept of complex interdependence formulated by Robert Keohane and Joseph Nye.<sup>88</sup> The observations made by Keohane and Nye essentially support the complex issue linkage model I suggest. Keohane and Nye particularly emphasize two points: first, that interdependence exists among all the members of the international system, the small as well as the powerful; and second, that currently there is no policy issue hierarchy. As Keohane and Nye write:

...unlike powerful states whose instrument for linkage (military force) is often too costly to use, the linkage instrument used by poor, weak states – international organisation – is available and inexpensive. Thus, as the utility of force declines, and as issues become of more equal importance, the distribution of power within each issue will become more important.

Keohane and Nye pay special attention to agenda formation or to how issues become linked to other issues in the interdependence era. They attach a special role to governments in separating and linking issues:

Linkage strategies, and defence against them, will pose critical strategic choices for states. Should issues be considered separately or as a package? If linkages are to be drawn, which issues should be linked, and on which of the linked issues should concessions be made? How far can one push a linkage before it becomes counterproductive? For instance, should one seek

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<sup>87</sup> Pevehouse, 2002, p.518.

<sup>88</sup> Keohane and Nye, 1977.

formal agreements or informal, but less politically sensitive, understandings?<sup>89</sup>

These linkages, of course, have a place in world politics. On the other hand, to maintain a truly holistic approach one should not ignore the structural side of policy making. However, Keohane and Nye admit that “as the complexity of actors and issues in world politics increases, the utility of force declines and the line between domestic policy and foreign policy becomes blurred: as the conditions of complex interdependence are more closely approximated, the politics of agenda formation becomes more subtle and differentiated.”<sup>90</sup>

Keohane and Nye give many useful examples of linkages, which occur in the policy process across international, transnational, and national boundaries. However, they concentrate on interstate relations. My task is to show how different levels and different issue policies at a single level interact through those linkages. My assumption is that multiplicity is equally applied both horizontally – among all issue areas – and vertically – across all levels – and among different issue areas at different levels. There are horizontal and vertical linkages among issues. However, the concrete cases that Keohane and Nye describe provide good empirical support for my assumptions:

Under complex interdependence we can expect the agenda to be affected by the international and domestic problems created by economic growth and increasing sensitivity interdependence.... Discontented domestic groups will politicise issues and force more issues once considered onto the interstate agenda... Domestic groups may become upset enough to raise a dormant issue or to interfere with interstate bargaining at high levels.<sup>91</sup>

Change may also come from governments. As Keohane and Nye write, “Governments whose strength is increasing may politicise issues, by linking them to other issues. An international regime that is becoming ineffective or is not serving important

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<sup>89</sup> Keohane and Nye, 1977, p.22

<sup>90</sup> Keohane and Nye, 1977, p.32.

<sup>91</sup> Keohane and Nye, 1977, p.33.

issues may cause increasing politicisation, as dissatisfied governments press for change.”<sup>92</sup> The authors underscore the role of transnational, global forces, pointing out that states’ agendas “may be affected by shifts in the importance of transnational actors” as well.<sup>93</sup>

Keohane and Nye further describe the linkage mechanisms, offering vivid examples of how multiple or complex interdependence works in reality. They recognize the existence of multiple players functioning at all levels -- domestic, international, state, and global. In particular, Keohane and Nye write:

Thus, the existence of multiple channels of contact leads us to expect limits, beyond those normally found in domestic politics, on the ability of statesmen to calculate the manipulation of interdependence or follow a consistent strategy of linkage. Statesmen must consider differential as well as aggregate effects of interdependence strategies and their likely implications for politicisation and agenda control. Transactions among societies - economic and social transactions more than security ones – affect groups differently. Opportunities and costs from increased transnational ties may be greater for certain groups...than for others. Some organisations or groups may interact directly with actors in other societies or with other governments to increase their benefits from a network of interaction. Some actors may therefore be less sensitive to changes elsewhere in the network than are others.<sup>94</sup>

While I appreciate the invention of the concept of complex interdependence by Keohane and Nye and their observations, I have a different understanding of complex and multi-channel linkages. When speaking about interdependence, Keohane and Nye refer to situations “characterized by reciprocal effects among countries or among actors in different countries.” They distinguish three main characteristics of complex interdependence: multiple channels connecting societies; absence of hierarchy among issues, which also means that military security does not permanently dominate the agenda; and military force is not used where complex interdependence prevails, though it can be used otherwise.<sup>95</sup>

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<sup>92</sup>Keohane and Nye, 1977, p.33.

<sup>93</sup> Keohane and Nye, 1977, p.33.

<sup>94</sup> Keohane and Nye, 1977, p.34.

<sup>95</sup>Keohane and Nye, 1977, p. 25.

Although these authors admit that multiple channels can be characterized as interstate, transgovernmental and transnational, they do not pay much attention to transnational relations. Also, in my opinion, the role they ascribe to governments in making linkages among policies is exaggerated. One cannot argue against the decisive role governments have in making policy choices, but their decision making is done within the existing domestic and international structural framework. In other words, the approach here needs to be more holistic. Also, the *theory of interdependence*, as suggests James Rosenau, is very general and does not necessarily imply direction, purpose, or even across-system interactions.<sup>96</sup>

Kal Holsti finds that Keohane and Nye are not concerned with measuring transaction flows. He questions whether they are interested mainly in how interdependence affects bargaining styles and distribution of rewards.<sup>97</sup> Holsti concludes that

Since they examine their subject primarily from a systems perspective, the role of domestic politics and personalities is not covered thoroughly. These variables, of course, would be essential components of a formal theory.<sup>98</sup>

In 1987 Keohane and Nye themselves came up with a re-assessment and critique of their own work. In particular, they admitted that there are serious shortcomings in their work, such as the lack of extensive analysis and conceptualisation of issue linkage. “Despite the importance of the subject, we failed to develop any theory of linkage that could specify under what conditions linkages would occur.”<sup>99</sup> Another shortcoming that Keohane and Nye emphasised is the need for more attention to domestic politics and its links to international politics. Keohane and Nye admitted that they “have paid too little attention to how a combination of domestic and international processes shapes

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<sup>96</sup> James Rosenau, “Theorizing Across Systems: Linkage Politics Revisited”, in Jonathan Wilkenfeld (ed.), *Conflict, Behaviour and Linkage Politics*, NY: David McKay, 1973, pp. 25-26.

<sup>97</sup> Kal J. Holsti, “A New International Politics? Diplomacy in Complex Interdependence”, *International Organisation* Vol. 32, No. 2, 1978, pp. 510-530, p. 520.

<sup>98</sup> Kal J. Holsti, 1978, p. 523.

<sup>99</sup> Robert O. Keohane and Joseph S. Nye, “*Power and Interdependence Revisited*”, *International Organisation* Vol. 41, No. 4, 1987, pp. 725-753, p. 735.

preferences.”<sup>100</sup> And, finally, they recognised the role of the learning process, whether individual or group, in explaining changes within regime and state policies.<sup>101</sup>

For the above mentioned reasons, the extent to which the complex interdependence approach can be useful in interpreting the international-domestic dynamics of post-communist transition is limited, in particular, because it does not sufficiently address the role of domestic politics in general, and of leaders/elites in particular.

### **International Dimension of Transition: International Institutions and Conditionality**

One dimension within the functionalist framework which proves to be more applicable to post-communist transition, and which to some extent sees the transition process as extending beyond the state and domestic level, stresses the importance of the international context in which transition occurs.<sup>102</sup> The main argument of this approach is that the process of democratisation in a single country in transition is, to a large extent, affected by the international/regional context in which it takes place.

Discussing the forms of influence of international actors on democratisation in the context of the Latin American and Southern European transitions, Whitehead distinguished three “sub-contexts for the exercise of international influence”: *contagion*, when democracy is promoted through proliferation of one country’s experience into another through neutral ways; *control*, when democracy is promoted through coercive means such as sanctions or invasion; and *consent*, which “involves a complex set of interactions between international pressures and domestic groups that generates new democratic norms and expectations from below.”<sup>103</sup> Philippe Schmitter adds to these three forms of external

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<sup>100</sup> Keohane and Nye, 1987, p. 753.

<sup>101</sup> Keohane and Nye, 1987, p. 752.

<sup>102</sup> Geoffrey Pridham and Paul Lewis (eds.), *Stabilizing Fragile Democracies: Comparing New Party Systems in Southern and Eastern Europe*, New York and London: Routledge, 1996.

influence a fourth one: *conditionality*, which is a more recent form of promoting democracy. He defines conditionality as a “deliberate use of coercion – by attaching specific conditions to the distribution of benefits to recipient countries – on the part of multilateral institutions.”<sup>104</sup> In most post-communist countries democratisation takes place in an environment where elements of both consent and conditionality are present.

The experience of Eastern Europe and the former Soviet Union suggests that the existence of a favourable international environment has indeed had an obvious effect on the democratisation processes in these countries. According to Pridham, the international dimension plays a more important role in Eastern Europe than in Southern Europe and Latin America partly because of the simultaneity of political and economic reforms.<sup>105</sup> By analysing and comparing the role of external actors in transition in Southern and East-Central Europe, Hyde-Price argues that in theories of regime change, the role of international actors should be reconsidered.<sup>106</sup> The difference in the trajectories of transition in post-communist states can be attributed somewhat to the type of external actors that influence democratisation in those countries, and the extent of their influence. It is common sense that, due to their geographic and cultural proximity to the West, East European countries and the Baltic States were given more political, economic, and security incentives to democratise their countries and to comply with international norms than the other republics of the former Soviet Union. The further eastward we move, the less democratic the countries appear to be, with the Central Asian Republics being the least democratic in that list.

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<sup>103</sup> Laurence Whitehead, “Three International Dimensions of Democratisation”, in Laurence Whitehead (ed.), *The International Dimensions of Democratisation: Europe and the Americas*, Oxford: Oxford University Press, 1996, p. 15.

<sup>104</sup> Philippe Schmitter, “The Influence of the International Context upon the Choice of National Institutions and Policies in Neo-Democracies” in Whitehead, 1996, p. 30.

<sup>105</sup> Geoffrey Pridham, E. Herring and G. Stanford, *Building Democracy: The International Dimension in Eastern Europe*, New York: St. Martin’s Press, 1997.

<sup>106</sup> Adrian G. V. Hyde-Price, “Democratisation in Eastern Europe: the External Dimension”, in Geoffrey Pridham and Tatu Vanhanen (eds.), *Democratisation in Eastern Europe: Domestic and International Perspectives*, London and New York: Routledge, 1993.

However, there was no essential difference between Ukraine and Belarus in terms of their communist past, starting conditions or proximity to the west. Moreover, ranking Yugoslavia, Belarus and Turkmenistan together in the same progress group cannot be explained by geography. In addition, external factors have not necessarily had a positive impact on all transition countries. They have often created controversial attitudes not only among the population but also among the decision makers because of the deteriorating economies and the growing income inequality in the region resulting from radical economic reforms. The policy pursued by the IMF and the World Bank has been widely criticised because “there is little evidence that it leads to improved economic policy, but it does have adverse political effects because countries resent having conditions imposed on them”<sup>107</sup>.

One can agree that compared to earlier transitions, the post-communist transition occurs within significantly different domestic, state, international, and global environments. While pursuing the same general goal, the tasks and, therefore, the policy goals that the states of the post-communist transition have before them, are very different from those facing the states of the post-authoritarian transition. Therefore, one can conclude that a different approach can and should be applied both in theory and in practice for understanding and promoting post-communist transition processes. In the existing policy paradigm, the aid – or support, in the terminology I suggest -- of the international community is channelled to those countries where it appears to get the maximum return. It is not always clear, however, whether the aid is the cause of transition success in these countries. The rest of the countries which, for objective reasons, have more difficulties and therefore, a slower transition pace, naturally need more support internationally but are not in the list of successful transitions. From that point of view, Carothers’s conclusion is to the point:

Much of the democracy aid based on this paradigm is exhausted. Where the paradigm fits well – in the small number of clearly successful transitions --

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<sup>107</sup> See Joseph E. Stiglitz, *Globalisation and Its Discontents*, W.W. Norton & Company: New York, London, 2002. p.46



the aid is not much needed. Where democracy aid is needed most, in many gray-zone countries, the paradigm fits poorly.<sup>108</sup>

The core question when looking at a transition country, according to Carothers, should be what is happening politically in that particular country, not how its democratic transition is going. Carothers adds:

A whole generation of democracy aid is based on the transition paradigm, above all the typical emphasis on an institutional “checklist” as a basis for creating programs, and the creation of nearly standard portfolios of aid projects consisting of the same diffuse set of efforts--some judicial reform, parliamentary strengthening, civil society assistance, media work, political party development, civil education, and electoral programs... Democracy promoters need to focus on the key political patterns of each country in which they intervene, rather than trying to do little of everything according to a template of ideal institutional forms.<sup>109</sup>

My interest in this statement is not the policy side of the issue but rather the fact that such a policy is based on the existing democratic paradigm, which is clearly built on a problematical theoretical premise.

Transition costs are naturally higher in some countries than in others, depending on their respective starting conditions, historical and cultural differences, and political processes, among other things. Therefore, there should be greater international support for these countries to integrate them domestically, internationally, and as a state. This is not at all to suggest that the poorer the performance of a country in democratisation and market reforms, the more foreign aid it deserves. What I mean is that there are countries that have been trying to progress with reforms but, as a result of radical reforms advocated by international actors and the absence of quick results, have ended up with eroded domestic and international support. Meanwhile, the international community has its own expectations for a particular state. Therefore, there is a need for setting the right balance not only between international support and demand, but also between mutual demands and supports along the domestic-state-international continuum.

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<sup>108</sup> Thomas Carothers, “The End of the Transition Paradigm”, *Journal of Democracy* Vol.13, No.1, 2002, pp. 5-21, p.18.

<sup>109</sup> Carothers, 2002, pp. 18-19.

To what extent is the international dimension of democratization by itself a sufficient explanation of the progress and regress in post-communist transitions? I think Jacoby Wade's observation answers this question. He notes that:

Setting up external influences as a freestanding alternative explanation to domestic considerations is not promising, for two reasons. First empirically...external influences can almost never have any real purchase unless they operate in tandem with domestic influences. Second, conceptually, if we cast external influences as an exotic alternative form of policy change, we are likely to produce ad hoc theories with no clear relationship to the broader literature.<sup>110</sup>

Valerie Bunce's observation is also important to consider when discussing the role of external factors:

with the positive changes that external assistance has brought, ... it can also expand domestic inequalities in power and money; create dependency; be fickle and ill-suited to local needs and cultures; generate divisions within opposition groups; and construct a fragile civil society that is quickly depleted once the pay-off arrives of a democratic turn. Moreover, when democracy promoters place too much emphasis on the importance of external assistance, they undervalue the role of local activists, their rich history of struggle, and the risks that they are taking to promote regime change.<sup>111</sup>

Political conditionality is an instrument for setting a balance between international demands and supports, which has been used by the international community to encourage democracy, market, and security reforms. Defined as the use of material incentives to bring about a desired change in the behavior of a target state, conditionality is the typical incentives-based policy.<sup>112</sup>

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<sup>110</sup> Wade Jacoby, "Inspiration, Coalition, and Substitution: External Influences on Postcommunist Transformations", *World Politics* Vol. 58, No. 4, 2006, pp. 623-651, p.626.

<sup>111</sup> Valerie Bunce, "East European Democratization Global Patterns and Postcommunist Dynamics", *Orbis* Vol. 50, No. 4, 2006, pp.601-620.

<sup>112</sup> Jeffrey T. Checkel, "International Institutions and Socialization in Europe: Introduction and Framework", *International Organization* 59, No.4, 2005, pp. 801-826; pp.804-805.

Political conditionality entails the linking, by a state or an international organisation, of perceived benefits to another state (such as aid, trade concessions, cooperation agreements, or international organisation membership) to the fulfilment of conditions relating to the protection of human rights and the advancement of democratic principles.<sup>113</sup>

One of the key defining features of the concept of conditionality is that it operates in an environment of power asymmetry between dominant and subordinate actor(s).<sup>114</sup> However, this feature is often not in harmony with the aim discussed above of conditionality to set a balance between international and domestic mutual demands and supports.

There has been a steady evolution and expansion of conditionality since the end of the Second World War, with an increasing linkage between aid disbursement and conditions imposed by donors, and a greater complexity in the nature of the conditionality. International conditionality has evolved from “first generation” economic conditionality to a “second generation” of combined economic and political conditionality.<sup>115</sup>

The post-Soviet transition, as mentioned already, is unique in the sense that political and economic systems must be transformed simultaneously. The international community has been willing to see countries in transition both successfully building and consolidating democracy and building a market economy, without prioritising either of these objectives. The full international integration of these states, which requires more time, supposes the successful realisation of both tasks.

Although unsystematically, international organisations have started targeting more linkages among different issue areas. Based on this, they have further developed their conditionalities, spreading them to new policy dimensions, in addition to the core and

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<sup>113</sup> Karen E. Smith “Western Actors and the Promotion of Democracy” in Zielonka, Jan and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp. 31-57, p. 37.

<sup>114</sup> James Hughes, Gwendolyn Sasse, and Claire Gordon, *Europeanization and Regionalization in the EU’s Enlargement to Central and Eastern Europe: the Myth of Conditionality*, Palgrave Macmillan, 2004.

<sup>115</sup> Hughes, Sasse, and Gordon, 2004, pp. 14-15.

original dimensions for which they were initially designed. In other words, there was a paradigm shift in Western aid conditionality in the early 1990s to supplement neo-liberal economic policies and administrative reform. Policy-makers started placing much greater emphasis on the export of Western political norms, in what is often referred to as “democracy promotion” or “democracy-building”. In fact, that shift has developed gradually since the 1980s and it was not triggered by the fall of communism.<sup>116</sup>

Recently, there has been more and more involvement by the World Bank and the IMF in political, rather than economic, programmes in countries in transition, such as programmes of “good governance” or anti-corruption programmes, for example. At the same time, international political organisations have begun to condition their relations on the transition countries’ economic performance. In recent years, even the Organisation for Security and Co-operation in Europe has started to develop a so called “Economic Dimension.” Even NATO, which is a political-military organisation, has developed some economic, democratic, and human-rights criteria within the “Membership Action Plan” for transition countries aspiring to become NATO members. NATO’s conditions for admission require applicants, besides being actively involved in the organisation’s Partnership for Peace programme, to spend not less than 2 percent of GNP on defence and to upgrade their military equipment, logistics, and weapons systems to make them compatible and interoperable with NATO’s forces; to demonstrate that they have a functioning democracy and market economy; to institutionalise democratic civilian control over the military; and to resolve existing ethnic conflicts and territorial disputes with neighbouring states.

The best example of a new generation of conditionality is perhaps that of the EU, which successfully blended first generation economic conditionality of market liberalization and administrative reform and second generation political conditionality of democracy promotion, rule of law and respect for human rights as part of its accession strategy. However, as Hughes and Sasse noted, even the EU’s well-balanced conditionality model has its negative side effects. Based on their regional survey, they concluded that “the domestication of donor norms through aid conditionality [in the process of EU

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<sup>116</sup> Hughes, Sasse, and Gordon, 2004, p.16.

enlargement] has tended to override and marginalize local knowledge and supplant rival models as they are necessarily presented as “inferior.”<sup>117</sup>

Given the extent to which East European countries want benefits from the West, Karen Smith suggests, the use of conditionality could provide a strong push towards democratisation. However, she makes one simple but important observation: the East European countries have not all been offered the same benefits. Moreover, in some countries there is an even greater need for the international community’s support for promoting democracy and market reforms than in others. In my opinion, applying conditionality with its current logic -- the way it is conceptualised, formed, and measured - - ends up isolating the so called poor-performing states, grouping all transition countries as either good and bad reformers. If domestic political processes are not taken into account, if they are not given higher priority and if normative transition criteria are set artificially, conclusions can be hasty and superficial. Reforms may proceed slowly in some countries not because aid is used inefficiently but, for example, because they started the transition process from farther behind, have had to overcome legacies and cultural, ideological, and other obstacles, and therefore, have also sunk into complicated domestic politics. Consistency in applying this kind of conditionality complicates things even further. From this point of view, Karen Smith’s observation is to the point.

The emphasis which most East European countries have given to joining European multilateral institutions has provided a powerful imperative for continuing with democratisation so that they can meet the membership conditions. While in several countries this imperative has merely supplemented domestic forces, in others, it has had more of an impact.<sup>118</sup>

Bruce Parrot’s statement that “In Eastern Europe, a desire to be admitted to NATO and the European Union has tempered the political conduct even of lagging states such as Romania” emphasises the importance of the mutual dependence of domestic and

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<sup>117</sup> Hughes, Sasse, and Gordon, p. 14.

<sup>118</sup> Smith, 2001, p. 54.

international forces in the transition process.<sup>119</sup> The international community's ability to impact on a particular transition country depends, on the one hand, on the extent to which the country is sensitive to international pressure and seeks the rewards offered and, on the other hand, on what the international community itself is ready to suggest to or demand from the country in order to ensure that country's transition succeeds. EU and NATO membership, as already mentioned, has not been offered to all transition countries. "Where there is little or no possibility that countries will be allowed to join the most exclusive organisations, the West may not be so influential because it cannot and will not hold all the most significant carrots."<sup>120</sup>

Alexander Cooley finds a strong link between the type of conditionality and its transformative impact on states in transition. He divides five different types of Western external actors into three groups, depending on their type of conditionality. Those external actors that deserve attention, according to Cooley, are international non-governmental organisations, multilateral companies, international financial institutions, the EU, and NATO.<sup>121</sup> To what extent this list is complete and exhaustive is arguable. I would undoubtedly add to it at least such organisations as the World Trade Organisation, which has played an essential role in bringing the trade and economic policies of the transition countries up to world standards and integrating them finally into the world trade system. I would also include the Council of Europe (CoE), which has also played a significant role in building democracy and sustaining and consolidating democratic practices in the states and societies in transition. It continues to play a unique role, especially in those countries that have not been offered EU membership. The OSCE is another organisation that has had a crucial role both in security and in democracy and human rights matters in the post-

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<sup>119</sup> Bruce Parrot, "Perspectives on Postcommunist Democratization" in Karen Dawisha and Bruce Parrot (eds.), *The Consolidation of Democracy in East-Central Europe*, Cambridge: Cambridge University Press, 1997, p. 9.

<sup>120</sup> Smith, 2001, p. 55.

<sup>121</sup> Alexander Cooley, "Western Conditions and Domestic Choices: The Influence of External Actors on the Post communist Transition", *Nations in Transit*, Freedom House, 2003, p. 25.

communist transition space. Finally, the role of individual governments, such as that of the U.S. government, strongly supporting transition processes, should be mentioned.<sup>122</sup>

However, what is essential in this debate is not so much the list of external actors as the type of conditionality each of these organisations applies and their respective transformative impact on reforms in the transitional countries. Cooley identifies three types of conditionality and three qualities of transformative impact, respectively, and classifies the external actors accordingly. The first type is external actors with low conditionality and with limited transformative impact. The second group of actors has moderate conditionality and mixed transformative impact. Finally, the third type has high conditionality and, accordingly, major transformative impact. The record of the relationship between external actors and countries in transition indicates that international non-governmental organisations and multinational companies have affected the course of post-communist transition the least, since they have few instruments to enforce change in the countries of post-communist transition. International financial institutions constitute the second category of external actors. Among them, the World Bank and the IMF have had the most active role in the post-communist transition space. These two organisations mainly act hand in hand, with the IMF setting the rules of the game. The IMF operates on the principle of economic conditionality. There is no formal way of enforcing its conditions except by refusing loans or delaying the release of subsequent loans, in the case of non-compliance by the borrower country. The problem with this type of organisation, in general -- irrespective of the substantive effectiveness of the enforced prescriptions -- is that the conditions, the criteria for assessment, and the subsequent funding for each country have been very subjective and therefore widely different for different countries. According to experts, there seems to be little correlation between the volume of reforms implemented by borrower countries and the volume of IMF funding they receive. It is difficult to disagree with Cooley when he points out that:

... of all the external actors, the EU and NATO have exerted the most profound impact on the transition process. By making membership in a Western international organisation contingent on the adoption of strict and detailed conditions, both NATO and the EU have done far more to expedite

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<sup>122</sup> On the role of US assistance to democracy promotion see Steven E. Finkel, Anibal Perez-Linard, and Mitchel A. Seligson, "The Effects of US Foreign Assistance on democracy Building 1990-2003", *World Politics* 59, Vol. 3, 2007, pp.401-439.

the transition than the other external actors and their aid packages taken together.<sup>123</sup>

Even the prospect of joining these organisations for the countries in transition often means more than loans and aid packages designed for, and directed at, economic reforms of this or that sphere of a transitional country's economy. Motyl calls 'losers' those countries that do not have the prospect of membership in the EU and NATO:

With respect to prospects for membership, the European Union and the North Atlantic Treaty Organisation have given preference to the most advanced countries and, thereby, have effectively relegated the second and third clusters to a single category: the outsiders or, less generously, the losers...non-membership in EU and NATO structures is tantamount to exclusion from a political-economic space that is undergoing rapid – even if somewhat indeterminate -- institutional change.<sup>124</sup>

It is obvious that the demands presented to a state in transition, which threaten its stability and have a disintegrative effect, will not be welcomed by the respective government and domestic society. Any conditionality must take into account the political realities existing at the international, domestic, and state levels. Conditionality based on artificially made links and criteria will themselves produce conflicts or further aggravate existing conflicts. From this point of view, particular attention should be given to both the horizontal linkages that exist among different policy or issue areas within the state in transition and the vertical linkages existing among different levels during the transition countries.

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<sup>123</sup> Cooley, 2003, p. 35.

<sup>124</sup> Alexander. J. Motyl, "Ten Years After the Soviet Collapse: Persistence of the Past and Prospects for the Future", *Nations in Transit*, 2001, p. 41.



### **International Socialisation Approach**

While the studies of the international dimension in post-communist transition focus on the role of conditionality as a foreign policy instrument to promote democracy and liberal market reforms, they do not go further to explore how conditionality works and why some types of international conditionality are more effective than others. A relatively recent effort to explore those issues in the context of the European and transatlantic integration of Central and East European countries has used the framework of international socialisation.

The international socialisation approach fits into the debates between rationalism and constructivism in IR theory and between sociological theories of institutionalism and socialisation. Constructivists argue that institutions shape member-state behaviour through international socialisation. Rationalist institutionalists explain compliance by the use of positive and negative incentives, which constrain and empower states and domestic actors by allocating differential costs to alternative courses of action.<sup>125</sup>

The classical definition of socialisation defines it as a process of inducting actors into the norms and rules of a given community.<sup>126</sup> The outcome of socialisation is sustained compliance based on the internalization of these new norms. According to Schimmelfennig and Sedelmeier, the adoption of community rules [by the states] takes place through switching from following a logic of consequences to a logic of appropriateness. The logic of consequences assumes “strategic, instrumentally rational actors who seek to maximize their own power and welfare.” The logic of appropriateness implies that actors are motivated by internalized identities, values, and norms. This adoption is sustained over time and is quite independent from a particular structure of material incentives or sanctions.<sup>127</sup>

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<sup>125</sup> Iain A. Johnson, “Treating International Institutions as Social Environments”, *International Studies Quarterly* 45, No. 4, 2001, pp. 487-515.

<sup>126</sup> Kai Alderson, “Making Sense of State Socialization”, *Review of International Studies* Vol. 27, No. 3, 2001, pp. 415-433.

<sup>127</sup> Jeffrey T. Checkel, “International Institutions and Socialization in Europe: Introduction and Framework”, *International Organization* 59, No. 4, 2005, pp. 801-826, p. 804.

Observing the dynamics of socialisation in contemporary Europe, Checkel distinguishes two types of socialisation/internalisation that derive from the logic of appropriateness: Type I socialisation implies that agents know what is socially acceptable in a given setting or community. They learn the role and behave in accordance with expectations -- irrespective of whether they like the role or agree with it.

Type II socialisation/internalisation goes beyond role playing and implies that agents accept community or organizational norms as “the right thing to do.” It implies that agents adopt the interests, or even possibly the identity, of the community which they are a part.<sup>128</sup>

A further, and I think helpful, step to adapt socialisation theory to explain the political process of norm internationalisation is to introduce a third mechanism, strategic calculation of costs and benefits, alongside role-playing and normative suasion. Although, as Checkel notes, such a *rational choice approach* is alien to a socialisation model, it is important for distinguishing between situations in which change results from socialisation and situations in which it is induced by a calculation of costs and benefits.<sup>129</sup> I find this helpful, first, because no single theory explains the complex process of change in transition. Therefore new attempts to integrate diverse analytical traditions are common and may prove to be rewarding. Second, and especially in countries that are experiencing a long and difficult transition with an indefinite final destination, the state, members of society, and different agents do not seem to embrace the change equally, massively and irreversibly. What happens before switching from a logic of consequences to one of appropriateness? Finally, in the case of post-communist countries that have not been offered EU membership, one cannot speak about well-established, agreed and undisputable community norms for all. A rational choice approach assumes that agents carefully calculate and seek to maximize given interests, adapting their behaviour to the norms and rules favoured by the international community.”<sup>130</sup>

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<sup>128</sup> Checkel, 2005, p. 804.

<sup>129</sup> Checkel, 2005, p. 805.

<sup>130</sup> Checkel, 2005, p. 806.

Frank Schimmelfennig applied the international socialisation approach to the study of the Central and Eastern European transition and the EU enlargement process. He finds that the international socialisation of Central and Eastern Europe essentially takes place through reinforcement based on strategic calculation. Although the introduction of strategic calculations diverts socialisation theory from its classical understanding, Schimmelfennig demonstrates in his analysis that the theory becomes better equipped to analyse the political changes of post-communist transitions. Socialisation by reinforcement implies that actors calculate the consequences of norm conformance rather than reflecting on its appropriateness and they adapt their behaviour rather than changing their views, interests, or identities.<sup>131</sup>

Schimmelfennig distinguishes reinforcement mechanisms along three dimensions: first, reinforcement can be based on rewards or punishments; second, it can use tangible (material or political) or intangible (social or symbolic) rewards and punishments; third, it can proceed through an intergovernmental or a transnational channel. In intergovernmental reinforcement by tangible rewards, the socialisation agency offers the governments of the target states positive incentives, which would improve their security, welfare, or political power and autonomy. Those rewards can be aid or membership, on the condition that a target government conforms to the community norms and rules. In the case of non-compliance, the socialisation agency simply withholds these rewards. This mechanism is effective when the target government expects the promised rewards to be higher than the costs of adaptation. In contrast, intergovernmental reinforcement by punishment means that the socialisation agency threatens to punish the socializees in the case of non-compliance. In this case, reinforcement by punishment is effective when the costs of external punishment are higher for the target government than the costs of adaptation. The rewards and punishments may be social rather than material, such as international recognition, public praise, and invitations to intergovernmental meetings; the corresponding punishments include exclusion, shaming, and shunning.<sup>132</sup> In any case of

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<sup>131</sup> Frank Schimmelfennig, "Strategic Calculation and International Socialization: Membership Incentives, Party Constellations, and Sustained Compliance in Central and Eastern Europe", *International Organization* 59, No. 4, 2005, pp. 827–860, p. 831.

<sup>132</sup> Schimmelfennig, 2005, p. 831.

intergovernmental reinforcement, behavioural adaptation is likely when targeted governments expect the promised rewards to be greater than the costs of compliance.<sup>133</sup>

In transnational reinforcement, the socialisation agency uses rewards and punishments to mobilize domestic groups in the target state to apply pressure on their government to change its policy. Here too, the incentives can be material and social, positive and negative. As in cases of intergovernmental reinforcement, according to Checkel, transnational reinforcement succeeds if the costs of putting pressure on the government are lower for the societal actors than the expected community rewards, and if they are strong enough to force the government to adapt to the norms and rules.<sup>134</sup>

Although socialisation by reinforcement means conforming to norms based on mere strategic calculations, Schimmelfennig does not exclude “sustained compliance based on the internalization of these new norms.”<sup>135</sup> However, behavioural change will typically precede internalization, and behavioural conformance will persist for an extended period of time without internalization. Nevertheless, no matter how the actors internalise the norms, a key question, especially critical in the context of post-communist transition, remains under what conditions are incentives and rewards likely to promote behavioural adaptation? Among the several possible options Checkel, Schimmelfennig, and others especially emphasize the importance of political conditionality in the socialisation process.<sup>136</sup>

While I have already discussed political conditionality as a critical part of international dimension of transition in the post-communist context both as a concept and as a policy instrument, it would be useful to discuss political conditionality as an instrument of socialisation from the perspective of Checkel and Schimmelfennig. Viewing conditionality as a mean of socialisation gives a fresh perspective to the concept that has been largely debated and criticised and still remains one of the key and yet controversial policy instruments in the relationship of international regimes and transition states.

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<sup>133</sup> Checkel, 2005, p. 809

<sup>134</sup> Checkel, 2005, p. 809.

<sup>135</sup> Schimmelfennig, 2005, p. 831.

Although “Europeanization” is not the focus of my dissertation, the study of conditionality in the European Union enlargement process provides rich new data to explore the mechanisms and conditions of international institutional effects, the adoption of international norms and rules and the application of international socialisation to those cases provides a fresh perspective.

Schimmelfennig and Sedelmeier suggest three models of rule adoption. The “*social learning*” model follows a logic of appropriateness and emphasizes identification of a non-member state with the EU and persuasion of the legitimacy of the EU rules as a key condition for rule adoption, rather than the provision of material incentives by the EU. The second model suggested by Schimmelfennig and Sedelmeier is called “*lesson-drawing*”. It differs by focusing on the adoption of EU rules by the non-member states themselves irrespective of the EU’s material incentives or persuasion. The third model is the “*external incentives model*”, which “captures the dynamics of underpinning EU conditionality. It follows the logic of consequences and is driven by the external rewards and sanctions that the EU adds to the cost-benefit calculations of the rule-adopting state.”<sup>137</sup> Thus, Schimmelfennig and Sedelmeier also conclude that the process of rule adoption can be either EU-driven or domestically driven.

According to the “external incentive” model, the EU can offer two kinds of rewards to non-member states for compliance to its conditionality: assistance and institutional ties. Conditions work in two ways: *intergovernmental bargaining*, and *differential empowerment* of domestic actors. The former works directly on the target government, for which the main criteria for compliance is whether the benefits of EU rewards outweigh the domestic adjustment costs of adopting EU rules and the opportunity costs of discarding the rules promoted by other international actors. In the latter case, conditionality may change the domestic opportunity structure, thus differentially empowering certain domestic actors who have incentives to adopt EU rules. If the former case produces “top-down” processes, the second case is more “bottom-up”. However, Schimmelfennig and Sedelmeier recognize

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<sup>137</sup> Frank Schimmelfennig and Ulrich Sedelmeier, “Introduction: Conceptualizing the Europeanization of central and Eastern Europe”, in Frank Schimmelfennig and Ulrich Sedelmeier (eds.), *The Europeanization of Central and Eastern Europe*, Ithaca and London: Cornell University Press, 2005, p. 9.

that it requires the decision of “the target government, which seeks to balance EU, domestic, and other international pressures in order to maximize its own political benefits.”<sup>138</sup>

The authors add that the cost-benefit balance depends on four sets of factors: the determinacy of conditions, the size and speed of rewards, the credibility of threats and promises, and the size of adoption costs. They formulate a determinacy hypothesis in the following way: The likelihood of rule adoption increases if the rules are set as conditions and the more determinate they are.<sup>139</sup> The corresponding reward hypothesis assumes that “the likelihood of rule adoption increases with the size and speed of reward.”<sup>140</sup> As for credibility, Schimmelfennig and Sedelmeier suggest that:

The likelihood of adoption increases with the credibility of conditional threats and promises. (1) The credibility of threats increases and the credibility of promises decreases as the benefits of rewarding or the costs of withholding the reward decrease; (2) credibility increases with the consistency of, and internal consensus about, conditional policy; (3) credibility decreases with cross-conditionality and increases with parallel or additive conditionality; and (4) credibility decreases with information asymmetries in favor of the target government.<sup>141</sup>

In line with this and based on the existing experience, Schimmelfennig, Engert and Knobel argue that the likelihood of rule adoption has varied mainly with the size of adoption costs. Provided that the credibility of EU political conditionality is high both with regard to the promise of membership and the threat exclusion,

...it is the size of domestic political costs for the target government that determines its propensity to meet EU demands. Generally, these costs increase the more that EU conditions negatively affect the security and integrity of the state, the government’s domestic power base, and its core political practices of power preservation.<sup>142</sup>

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<sup>138</sup> Schimmelfennig and Sedelmeier, 2005, p. 12.

<sup>139</sup> Schimmelfennig and Sedelmeier, 2005, p. 13.

<sup>140</sup> Schimmelfennig and Sedelmeier, 2005, p. 15,

<sup>141</sup> Schimmelfennig and Sedelmeier, 2005, p. 16.

<sup>142</sup> Frank. Schimmelfennig, Stefan Engert and Heiko Knobel, “The Impact of EU Conditionality”, in Schimmelfennig and Sedelmeier, 2005, p. 29.

It is hard to disagree with this statement, as well as with the central hypothesis that the likelihood of rule adoption increases as the target governments' domestic political costs decrease.

The key finding of the studies presented by these authors is that the influence of the EU depends crucially on the context in which the EU uses its incentives. They distinguish between the context of democratic conditionality and the context of accession conditionality. In the former case, credible conditionality and adoption costs are key variables. In the second case, key variables are credible membership perspective and the setting of EU rules as requirement for membership.

Schimmelfennig and Sedelmeier find that the importance of adoption costs contrasts sharply with the context of democratic conditionality.

*As *acquis* conditionality does not concern the political system and the bases of political power as such, governments generally do not have fear that the costs of rule adoption in individual policy areas will lead to a loss of office... Moreover, once a credible membership perspective has been established, adoption costs in individual policy areas are discounted against the (aggregate) benefits of membership.<sup>143</sup>*

According to Schimmelfennig, among the channels and means used by European regional organisations to promote their rules and norms, only intergovernmental reinforcement offering the high and tangible reward of EU and NATO membership has the potential to produce norm-conforming domestic change in norm-violating countries. What is more important is that those incentives promoted sustained compliance only when the domestic costs of adaptation for the target governments were low. However, this observation is true for liberal democratic governments only, or for those that alternate between liberal and nationalist-authoritarian governments. The authoritarian systems of Eastern Europe have not been positively affected by EU or NATO membership incentives at all.

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<sup>143</sup> Frank Schimmelfennig and Ulrich Sedelmeier, "Conclusions: The Impact of the EU on the Accession Countries", in Schimmelfennig and Sedelmeier, 2005, p 215.

The international socialisation of Central and Eastern Europe thus provides evidence for socialisation by reinforcement based on strategic calculation. Compliance with community norms was set as a condition for reaping the political and material benefits of membership in the community organizations, and non-member governments weighed those benefits against the domestic political costs that adaptation would involve. While the successful compliance by Central and East European countries to EU norms during the enlargement process demonstrates the effectiveness of socialisation by reinforcement based on rational choice, it is still questionable whether those states internalised the norms and whether those international institutions were the relevant promoters of internalization.<sup>144</sup> Schimmelfennig is very cautious about attributing the internalisation of new rules only to external factors, i.e. international institutions. First, the study shows that there was sustained compliance with liberal norms (which means an internalisation of norms) in those Central and Eastern Europe (CEE) countries where liberal parties dominated. However, those countries had attained high conformance levels ahead of EU or NATO accession conditionality, which means that the contribution of international institutions to internalization could have been small.

At best, they have helped to reinforce and stabilize a pre-existing domestic consensus (which may well have formed by diffuse transnational influences during the Cold War). It is highly probable that these countries would have embarked and continued on the path of democratic consolidation in the absence of any norm promotion by international organizations, be it in the form of persuasion, social influence, or membership incentives.<sup>145</sup>

Second, the study found that international institutions were successful promoters of norms and rules in response to EU and NATO membership conditionality especially in countries with a mixed political constellation.<sup>146</sup> In these cases of clear external impact, however, the switch to internalization is not sufficiently evident yet. EU and NATO membership conditionality was in place until the end of the period of examination (2003).

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<sup>144</sup>Schimmelfennig, 2005, p. 856.

<sup>145</sup> Schimmelfennig, 2005, p. 856.

<sup>146</sup> Schimmelfennig, 2005, p. 856.



Thus it cannot be excluded that norm conformance was driven by external incentives rather than internalization.

Michael E. Smith and Mark Webber suggest that as membership drew closer, the alignment with CFSP positions increased and “as such the process could be said to reflect both a rational logic of membership conditionality as well as a process of social learning.” However, they are quite pessimistic about the democratic conditionality presented even by the ENP action plan or any prior EU instruments:

Because ENP, by contrast, lacks the “ultimate reward” of membership, it is conducted in a much less intensely institutionalized setting. Consequently, while CFSP alignment even among the acceding states had an often symbolic and declarative quality, that with the ENP partners may be even more hollow, as both the incentives for constructive engagement and the barriers to defection are fewer and less substantive.<sup>147</sup>

While the international socialisation hypothesis seems to fit well in explaining how international institutions influence domestic policy in the post-communist context in Europe, there are some disagreements with the findings of Checkel, Schimmelfennig and Sedelmeier. Some studies also based on quantitative tests reported only limited socialisation effects even in Europe. Kelley, for instance, showed that traditional rational choice mechanisms, such as membership conditionality, motivated most behaviour change in the EU enlargement process, while socialisation-based methods rarely changed behaviour. The latter were effective only when the domestic opposition was low and the effect was only moderate. “As domestic opposition grew, membership conditionality was not only increasingly necessary to change behaviour, but it was also surprisingly effective.”<sup>148</sup> Further studies have tried to follow up on the international socialisation debate and to clarify exactly how much change in domestic policy can be explained by the

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<sup>147</sup> Michael E. Smith and Mark Webber, “Political Dialogue and Security: the CFSP and ESDP”, in Katja Weber, Michael E. Smith and Michael Baun (eds.), *Governing Europe’s Neighbourhood: Partners or Periphery?*, Manchester University Press, 2008.

<sup>148</sup> Judith Kelley, “International Actors on the Domestic Scene: Membership Conditionality and Socialization by International Institutions”, *International Organization* 58, No. 3, 2004, pp.425-457.

socialisation effect of international organizations. David Bearce and Stacy Bondanella, for instance, tried to collect a larger set of data and to test statistically the constructivists' international socialisation hypothesis. While they were able to provide some evidence to support the validity of the international socialisation hypothesis, the study also revealed its limits. In particular, they showed that unstructured IGOs have no effect in promoting member state interest convergence.<sup>149</sup>

### **Conclusion**

To sum up, in this chapter I have briefly discussed theories of international regime, complex interdependence and socialisation. I have also tackled the international dimension of democratisation, the role of international institutions and conditionality in promoting post-communist transition.

I concluded that the applicability of complex interdependence theory is restricted. The concept of linkage, the role of domestic actors and the learning process are extremely important for analysing and explaining the complex process of domestic transformation and international integration of transition countries. The lack of attention paid to these aspects in the theory of complex interdependence limits its applicability to post-communist transition studies. International regime theories also, because of their weaknesses, can have only limited application for studying post-communist transition. The value of the international dimension of democratisation, as one of the functionalist approaches to transition, is that it brings external factors into the explanation of post-communist transition in studies that had previously focused solely on domestic factors in the process of regime change and democratic consolidation. However, as Jacoby points out on the basis of more recent empirical studies of the role of external factors in post-communist

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<sup>149</sup> The authors refer to unstructured intergovernmental organisations as those lacking formal bureaucratic, executive, and judicial organs. David H. Bearce and Stacy Bondanella, "Intergovernmental Organizations, Socialization, and Member-State Interest Convergence", *International Organization* 61, No. 4, 2007, pp.703-33, p.703; 725.

transition, “the focus on external influences is a growth area for good conceptual work only if it addresses the union of foreign and domestic influences.”<sup>150</sup>

As for conditionality, for a large group of transition countries and for the case studies in my thesis, the only type of international conditionality that has been available is the democratic conditionality. While not excluding the possibility of some socialisation effect in this group of transition countries, undoubtedly the changes have been influenced mainly by democratic conditionality, since for most of them, accession conditionality was not available.

Socialisation theories do, to some extent, fill the gap that exists in explaining how international regimes and international organisations transfer international norms to domestic societies and domestic actors. However, overall they still tend to be about top-down processes of internalisation of international norms rather than about the dynamic interaction among domestic, state and international levels. As discussed above, socialisation based on a *rational choice* approach, or *socialisation by reinforcement* is more applicable for post-communist transition studies, than other types of socialisation. In my opinion, it also leaves more room for taking into account domestic actors’ strategic calculations and consequent actions. Therefore, this concept can be helpful for studying the interaction and interplay among domestic, state and international levels, which is an important issue in my thesis. For this purpose, in the next chapter I will analyse to what extent the existing IR and transition literature covers the interaction and interplay among different policy areas and different levels, before developing a new framework of analysis.

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<sup>150</sup> Jacoby, 2006, p.625.

## **CHAPTER 3**

### **Establishing the Framework**

Although there are numerous attempts to theorise domestic-foreign linkages, the theoretical literature of international relations does not provide a unified approach which can incorporate domestic level variables in a systematic and consistent manner. Developing such a unified theory is inherently interdisciplinary, inasmuch as it deals with both domestic politics and international relations.

In this chapter, first, I review the theories that analyse various aspects of domestic and foreign policy relationships and try to identify the concepts that can be useful in analysing the multi-issue and multilevel dynamics of post-communist transition. Second, based on the relevant theories of International Relations and Political Science that I have reviewed in chapters one and two and in the first part of this chapter, I sketch a framework and construct the core arguments that I will apply to the group of countries of post-communist transition.

#### **Methodological Issues of the Domestic-Foreign Policy Relationship**

There is wide discussion on the issue of domestic and foreign policy linkages. Hans Morgenthau, Kenneth Waltz, Stephen Krasner, Thomas Risse-Kappen, James Rosenau, Joseph Nye, Andrew Moravcsik, Richard Rosecrance, Fareed Zakaria, Robert Putnam, Robert Keohane, Hellen Milner, Susan Strange, and others have done extensive research on domestic-foreign relations. The concepts and models suggested by these authors shed light on many significant aspects and structures of foreign-domestic policy linkages. However, the limitations of these suggested concepts are widely criticised in the existing international relations literature.

A review of the literature shows how differently various schools of thought at different periods have treated the issue. At one point, international outcomes were often explained by national and sub-national characteristics; at other times great emphasis was placed on systems. Currently, however, there is a growing consensus among theorists that

systemic and domestic level theorising is mutually complementary. In this respect, both neo-liberals and neo-realists acknowledge the necessity of greater efforts to forge theoretical links between domestic politics and international relations.

As Zakaria writes, in the literature of international relations it is fast becoming commonplace to assert the importance of domestic politics and call for more research on the subject:

After over a decade of vigorous debates about realism, structural realism, neoliberal institutionalism, and hegemonic stability theory, political scientists are shifting their attention to the internal sources of foreign policy. Some even contend that realism's dictum about the "primacy of foreign policy" is wrong, and that the domestic politics of states are the key to understanding world events. Diplomatic history has been under fire for over two decades for its focus on elite decision-making, and with the rise of the "new history," younger historians have increasingly written about the underlying social, economic, and ideological influences on high politics. They have not, however, placed their particular explanations within the context of international relations theory. Most theories of international politics have, quite to the contrary, focused on the nature of international system and ignored what goes on behind state doors, treating it as the province of comparative politics, a different sub-field of political science.<sup>151</sup>

The renewed focus on anarchy in international politics has led to the creation of a sharp distinction between domestic and international politics. Politics internationally is seen as characterised primarily by anarchy, while domestically, centralised authority prevails. One of the most explicit statements of this position is in Waltz's *Theory of International Politics*. He makes a strong distinction between the areas:

The parts of domestic political system stand in relations of super- and subordination. Some are entitled to command; others are required to obey. Domestic systems are centralized and hierarchic. The parts of international political systems stand in relations of coordination. Formally each is the equal of all the others. None is entitled to command; none is required to obey. International systems are decentralized and anarchic.<sup>152</sup>

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<sup>151</sup> Fareed Zakaria, "Realism and Domestic Politics," *International Security* Vol. 17, No. 1, 1992, pp. 177-198.

<sup>152</sup> Kenneth Waltz, *Theory of International Politics*, Reading, Mass: Addison-Wesley, 1979, p. 88.

Moreover, Waltz sees international politics as the only true “politics.” He writes:

National politics is the realm of authority, of administration, and of law. International politics is the realm of power, of struggle, and of accommodation. The international realm is pre-eminently a political one. The national realm is variously described as being hierarchic, vertical, centralized, heterogeneous, directed, and contrived; and the international realm, as being anarchic, horizontal, decentralized, homogeneous, undirected, and mutually adaptive.<sup>153</sup>

It is difficult to agree with the strict division between national and international politics. For the purposes of this study, this is a starting point. I fully share Milner’s critique of such a distinction between domestic and international politics:

Disputes among political parties, local and national officials, the executive and the legislature, different geographic regions, different races, capital and labour, industry and finance, organized and unorganised groups, and so on over who gets how much and when occur constantly within the nation. ...Who is the highest authority in the United States? The people, the states, the Constitution, the executive, the Supreme Court, or even Congress. De jure, the Constitution, but de facto, it depends upon the issue.<sup>154</sup>

This observation need not be limited to the United States. Authority in some states may be fairly centralised, while in others it is highly decentralised, as in the debate over “strong” and “weak” states.<sup>155</sup> On the other hand, the international system may also evince different levels of centralization and decentralization, depending on time and the issue. As Milner and others make clear, Waltz’s distinction between domestic and international arenas based on the role and significance of force is problematic. As Morgenthau writes:

The essence of international politics is identical with its domestic counterpart. Both domestic and international politics are struggle for power,

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<sup>153</sup> Waltz, 1979, p. 113.

<sup>154</sup> Helen V. Milner, “The Assumption of Anarchy in International Relations Theory: a Critique” in Helen V. Milner, *Interest, Institutions and Information: Domestic Politics and International Relations*, Princeton University Press, 1997, pp. 155-158.

<sup>155</sup> Peter J. Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States*, University of Wisconsin Press, 1978.

modified only by the different conditions under which this struggle takes place in the domestic and international spheres. The tendency to dominate, in particular, is an element of all human associations, from the family through fraternal and professional associations and local political organisations, to the state... Finally, the whole political life of a nation, particularly of a democratic nation, from the local to the national level, is a continuous struggle for power.<sup>156</sup>

Milner refers to other thinkers such as Carr, Claude, Rosenau, and Fox to strengthen her point that the sharp distinction between the realms is difficult to maintain empirically. More importantly, it is disadvantageous from the theoretical, epistemological point of view. The radical dichotomy between international and domestic politics seems to represent a conceptual and theoretical step backward.<sup>157</sup>

Rosenau also warns against such an isolationist approach:

One reason for the lack of conceptual links is that most students in the international field have not treated their subject as local politics writ large. Instead, like advocates of bipartisanship in foreign policy, most students tend to view politics as “stopping at the water’s edge” and consider that something different, international politics and foreign policy, takes place beyond national boundaries. Consequently, so much emphasis has been placed on the dissimilarities between international and other types of politics that the similarities have been overlooked and the achievement of conceptual unity has been made much more difficult.<sup>158</sup>

The point that politics is the same in the two arenas and that “domestic and international politics are but two different manifestations of the same phenomenon: the struggle for power” is very important also for epistemology.<sup>159</sup> As William Fox adds:

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<sup>156</sup> Hans Morgenthau and Kenneth Thompson, *Politics Among Nations the Struggle for Power and Peace*, (6<sup>th</sup> edition), New York: Knopf, 1985, pp. 39-40.

<sup>157</sup> Milner, 1997, p. 5.

<sup>158</sup> Milner, 1997, p. 6.

<sup>159</sup> Inis L. Claude, *Power and International Relations*, New York: Random House, 1962, p. 231.

Putting “power” rather than “the state” at the centre of political science makes it easier to view international relations as one of the political sciences. So conceived, it is possible for some scholars to move effortlessly along the seamless web which connects world politics and politics of such less inclusive units as the state or the locality, and to emphasise the political process, group behaviour, communications studies, conflict resolution, and decision-making.<sup>160</sup>

Peter Gourevitch’s analysis of the current studies exploring the interaction between international relations and domestic politics finds that the traditional distinction between the two is dead. But the two branches of political science have, at the very least, differing sensibilities. The international relations specialist may, if dissatisfied with pure international system explanations, make his or her own exploration into domestic politics, still having as an ultimate goal the understanding of international dynamics. This voyage can frequently bring back discoveries most useful to the comparativists. In the same way, the international system may itself become an explanatory variable to explain the nature of the domestic structure. Instead of being a cause of international politics, domestic structure may be a consequence of it. And international systems, too, become causes instead of consequences. Gourevitch finds that in using domestic structure as a variable for explaining foreign policy, much of the literature is “apolitical.” It stresses structural features of domestic regimes which constrain policy, regardless of the content of the interests seeking goals through public policy or the political orientation of the persons in control of the state machine.<sup>161</sup>

In the 1970s, the centrality of government itself in the formulation of foreign policy was the question. Nye and Keohane, Edward Morse, Karl Kaiser, and others stressed the growing role of transnational, international, and multinational actors, and global, non-military forces. Instead of explaining foreign policy, which is implicitly state-centred, the emphasis is on explaining “international regimes” in various issue areas, and not just the

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<sup>160</sup> William T. R. Fox, *American Study of International Relations: Essays*, Columbia: University of South Carolina Press, 1968, p. 20.

<sup>161</sup> Peter Gourevitch “The second image reversed: the international sources of domestic politics”, *International Organisation* Vol. 32, Issue 4, 1978, pp. 881-912, p. 882.



international system, which essentially stresses military power. Countries differ in these issue areas according to their “sensitivity” and “vulnerability” in various domains. Nye and Keohane call this model “complex interdependence” and explore the conditions under which it, rather than another paradigm, is the most applicable.<sup>162</sup> In this regard, Morse makes an interesting observation:

All modern societies in interdependent situations acquire certain common political characteristics such as strong welfare pressures, bureaucratisation, legitimation problems which increase the relevance of domestic politics in foreign policy-making compared to the classic period of diplomacy. Thus the international and the domestic spheres become more important while the intermediate level, national government, diminishes.<sup>163</sup>

The existence of some variance in response to changes in the international environment requires some examination of domestic politics. There are numerous studies of the importance of domestic politics, stressing different aspects as the more determining ones: the presence and character of bureaucracy (Kissinger, Allison, Halperin); the strength and autonomy of the state (Gilpin, Krasner, Katzenstein); the effect of the masses on policymaking, or the lack of such pressure (Kissinger, Wilson); the perceptions of the leaders (Jervis, Steinbrunner, Brecher); national style (Hoffmann); the character of domestic coalitions (Gourevitch, Katzenstein); the level of modernization (Morse); and the role of transnational actors in the given policy area (Nye and Keohane). After reviewing the studies conducted on the issue, Gourevitch comes to the conclusion that it is difficult to draw a strict demarcation line between international and domestic politics. Moreover, if you focus on one of those levels, you are in danger of missing a whole range of variables that can be found at the other level. I am fully sympathetic to Gourevitch’s conclusion that:

The international system is not only a consequence of domestic politics and structures but a cause of them. Economic relations and military pressures constrain an entire range of domestic behaviours, from policy decisions to political forms. International relations and domestic politics are therefore so

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<sup>162</sup> Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston: Little, Brown, 1977, p. 20.

<sup>163</sup> Edward Morse, *Modernization and the Transformation of International Relations*, New York Free Press, 1976.

interrelated that they should be analysed simultaneously, as wholes... Some leeway of response to pressure is always possible, at least conceptually. The choice of response therefore requires explanation. Such an explanation necessarily entails an examination of politics.<sup>164</sup>

Harold Muller and Thomas Risse-Kappen write: “We see a growing consensus among scholars that a complex model of international politics has to integrate the three levels of analysis: society, political system, and international environment.<sup>165</sup> Rosenau calls this task an Einsteinian one. Rapid advances at several levels have revealed that more theorising is needed, that across-systems-level theory has much greater explanatory power than within-systems-level theory.<sup>166</sup> He emphasises the necessity of conceptualising a complex model of international politics. Of course, I agree with Rosenau that to elaborate an “across systems” theory is a daunting task. However, what is important is that it should not be assumed that one can construct such a model merely by combining domestic and international factors in one. A mere juxtaposing of the two sets of variables will be a useless exercise.

In this respect, I agree with Moravcsik that in order to explain the foreign policy of states “the model should focus on the interaction of the three levels.”<sup>167</sup> As Muller and Risse-Kappen mention, it is important that “the alternative ‘primacies’ do not emerge as

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<sup>164</sup> Gourevitch, 1978, p. 911.

<sup>165</sup> Harold Muller and Thomas Risse-Kappen, “From the Outside in and from the Inside Out, International Relations, Domestic politics, and Foreign Policy” in David Skidmore and Valerie M. Hudson (eds.), *The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation*, Westview Press, 1993, p. 26.

<sup>166</sup> James Rosenau, “Theorizing Across Systems: Linkage Politics Revisited” in Jonathan Wilkenfeld (ed.), *Conflict, Behaviour and Linkage Politics*, NY: David McKay, 1973, pp. 25-26.

<sup>167</sup> Andrew Moravcsik, “Integrating International and Domestic Politics: A Theoretical Introduction” (Chapter One) in Peter B. Evans, Harold K. Jacobson, Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, University of California Press, Berkeley, Los Angeles, London, 1993, p. 18.

mutually exclusive and generalisable hypotheses, but as two poles of a continuum of possible combinations of external and internal factors influencing state actions.”<sup>168</sup>

Moravcsik divides current domestic theories of foreign policy into three subcategories, according to the source of domestic policy posited by the analyst. First, “society-centred” theories stress pressure from domestic social groups “through legislatures, interest groups, elections, and public opinion.” Second, “state-centred” domestic theories locate the sources of foreign policy behaviour within the administrative and decision-making apparatus of the executive branch of the state. Third, theories of “state-society relations” emphasise the institutions of representation, education, and administration that link state and society.<sup>169</sup>

Among international relations theorists, it is widely recommended that analysts stick to a single level of analysis. Some, like David Singer, argue that different levels of analysis are mutually exclusive, asserting that “one could not add these two types of statements, systemic and domestic cause, together to achieve a cumulative growth of empirical generalisations.” However, Singer hints in the same article that a framework combining domestic and international explanations is possible.<sup>170</sup> Others concede that domestic factors may be important, but tend to be empirically intractable. As we shall see, a majority of international relations theorists recommend that analysts give priority to international explanations and employ theories of domestic politics only as needed to explain anomalies.

Moravcsik concludes that all sophisticated theories of international relations, domestic and international, tend to concede that domestic actors are active participants in foreign policymaking. The question that divides them is whether observed domestic behaviour can best be accounted for by using international or domestic theory. Many theorists favour the “residual variance” approach because it continues to privilege systemic theory while permitting domestic politics to enter the analysis as an independent, but

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<sup>168</sup> Muller and Risse-Kappen, 1993, p. 32.

<sup>169</sup> Moravcsik, 1993, pp. 6-7.

<sup>170</sup> David Singer, “The Level-of-Analysis Problem in International Relations”, *World Politics* Vol. 14, No. 1, 1961, pp.77-92.

clearly secondary, influence on policy.<sup>171</sup> Moravcsik criticises this approach for three reasons:

First, the decision to begin with systemic, as opposed to domestic theory is essentially arbitrary. Systemic theories are not inherently more parsimonious, nor more powerful, nor more precise than their domestic counterparts. Second, by privileging international-level theories and bringing in domestic factors only as needed this approach tends to encourage ad hoc interpretations rather than explicit theories about the interaction between domestic and international politics. Rather than calculating domestic and international interests simultaneously, such theories often make inconsistent assumptions about the rationality or preferences of statesmen, who are assumed to respond sometimes to external incentive, and sometimes to internal incentives. Third, the sequential use of domestic theories of interest and international theories of bargaining, even where domestic factors are treated as prior to systemic ones, is at best incomplete, since, with only a few contemporary exceptions, such explanations have ignored the influence of domestic factors on international bargaining. The effects of domestic factors are not limited to the process of interest formation, but affect strategy and bargaining outcomes as well.<sup>172</sup>

### **Theories of across-level (vertical) interaction**

Numerous theories have been put forward to analyse and explain across-level linkages – for example, interdependence theory, theories of integration, adaptation, intervention theory, and the “linkage” concept. Some of these theories have the potential to explain across-level interaction and others do not. Some of them have more potential to capture the dynamic nature of across-level interaction, while others are handicapped by their choice of units of analysis or variables.<sup>173</sup> The *theory of interdependence*, for instance, is very general and does not necessarily imply direction, purpose, or even across-level interactions. In sum, the existing concept of interdependence does not hold much promise as a framework for across-level analyses. Unlike interdependence, scholars find

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<sup>171</sup> Moravcsik, 1993, p. 7.

<sup>172</sup> Moravcsik, 1993, p. 14.

<sup>173</sup> A detailed analysis about the pros and cons of the existing across-system theories is provided by James Rosenau in Wilkenfeld, 1973, 25-26.

the theory of integration to be more precise in specifying the kind of phenomena at the national and international level which have either been conceived or found to be systematically associated with each other. According to James Rosenau, the *theory of integration*, relative to the other concepts, provides an impressive array of hypotheses and findings pertinent to a wide variety of across-level phenomena. However, the concept can never make more than a limited contribution to an across-level analysis. Because of the normative basis of the theory, its scope is restricted to the creation of “new types of human communities at a very high level of organisation.”<sup>174</sup> The attributes and dynamics of national actors are crucial to integration theorists’ research, but only as independent variables.<sup>175</sup> Meanwhile, I especially agree that the lack of clarity and consensus on the main definitions and dependent variables embraced by the concept indicates that the concept can be further developed.

The *theory of adaptation*, according to Rosenau, is more comprehensive. To the extent that it has been developed for the analysis of phenomena aggregated at the national level, adaptation refers to the efforts and processes whereby national societies keep their essential social, economic, and political structures within acceptable limits. It posits fluctuations in the essential structures as stemming from changes and demands that arise both within and external to the adapting society. It facilitates analysis across three levels of aggregation: the sub-national level, at which internal demands arise; the international level, from which external demands emanate; and the national level, at which the demands are or are not reconciled.<sup>176</sup> Notwithstanding its potential, this concept has centred exclusively on the nation-state, and the concept’s contribution is currently limited to a narrow set of phenomena. Also, the adaptive phenomena are often viewed in a normative context, and the concept is used as a guide to efforts to maintain the status quo at any moment in time. The *concept of intervention* is narrower in scope than either adaptation or integration. In its most common usage it refers to an action and not a process. Even with its

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<sup>174</sup> Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*, Stanford, California: Stanford University Press, 1968, p. 608.

<sup>175</sup> Rosenau, 1973, p. 27.

<sup>176</sup> Rosenau, 1973, p.66.

widest interpretation as one actor's intentional efforts through military or non-military means to affect another's internal affairs, the concept of intervention cannot in itself provide the basis for major theoretical breakthroughs in across-level analysis. The fact that the concept is exclusively concerned with coercive phenomena restricts efforts towards across level theorizing.

Rosenau proposes a *linkage concept* that, in his opinion, is more generic and free of the deficiencies of other concepts.<sup>177</sup> Rosenau suggests a linkage concept as the basic unit of analysis, defining it as any recurrent sequence of behaviour that originates in one level and is reacted to in another.<sup>178</sup> According to Rosenau, all foreign policy behaviour can be explained in terms of the relative influence of five sets of variables – idiosyncratic, role, governmental, societal, and systemic. The proposed concept has been widely criticised on a number of grounds, such as the static nature of his model, the ambiguity of the categories, and the subjective nature of his choice of categories.

The approach, put forward by Ikenberry in his paper, "The State and Strategies of International Adjustment," is based on two analytical assumptions and one central question. Ikenberry finds that the problem of adjustment is a fundamental dynamic that bears on domestic and international political economy. All states are continuously in the process of adjusting to changes at the international and domestic levels. The problems inherent in a country's political and economic position within the larger international system are a basic source of national behaviour and international conflict.<sup>179</sup>

Ikenberry's second assumption is that the state or the state elite is the crucial actor within the adjustment process. As such, the central question is why states see international or domestic systems as alternatives for a solution to adjustment problems. He proposes a model of adjustment politics with an adjustment preference function for states and suggests that the domestic and international structural circumstances of states determine the strategy actually chosen. He finds that "of the many international and domestic forces that set

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<sup>177</sup> James Rosenau, *Linkage Politics*, NY: Free Press, 1969.

<sup>178</sup> Rosenau, 1969.

<sup>179</sup> John G. Ikenberry, "The State and Strategies of International Adjustment", *World Politics* Vol. 39 No. 1, 1986, pp. 53-77.

states in motion, none is more important than the constant pressure for national adjustment to international change produced by constant differential change between national and international systems.”<sup>180</sup>

This is the key methodological proposition on which the author builds his model. Ikenberry refers also to Gilpin’s note that:

in every international system there are continual occurrences of political, economic, and technological changes that promise gains and losses for one or another actor. In every system, therefore, a process of disequilibrium and adjustment is constantly taking place. It will either generate new opportunities for aggressive domestic response to international change, or it will generate pressure for defensive action to preserve existing domestic arrangements.<sup>181</sup>

Notwithstanding its value, Ikenberry’s model is not developed sufficiently to reflect the interplay of different levels. Ikenberry sees the primary cause of change in the international system. This is one-sided and views the international system only as an independent variable. Also, the main assumption of this adaptive model (that societies strive to keep their domestic structures within acceptable limits) is not a sufficient explanation of the cause of change. In my view, keeping the structures within acceptable limits is a minimalist approach and is the minimum task any government would and should pursue. A society’s efforts to enhance and develop those very structures are more often the case, and that is the goal that elites pursue nationally. Therefore, the democratic system is not always a reactive but, often, a proactive agent of change.

If we try to create a working national-international cross-levels model, then (at least theoretically) changes at one level need to be explained by changes at the other. In other words, both the international and domestic levels can serve as independent and dependent variables. At the very least, a cross-levels model must be capable of revealing and studying such linkages.

It is instructive to revisit Ikenberry’s assumptions and conclusions. He finds, first, that “states seek to minimize the costs of governance and to maximize national

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<sup>180</sup> Ikenberry, 1986, p. 54.

<sup>181</sup> Ikenberry, 1986, p. 56.

competitiveness: when there are conflicts, they will prefer the former over the latter.” Second, Ikenberry assumes that “international policies have lower costs of governance than domestic policies.” His third assumption claims that “offensive policies have higher competitive gains than defensive policies.”<sup>182</sup> While not going into detail about each of the assumptions, I think that overall they have limited application and are not applicable universally. One can conclude without great difficulty that despite the innovative value of these kinds of attempts to conceptualise linkage, they are generalizations. For example, the model does not explain conflict or change which becomes the cause for adjustment at another level. Although it offers a set of preferences and priorities of state strategies, it does not help to explain why a state chooses the international or domestic arena for adjustment each time. Also, there is a problem of the degree of adjustment required each time to restore the equilibrium, which the model fails to deal with. Any dynamic model should be designed to address these shortcomings as far as possible.

Ian Clark makes the valuable statement that a unified approach which can incorporate domestic level variables in a systematic and consistent manner requires collapsing the distinction between the systemic and the reductionist: the domestic is as much a part of the fabric of the international system as any abstracted structure of the relations between states. He suggests that no understanding of the international order is possible without an appreciation of the domestic orders on which it is based: the two are functionally integrated in a way that defies analytical separation. According to Clark, states are, to that degree, nested in the international order and essential to its viability. In turn, the international order develops qualities of those polities nested within it.<sup>183</sup>

I fully agree with Clark who, based on this conclusion, advocates what he calls a more fluid, dynamic, and interactive conception of politics that is not captured by a solely structural or systemic account. Continuing and developing this line of thinking, Clark arrives at the concept of the *brokerage state*. He finds that, while within the traditional model the state generates separation between the domestic and the international, as a political broker the state conjoins them. It is the medium through which political costs are

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<sup>182</sup> Ikenberry, 1986, p. 57.

<sup>183</sup> Ian Clark, *Globalization and International Relation Theory*, Oxford University Press, 1999, pp.62-63.



transferred either inwards or outwards. "Only by a direct political interplay between the domestic and the international," Clark concludes, "bringing them into the same field of forces, where the outcome depends upon the pressure both bring to bear on the state - can this basic tension be demonstrated."<sup>184</sup> However, the concept of a brokerage state and a periodically disturbed international equilibrium resulting in a spillover of political costs and their transfer to national systems does not provide sufficient explanation. The initial cause of the periodic disturbance on which the concept of the brokerage state is built is not explained.

While there are political costs in the shape of political tensions, which are dealt with by the system or unit, there are also benefits. Political costs and benefits, their balance, is the criterion for the support of system equilibrium, its disturbance, and the formation of a new equilibrium, both for a national and the international system. Approaching the issue from a cost-benefit perspective, in my opinion, helps to explain the dynamics of a system's equilibrium, both domestic and international, and their interplay.

I agree with Clark's point that what is fundamental is how political costs are distributed between the two realms through the state which operates in both realms. However, Clark goes further, stating that:

The state has been the broker, a key player in determining whether the costs of international disciplines should be borne domestically, or whether domestic disturbance will be allowed to overthrow international regulation.<sup>185</sup>

John Ikenberry suggests:

Metaphorically, one might think of the state as a bi-directional valve, responding to whichever pressure is greater, sometimes releasing pressure from the domestic into the international, at other times releasing it from the international into the domestic.<sup>186</sup>

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<sup>184</sup> Ian Clark, "Beyond the Great Divide: Globalization and the Theory of International Relations", *Review of International Studies* Vol. 24, No. 4, 1998, pp. 479-498, p. 496, fig. 3.

<sup>185</sup> Clark, 1999, p. 65.

<sup>186</sup> Ikenberry, 1986, p.76.

In my opinion, Clark's ideas set out above are very valuable. Generalisations about states' brokerage role and the insertion of the category of political cost are already an innovative approach for explaining the national-international interplay. However, while analysing and setting the task, Clark does not provide answers to questions such as why and when costs are transferred inwards or outwards. Also, I do not fully share his proposition that the state has been the key player in determining whether the costs of international disciplines should be borne domestically or internationally.

In my opinion, states are often implementers of that kind of a transfer, not the decision makers. In other words, states often do not have much choice and are forced by the domestic-international process to adopt a particular option. Also, I presume that Ikenberry's statement that one can think of the state as a bi-directional valve, responding to whichever pressure is greater, does not always reflect reality and is too mechanical. The state can resist domestic pressures not because there is more counter pressure from the international system, but because of a lack of alternative options to the policy a state conducts in the particular issue area. Or a state can change its policy not because of the pressures on it, but based on calculations and prognosis for the future. In sum, the state does not always surrender to the greatest pressure. Therefore, a state may opt to resist a particular pressure, counting, for instance, on some future reward. Here I am sympathetic to Hobson's statement that "states are not mirrors of external processes, nor are they merely filter mechanisms" but instead "states actively process and channel international influences to bolster their domestic position."<sup>187</sup>

Although Clark criticises the sharp distinctions made between the national and international and criticises other authors' attempts to see them as contradictory, he is not immune to the same criticism. His statement that competing pressures emanate from the two fields – national and international - is evidence of that kind of approach. I would suggest that while there are pressures, they are not always competing or conflicting. In fact, they can be complementary. In other words, there are not only demands but also

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<sup>187</sup> John Atkinson Hobson, *The Wealth of States: A Comparative Study of International Economic and Political Change*, Cambridge University Press, 1997, p. 247.

supports, as I develop in the following chapters. This is what is missing in the concepts analysed above and this is what prevents them from being more comprehensive. This is not a matter simply of cosmetic significance but can have methodologically innovative implications.

As Clark states, to grasp the behaviour of states, one needs to see them as repositories of a given international order. To make sense of the international structure, one must look at the identities of the states that help to compose it.<sup>188</sup>

Here Putnam's two-level game is suggested as a remedy to the above-mentioned shortcomings by comprehensively combining all three levels' concepts. It essentially differs from previous approaches in the way that domestic factors take part in the international bargaining; in this concept, the statesman is the strategic actor, and most importantly, the statesman simultaneously plays "double-edged" diplomacy.<sup>189</sup> Indeed, the innovative feature of the two-level games approach overall is that it accepts that domestic politics affects international bargaining and that international moves can pursue domestic aims. It is also a dynamic model since it offers a framework that attempts to address not only the impact of one on the other, but also the interplay between domestic and international factors.

Another similar concept is suggested by Mastanduno, Lake, and Ikenberry. According to these authors:

All states seeking to survive possess the international goals of power and wealth, from which the need for internal mobilisation and extraction follow, and the domestic goals of control over resources and the preservation of legitimacy, which suggest the international strategies of external extraction and validation. This inventory of state goals and strategies provides systematic reasons why states, seeking to advance their own interests, will move across the domestic-international divide.<sup>190</sup>

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<sup>188</sup> Clark, 1998, p. 482.

<sup>189</sup> Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two Level Games", *International Organisation* 1988, 42, No. 3, pp. 427-460.

<sup>190</sup> Mastanduno, Lake, and Ikenberry, "Toward a Realist Theory of State Action", *International Studies Quarterly* 33, 1989, pp. 457-474, p. 465.

To develop the concept, they suggest a framework for integrating the two faces of state action: domestic and international. What is innovative here is that the authors take into account the domestic structural position of a state in making its strategies and choices. While the international structural position of the state in terms of strong state–weak state distinction was developed by Katzenstein, Krasner, and others, the structural position of the state in relation to its society was developed by Mastanduno, Lake, and Ikenberry. Because of the differences existing in the capacities of states for influencing and shaping the society, a distinction between “soft” and “hard” states is made for reasons of analytic convenience. By taking into account both domestic and international constraints on the state, derived from its external and internal position, and by articulating both the domestic and international choices available to the state, the authors make assumptions about the strategies of extraction, mobilisation, and validation that states will pursue in each case.

Notwithstanding the fact that both this concept and Putnam’s concept move beyond existing realist theories, they largely remain theories of a state’s or rather of a statesman’s behaviour under given circumstances. Mastanduno and others mention that: “The model presented here is potentially useful in anticipating the broad shifts in foreign policy that accompany changes in the structural position of a state.”<sup>191</sup> The models discussed, however, do not say much about the dynamics of the changes in a state’s structural position itself. They rather describe only in general terms the possible tactical reactions of a statesman or a government to this or that situation.

Based on the above discussion, I would suggest a different approach, which intends to overcome the shortcomings mentioned above. Certainly, there is a need for a model, which would allow us to follow the developments while there are in the process, to trace the direction and dynamics of the change within each policy issue area and at each level in early stages, and to predict and explain the subsequent foreign and domestic policy changes.

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<sup>191</sup> Mastanduno, Lake, and Ikenberry, 1989, p. 472.

### **Theories of Horizontal Interaction**

By the mid-1970s a substantial body of literature existed which elaborated on the importance of growth, equity, democracy, stability, and autonomy for developing societies and analyzed the ways in which those societies might best make progress toward those goals. In *Understanding Political Development*, authors Myron Weiner and Samuel Huntington provide a comprehensive analysis of the views and approaches of the leaders of the developing countries and scholars concerned with development.<sup>192</sup>

Different authors stress different goals such as national integration, governmental effectiveness and penetration of society, and military power. Implicit in the widespread acceptance of these goals is also the acceptance of an image of the “good society”: wealthy, just, democratic, orderly, and in full control of its own affairs; a society, in short, very much like those found in Western Europe and North America. A backward society was poor, inequitable, repressive, violent, and dependent. Development was the process of moving from the latter to the former. In my opinion, one could easily call the good society an integrated society. Individual scholars, of course, have valued these individual goals differently and devoted their research to analysing and promoting different goals. However, almost all scholars have touched upon the existing relations among these goals and the extent to which progress towards one goal helped or hindered progress towards another. And they reached different conclusions.

Weiner and Huntington generally separate three broad approaches which dominated the thinking about these relations. The first approach assumes the inherent compatibility among the goals. The second approach emphasises the intractable conflicts among the goals. The third approach stresses the need for policies to reconcile those contradictions. The compatibility viewpoint was based on the Western experience, where the progress of these societies toward wealth, equity, stability, democracy, and autonomy had been generally harmonious and complementary. However, the assumption that all good things come together is not universal. The compatibility viewpoint clearly does not describe developments during recent decades in the Third World. There are also countries that have failed to make progress towards any of the goals of development. “A much

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<sup>192</sup> See Myron Weiner and Samuel P. Huntington, *Understanding Political Development*, Little, Brown and Company, Boston, Toronto, 1987, p. 6.

smaller number of countries, less than a handful, recorded significant progress toward achievement with respect to all five goals.”<sup>193</sup>

The limits of the compatibility assumption, which provided clear evidence that good things often did not and could not come together, gave birth to a new body of literature emphasizing that conflict among goals is the normal state of affairs. Economic growth, for example, was seen as often bringing inequity and undermining stability. Another such link that has been observed between political stability and the absence of autonomy resulted from the fact that “foreign investment and manifestations of dependency blossom under conditions of political stability.”<sup>194</sup>

The assumption of compatibility was undermined by the perceived incidence of conflicts. Subsequently, emphasis was put on the urgent need for reconciliation of policies directed to achieve different development goals. The third, so-called reconciliation, approach emerged.

The issue became this: through what policies can developing societies expect to make progress toward two or more developmental goals? In varying ways, attention seemed to focus on policies concerning sequences in the choice of development goals, institutional structures for reconciling development goals, and governmental strategies to promote the simultaneous achievement of development goals.<sup>195</sup>

A variety of different experiences, however, presented serious counterfactual evidence and challenged all existing explanations. While looking for explanations, some scholars turned to the culture of development. Huntington fairly raises the following question:

How can these and other differences in progress, achievement, and reconciliation be explained? Why were Korea and Taiwan but so few other countries able to make simultaneous progress toward growth, equity, and stability? Why was Japan able to achieve not only these goals but democracy and autonomy also? Why did Brazil do well first at growth and

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<sup>193</sup> Weiner and Huntington, 1987, pp. 5-7.

<sup>194</sup> Weiner and Huntington, 1987, p. 15.

<sup>195</sup> Weiner and Huntington, 1987, p. 18.

then at democratisation but not so well in terms of equity, stability, and economy?<sup>196</sup>

Huntington tends to explain the existence of these differences by culture. However, he admits that there are obvious differences among countries within the same cultural grouping. To explain these divergences Huntington concludes that one may have to go back to details unique to particular countries. These include natural resources, geographical location, character of the population, and, of course, historical experience. At the same time, he stresses that scholars of comparative politics would gain nothing by going back to the extreme parochialism of the traditional era specialists.<sup>197</sup> I share this view simply because the explanatory power of any theory is based on generalization.

While by no means underestimating the role of culture, I think that it alone does not explain the existence of differences. Culture is about the domestic environment for the development process, no matter to what extent it may also impact foreign policy. Along with culture, the overall domestic context, the international and global environments, and the interaction among them are other contexts to look at for explanations.

Not just the linkage across the levels but also the importance of links between the values or goal sets of domestic and foreign policy is emphasised and further elaborated by Wolfram Hanrieder, who suggests that:

there are two concepts that permit the correlation of important external and internal dimensions of foreign policy aims, and that allow the analyst to view foreign policy as a continuous process bridging the analytical barriers between the international and the domestic political system. The first is the concept of compatibility, which is intended to assess the degrees of feasibility of various foreign policy goals, given the structures and opportunities of the international system; the second is the concept of consensus, which assesses the measure of agreement on the ends and means of foreign policy on the domestic political scene.<sup>198</sup>

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<sup>196</sup> Weiner and Huntington, 1987, p. 22.

<sup>197</sup> Weiner and Huntington, 1987, p. 27.

<sup>198</sup> Wolfram F. Hanrieder, "Compatibility and Consensus: A proposal for the Conceptual Linkage of External and Internal Dimensions of Foreign Policy", *The American Political Science Review* Vol. 61, No. 4, 1967, pp. 971-982, p. 979.

Although the model suggested by Hanrieder is not, in my view, comprehensive, it is progressive in the sense that, by suggesting the concepts of compatibility and consensus, the author recognises the links among the foreign policy goals of the state and the fact that these goals are linked on one side with the domestic, and on the other side with the international level.

### *Time, sequencing and context*

The problem of interaction among development goals that are discussed by Huntington and others is pertinent to the post-communist context as well. For the states of post-communist transition, the above-mentioned policy goals have concrete meanings. Charles Gati notes that:

Irrespective of the difficulties societies have faced throughout the transition world, it would be misleading to deny that the three basic goals of transition – independence, political pluralism, and free market economics -- have been pursued vigorously and successfully in some countries. The first goal was sovereign existence, which is to say independence from Russia, liberation from decades of foreign domination... The second goal of transition was political pluralism in an environment of open societies that observe human rights and follow democratic processes and procedures... The third goal of transition was to transform the planned, highly centralized, so-called command economies of the communist era by decentralization and privatisation into modern, Western-style market economies.<sup>199</sup>

As discussed in chapter one, many authors, comparing different waves of democratisation, noted one of the most salient differences of the post-communist transition – the simultaneous undertaking of democratisation, marketisation, and state-building. The implications of interaction between the economic and political reform policies has been one of the most debated issues of post-communist transition. The debate ranges from

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<sup>199</sup> Charles Gati, "If Not Democracy, What? Leaders, Laggards, and Losers in the Postcommunist World" in Michael Mandelbaum (ed.), *Post-Communism: Four Perspectives*, Council on Foreign Relations Book, 1996, p. 168-198.



going back to theoretical foundations of how compatible capitalism and democracy are and what should come first, to a more practical and policy-oriented approach about better timing, sequencing and context of reforms in each of the spheres. The opinions vary and sometimes even contradict one another.

Authors like Claus Offe, Adam Przeworski, Stefan Haggard, and Susan Nello, for example, suggest that there is conflict between democratisation and marketisation processes. As Susan Nello stated, “economic transition inevitably gives rise to economic and social costs. This is true of the three main elements of economic transition: macroeconomic stabilisation, structural adjustment and privatisation, and systemic change.”<sup>200</sup> Nello also indicates four elements of the influence of economic transformation on democratic consolidation. They are the impact of changes in overall macroeconomic variables such as growth, unemployment, and inflation; increases in income disparities and individual uncertainty; corruption, in particular perceived injustices in the privatisation process and scandals arising from incomplete transformation of the financial sector; and mistakes in policies.<sup>201</sup>

According to Przeworski, the issues of economic and political transition cannot be separated from one other because “increasingly, mounting tensions in the economy are posing a direct threat to the process of political transition.” Therefore, economic and political transition can be really understood when analysed together:

Can structural economic transformation be sustained under democratic conditions, or must either reforms or democracy be sacrificed? This is a threefold question: (1) What are the economic costs of such transformation? (2) Under what political conditions are such costs likely to

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<sup>200</sup> Susan Senior Nello, “The Impact of External Economic Factors: The Role of the IMF” in Jan Zielonka and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp.76-111, p. 89.

<sup>201</sup> Susan Senior Nello, “The Impact of External Economic Factors: The Role of the IMF” in Jan Zielonka and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp.76-111, p. 89-91.

be tolerated? (3) What is the effect of transformation on democratic institutions?<sup>202</sup>

Przeworski separates four outcomes that may occur when economic transition and democratisation go in parallel:

(1) Reforms may advance under democratic conditions, (2) reforms may be forced through by a dictatorship, (3) democracy may survive by abandoning reforms, and (4) both reforms and democracy may be undermined...

In turn, under democratic conditions, where the discontent can find political expression at the polls, even the most promising reform strategies may be abandoned. Either politicians are concerned about electoral support and reverse policies that will cause them to lose election, or they lose to competitors more attuned to the political consequences of structural transformation. And in some cases, egalitarian ideologies with strong populist and nationalistic overtones can be mobilized against both democracy and reforms.<sup>203</sup>

In sum, the simultaneity of market and democratic reforms creates a dilemma that can endanger either the future of economic reform or the democratic nature of the new regime:

Once democracy is weakened, pursuit of reforms may become politically destabilizing. At some point, the alternative may become either to abandon reforms or to discard the representative institutions altogether. Authoritarian temptations are inevitable. ...And, on the other side, as suffering persists, confidence erodes, and the government seems less and less competent, temptations are born to defend one's interests at any cost, even at the cost of democracy.<sup>204</sup>

At a very early stage of post-communist transition, Adam Przeworski warned that economic transition is socially costly and politically risky. On the one hand,

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<sup>202</sup> Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America*, Cambridge University Press, 1991, p. 139.

<sup>203</sup> Przeworski, 1991, p. 138.

<sup>204</sup> Przeworski, 1991, p. 187.

The durability of the new democracies will depend, not only on their institutional structure and the ideology of the major political forces, but to a large extent on their economic performance. And since many among them emerged in the midst of an unprecedented economic crisis, economic factors work against their survival.<sup>205</sup>

On the other hand,

Whatever their long-term consequences, in the short run reforms are likely to cause inflation, unemployment, and resource misallocation as well as to generate volatile changes in relative incomes. These are not politically popular consequences anywhere. And under such conditions, democracy in the political realm works against economic reforms.<sup>206</sup>

Przeworski rightly adds, “Both political reactions to reform and their eventual success or failure depend not only on their economic effects but also on political conditions”.<sup>207</sup> These statements are not contradictory. What is not underscored is that political conditions are also mainly the result of economic performance, as economic policies depend on political conditions, political forces in power.

Offe suggests the seven more likely scenarios of interaction of democratization and market reforms:

...democratic politics may block or distort the road to privatisation and hence marketisation;...privatisation may succeed, but lead to the obstruction of democratic politics through powerful interferences originating from domestic or international owners;...marketisation may succeed, but fail to generate the reality of (or even the widely perceived prospect of ) an equitable distribution of its benefits; accumulated disappointments and frustrations with these failures may give rise to demands for a type of “democracy” that is based on an institutional structure other than civil liberties and representative government, such as populist presidential dictatorship; conversely, frustrations with economic performance and distribution may also lead to demands for marketisation without private property, for example, a return to state ownership of productive assets.<sup>208</sup>

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<sup>205</sup> Przeworski, 1991, p.189.

<sup>206</sup> Przeworski, 1991, p.161.

<sup>207</sup> Przeworski, 1991, p.162.

<sup>208</sup> Clause Offe, *Varieties of Transition, The East European and East German Experience*, Polity Press, 1996, p. 45.

Whether or not the scenarios offered by Offe are the most probable ones, what is important is that he stresses the critical role of linkages, and causalities between democratic and economic reforms in the transition process. I fully agree that there can be a conflict between the two. The framework that I suggest aims not just to detect the consequences of economic reform on democratisation or visa versa but also to identify and explain the logic of their interaction, to illustrate why and how it happens and what the implications can be of such interactions for the dynamics (progress or regress) of the entire transition process.

It is noticeable that the opinions of different practitioners and theorists of post-communist transition diverge. Leszek Balcerowicz, for instance, while admitting that the most important and distinctive characteristic of the post-communist cases is the imperative to proceed with both political and economic reform, suggests that it is misleading to speak of “simultaneous transitions,” explaining it with complex problems of timing and sequencing that beset post-communist twofold transitions.<sup>209</sup> Based on the Estonian experience, Mart Laar stresses the primacy of politics. Laar finds, that “politics has to be dealt with first, because to initiate and sustain radical reforms, there must first be a legitimately formed consensus for change.”<sup>210</sup>

As a result of the policies of radical reform of the first democratically elected Estonian government, standards of living bottomed out in 1992-1993. Although they began to rise in 1994 and 1995, this did not save the reform government from being voted out of office in 1995. Laar, an advocate of radical reforms, did not see this as being a tragedy, as long as the new government and its successors did not reverse the reforms. However, he was counting only on international support.

For now, the most critical concern for the countries in the region is preserving positive international conditions for their own normal development. This is the only effective guarantee against negative development in the region. If favourable trends continue, with democrats in

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<sup>209</sup> Leszek Balcerowicz, in Larry Diamond and Marc F. Plattner (eds.), *Democracy After Communism*, Johns Hopkins University Press, 2002, p. 64.

<sup>210</sup> Mart Laar, “Estonia’s Success Story”, in Larry Diamond and Marc F. Plattner (eds.), *Democracy After Communism*, Johns Hopkins University Press, 2002, p. 79.

Central and Eastern Europe pressing through thick and thin for economic reforms and the consolidation of democracy, and with Western democracies opening doors for them, the region's pro-reform parties may be set to stage a comeback of their own.<sup>211</sup>

Along the same lines, Gerald Roland suggests that “the case for big bang or gradualism or a particular reform sequencing may also depend on whether the probability of re-election of the incumbent government is exogenous or endogenous.”<sup>212</sup> Analysing an early stage of transition in Eastern Europe, Claus Offe also argues that:

The only circumstance under which the market economy and democracy can be simultaneously implanted and prosper is that one in which both are forced upon a society from outside and guaranteed by international relations of dependency and supervision for a long period of time. This, at least, is arguably the lesson offered by the war ruined post-war democracies of Japan, and with qualification, of the Federal Republic of Germany...For the countries of Central and Eastern Europe, there is no obvious “patron power” that would be a natural candidate for the task of supervising and enforcing the peaceful nature of the transition process.<sup>213</sup>

Conducting drastic reforms in different spheres in parallel is a daunting task and several strategies have been suggested to cope with it with maximum gains and minimum social costs. Przeworski offers some arguments for rapid versus gradual transformation. According to Przeworski, voters' confidence about the future is the main variable for their preference in reform strategies. If voters are highly confident about the future after reforms, they choose the radical strategy, although it entails higher social costs than the gradual one. If they are not confident about the success of the reforms, they prefer gradual

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<sup>211</sup>Laar, 2002, p.83.

<sup>212</sup> Gerard Roland, *Transition and Economics: Politics, Markets, and Firms*, Cambridge, London, MIT Press, 2000, p.48.

<sup>213</sup> Claus Offe, “Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe”, *Social Research* Vol. 58, No. 4, 1991, pp. 865- 892.

or slow reform strategies. And, if voters have no confidence at all, they opt for the status quo.<sup>214</sup>

Confidence does play a crucial role in shaping popular reactions. Confidence is a stock: It can be depleted, it can be accumulated. If confidence is eroded, radical programs cannot be undertaken again under democratic conditions. Government must first rebuild the confidence.<sup>215</sup>

This is where the stabilization funds and programs are important, continues Przeworski. “The role of foreign aid thus seems crucial. The open question is whether the amounts are sufficient.”<sup>216</sup>

The equivalent of what Przeworski calls confidence that I use in my thesis is the category of legitimacy, the political resource, which I believe is a more comprehensive and substantive category than confidence for explaining the policy processes. After all, confidence is translated into legitimacy within the political process, into the legitimacy of the government, the reform policies and the regime.

Referring to the existing literature, Przeworski suggests that a long period of moderate gradual reforms, while causing fewer social tensions, entails the danger that both reformers and the population will become tired of reforms. Meanwhile the anti-reform opposition groups may mobilize and derail the reform process.<sup>217</sup> The most likely path, concludes Przeworski, “is one of radical programs that are eventually slowed or partly reversed, initiated again in a more gradual form with less popular confidence, and again slowed or reversed, until a new government comes in and promises a clean break, and the cycle starts again.”<sup>218</sup>

Analysing time, phasing, and pace of economic reforms, Balcerowicz also argues for the advantages of radical reforms over gradual reform. He speaks about rare reform

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<sup>214</sup> Przeworski, 1991, p. 164.

<sup>215</sup> Przeworski, 1991, pp. 168-169.

<sup>216</sup> Przeworski, 1991, p. 150.

<sup>217</sup> Przeworski, 1991, p. 165.

<sup>218</sup> Przeworski, 1991, p. 179.

opportunities of “extraordinary politics,” which is the phase right after the political change.

<sup>219</sup> Here Joseph Stiglitz takes the opposite view. He thinks that with the quick privatization advocated by the IMF, “there is a danger that once a vested interest has been created, it has an incentive, and the money, to maintain its monopoly position, squelching regulation and competition, and distorting the political process along the way.”<sup>220</sup>

In *Globalization and Its Discontents* Stiglitz argues that timing, sequencing and the social and political context of reform are the factors that matter most when conducting reforms, and it is the ignorance of such factors by international financial institutions that led to reform failures and economic crisis in some transition and developing countries. He argues against rapid liberalization, which is socially costly and destructive:

Perhaps of all the IMF’s blunders, it is the mistakes in sequencing and pacing, and the failure to be sensitive to the broader social context, that have received the most attention – forcing liberalization before safety nets were put in place, before there was an adequate regulatory framework, before the countries could withstand the adverse consequences of the sudden changes in the market sentiment that are part and parcel of modern capitalism; forcing policies that led to job destruction before the essentials for job creation were in place; forcing privatization before there were adequate competition and regulatory frameworks. Many of the sequencing mistakes reflected fundamental misunderstandings of both economic and political processes.<sup>221</sup>

In sum, Stiglitz argues that:

Timing (and sequencing) is everything. These are not just issues of pragmatics, of “implementation”: these are issues of principle. Proper sequencing and pacing might have enabled one to gradually achieve the efficiency gains without these costs. In some cases, reforms in one area, without accompanying reforms in others, may actually make matters

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<sup>219</sup> Leszek Balcerowicz, “Understanding Postcommunist Transitions” in Larry Diamond and Marc F. Plattner (eds.), *Democracy After Communism*, Johns Hopkins University Press, 2002, p. 64.

<sup>220</sup> Joseph E. Stiglitz, *Globalization and Its Discontents*, W.W. Norton & Company, Inc., New York, 2002, p.54.

<sup>221</sup> Stiglitz, 2002, p. 73.

worse...Economic theory and history show how disastrous it can be to ignore sequencing.”<sup>222</sup>

The role of sequencing is to build political support for further reforms, as Roland indicates:

Three things are important to get a “correct” sequencing of reforms: (1) The unbundling of a reform package in given sequences should not lead to losing the property of informativeness discussed earlier. (2) The sequencing should be done so as to make the reform process *ex ante* acceptable. (3) Sequencing should aim at building constituencies and momentum for further reform and satisfy *ex post* political constraints.<sup>223</sup>

This debate indicates the importance of pace, timing and sequencing of reform goals and their implementation. It is clear that one needs to understand the logic of economic and political processes and the interaction between them during the transition. In fact, that is the main purpose of my thesis. The only prior observation I want to make is that the strategies chosen by different countries were not just the subjective choices of their governments but also a reflection of the objective structural and political circumstances existing in and around these countries. Thomas Carothers is correct in noting that regardless of the validity of the sequencing argument, its value is in the fact that it highlights the need to pay more attention to the effect that a country’s underlying economic, social, and political conditions, structures, and historical legacies will have on the chances that a democratic transition can succeed there.<sup>224</sup> In that sense, Balcerowicz’s observations are particularly helpful and, in a way, direct the way I have developed my study. “The economic and political transition can be said to depend on: 1) initial economic and socio-political conditions; 2) external developments; 3) government policies.” The first

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<sup>222</sup> Stiglitz, pp.74-76.

<sup>223</sup> Roland, 2000, p.42.

<sup>224</sup> Thomas Carothers, “The Sequencing Fallacy”, *Journal of Democracy* Vol. 18, No. 1, 2007, pp.12-27, p. 23.



two, Balcerowicz suggests, determine the initial policies, and shape the first phase of the economic transition, its outcome.

This transition is also shaped by political developments, which are partly determined by the initial socio-political conditions. Finally, economic developments determined in part by earlier policies may in turn influence future political developments, and so on. We are dealing with complex interactions, which should be analysed in a dynamic framework.<sup>225</sup>

That is exactly the purpose of my thesis, since I am trying to explore the dynamics of interaction among policy areas, and between them and domestic and international factors during the transition process.

A similar interaction is very much true also for other dimensions—political and security. The relationship between security policy and economic policy seems to be more observable and mutually reinforcing. As far as the interrelation between security and democratisation is concerned, it is the area that has been least discussed. If there has been a conviction that economic and political development may reinforce each other and should go hand in hand in the post-communist transition, the link between security and democracy has been viewed as more complex and less direct. The existing common wisdom is that the interrelation between democracy and security is that of mutual conditioning rather than a direct causal link. Reimund Seldelmann, for example, separates some key aspects in the interaction between the two policy areas and characterises the relations between security and democracy as mutual conditionality: security is a precondition for any democratic development, and democratisation creates specific conditions for a state's security and foreign policy.<sup>226</sup> According to Seldelman, the interrelation between democracy and security has foreign and domestic dimensions. The foreign dimension of the link between the two derives from the premise that the state, by definition, must respond to security threats. While the use of force to provide national security is a natural reaction under some circumstances, it leads to the emergence of additional dilemmas. The huge human and economic costs of such security policies may create further insecurity and politically

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<sup>225</sup> Balcerowicz, 2002, p. 68.

<sup>226</sup> Reimund Seldelmann, "International Security and Democracy Building" in in Zielonka, Jan and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp. 112-138.

unacceptable risks, and thus threaten the stability of the political system and the credibility and legitimacy of a government or regime. The domestic dimension of the link between security and democracy is related to the fact that security policymaking, often even in established democracies, remains within the realm of the executive and essentially out of public control or even public participation. This exclusive policymaking, which has continued to play a role especially in transition states, thus creates a challenge to democratisation processes.

Another key aspect that Seldelmann underscores is that specific problems such as escalating threat perceptions, and military intervention in domestic affairs constitute a permanent problem for the democratic agenda often leading to the necessity to compromise between the democratic ideal and the necessities of state security and thus, adding a further double conditionality to the relationship between security and the democratic process.<sup>227</sup> One can add problems emerging during state and nation building processes in post-communist space to this list of specific security issues, seriously hampering the normal development and consolidation of democratic institutions.

Thus, Seldelmann acknowledges the existence of a trade-off and interplay between the two policy dimensions and stresses the importance of political resources in managing the democracy-security interrelation. Again, this supports my view that the relationship between these two policy spheres is a political process.

As already stated, the focus of my thesis is on how the interaction among different issue-areas and across different levels affects transition. I agree that the pace, timing and sequencing of economic and political reforms are important for the success of the overall transition, in the sense that they make the politics of reforms more effective, which means making the reform process socially less costly and requiring the investment of less government resources. In other words, they are important for saving the political resource of the government, its effectiveness and legitimacy. My thesis will focus on the post-instalment period of transition. One should note that if the government had more freedom in designing its reform programs at the outset, it has less freedom in the later stages, when it has to act in an environment that bears the consequences of previous policy steps. And at

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<sup>227</sup> Seldelmann, 2001, pp. 115-116.

this stage, what we can talk about is how the government changes/modifies the pace, timing and sequencing of reforms based on the results of previously implemented reform steps and subsequent changes in domestic and international support and demand.

What I intend to discuss is not the technicalities and the tactical side of timing and sequencing, but rather the political side of the issue.<sup>228</sup> In particular, I intend to discuss the political interaction among economic, political and security policy areas and different policy levels during the transition and the impact it has on the overall transition outcomes.

### **Introducing the Framework**

Each of the schools in democratic transition theory, discussed in Chapter 1, explain the post-communist transition to some extent. While relying on those theories, my approach, however, differs in three key aspects. First, none of those theories treats the transition as a dynamic process of interaction across domestic, state, and international levels on the one hand, and a trade-off between values and policy goals, priorities within the transition states, on the other. This is what I do, and this takes my argument beyond the framework of the existing democratisation theories and makes the task of analysis an interdisciplinary one. Second, I adopt a more holistic and integrative approach. In my suggested framework, I do not oppose structural (i.e. modernization theory) theories to the genetic approach. In other words, I assume that the role of agents is important in democratic transition; however, their choices are structurally constrained by economic development and the economic situation, which is important but not sufficient for the existence and consolidation of a democratic regime. Third, I suggest that not only the economic situation but also political and security conditions matter if democratisation and marketisation are to make progress.

Tackling the issue of transition as a dynamic process of political interaction within the state and across all three levels – domestic, state and international – means touching

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<sup>228</sup> There can be timing and sequencing issues within one dimension. For example, there is an extensive literature on timing and sequencing of different economic reform steps, such as privatization and competition policy, emergence of a small private sector and price liberalization, reforms in the state sector and the small private sector, reforms in light and heavy industry, etc. Of course, timing and sequencing of those issues also do not have solely economic consequences.

upon one of the core, and yet controversial, topics of international relations (IR) theory -- domestic-foreign policy linkages which I discussed in Chapter Two and in the first part of this chapter.

In sum, the theories and approaches mentioned above have their legitimate place in explaining transition dynamics. However, they do not account for the process of political interaction and interplay during the transition – both internal and external, within which each government is moving towards its transition goals — domestic transformation and international integration. My approach aims to fill that gap by suggesting a more dynamic framework for analysing transition as a multifaceted and multilevel interaction and interplay. Thus, I suggest that transition can be better understood if viewed as a political process of complex interaction and interplay of different issue policies within the transition state and among three different levels – domestic, state and international.

Before introducing my hypotheses, it is important to introduce the categories that I will use for elaborating my model. I have discussed the policy goals and the links existing among them within political systems. Transition towards these goals and interrelations among policies pursuing these goals are essential to my study. As mentioned above, different authors have focused on different goals of transition, and the interrelation and interaction among them. Based on the above discussion, I identify three goals, or three dimensions, that are, in general, essential for any level. In order to analyse the problem, I thus suggest singling out three issue policies from the wide spectrum of national and international politics – economic (E), security (S), and political (P). Depending on the country, context, and the time, different goals can be prioritised. However, for theorising I will include all of them in my framework since achieving them is a key to successful transition in any country. Such a division can be helpful for analytical purposes, especially when applying this framework to post-communist transition. In the post-communist context often, the most challenging security problems are related to state- and nation-building processes, in the transition literature referred to as the “stateness” problem, and ethnic conflicts.<sup>229</sup> However, I do not want to narrow down the security dimension to these

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<sup>229</sup> See Chapter 1 for details on this issue.

problems only, since there can be other types of security threats, such as external security threats.

I separate two kinds of linkages – *vertical and horizontal*. The vertical linkages are the ones along the domestic-state-international continuum. The vertical linkages themselves can be one-issue linkages and multi-issue linkages. The former is the case when across-levels interaction occurs along one policy issue-area only, say only economic, or only security. The multi-issue linkage assumes that across-levels interaction occurs along different issues-areas at different levels. For example, there may be a linkage between domestic political and international economic issues. Of course, I will provide many examples in the following empirical chapters. Horizontal linkages are those among different issue-areas within the state. Any domestic issue, regardless of its links to international issues, is first linked to other domestic issues. In other words, there is a more or less essential linkage among economic, security and political issue areas within the state.

As mentioned earlier, another category that I use to construct my arguments is legitimacy, the political resource which is somewhat similar to what Przeworski called “confidence”, but broader and more comprehensive. I shall discuss the category of legitimacy in some detail, as it is very important for exploring and defining the linkage mechanism existing among different policies and different levels. Legitimacy is a political category, which does not necessarily coincide with legality.<sup>230</sup>

Max Weber distinguished three ideal types of legitimacy: traditional, charismatic, and legal/rational. However, Weber does not suggest a causal theory of government.<sup>231</sup> There is an important point at which writers such as Lipset diverge sharply from Weber.<sup>232</sup> Lipset identifies effectiveness and legitimacy as the two pillars on which any system of government rests. Lipset finds that legitimacy is a pillar composed of selected citizens’ opinion or values, derived from consumer satisfaction with state activity rather than a

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<sup>230</sup> This theme is well elaborated by Rodney Barker, *Political Legitimacy and the State*, Clarendon Press, Oxford, 1990.

<sup>231</sup> Elsenstadt, Samuel N. (ed.), *On Charisma and Institution building: selected papers [by Max Weber]*, Chicago, London: Chicago University Press, 1968.

<sup>232</sup> Lipset, *Political Man*. London, Heinemann, 1960.

citizens' accord with the authority of public institutions. Lipset's effectiveness, on the other hand, is a concept, which, amongst many other meanings, could be interpreted in terms of substantive policy. Talking of effectiveness opens the possibility of assessing government in terms of its efficiency at meeting demands placed on it by the society which it could then be seen to serve.<sup>233</sup>

One can argue that the legitimacy of a democratic regime is not limited only to the actions of a government. However, we should keep in mind that in post-communist transitions the democratic regimes are new and, in the presence of only fragile representative institutions, often the legitimacy of a democratic regime is closely associated with and, in some cases even is indistinguishable from, its government's values and deeds. From this point of view, Juan Linz makes a valuable distinction between two dimensions characterizing a political system – its efficacy and its effectiveness. In the course of time, Linz asserts, both can strengthen, reinforce, maintain, or weaken the belief in legitimacy. He suggests, of course, that the relationships between variables are far from being fully transitive and linear, since the perception of the efficacy and effectiveness of a regime tends to be biased by the initial commitment to its legitimacy.<sup>234</sup>

However, Linz ties the level of legitimacy to the level of public support. In turn, the support of the public is based on the actions of the regime or government, or, more concretely, the results of those actions. "Legitimacy is granted or withdrawn by each member of the society day in and day out," continues Linz.

It does not exist outside the actions and attitudes of individuals. Regimes, therefore, enjoy more or less legitimacy just by existing. Gains and losses of support for governments, leaders, parties, and policies in a democracy are likely to fluctuate rapidly, while the belief in the legitimacy of the system persists. There is clearly an interaction between the support for the regime and that for the governing parties, which, in the absence of other indicators, leads to the use of electoral returns and public opinion responses as indirect evidence of the legitimacy of the system. Consequently, the loss

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<sup>233</sup> Lipset, 1960, pp. 74-75.

<sup>234</sup> Juan J. Linz, *The Breakdown of Democratic Regimes: Crisis, Breakdown, and Reequilibration*, The Johns Hopkins University Press, Baltimore and London, 1984, p. 18.

of support for all political actors in a democratic regime is likely to lead to an erosion of legitimacy.<sup>235</sup>

I share this kind of result-oriented or result-based approach to the degree of legitimacy. I think that it is more typical for democratic politics, particularly during the transition process.

Now that I have introduced the main categories of my model, I can introduce my hypotheses. I have constructed three hypotheses with the aim of capturing the nuances of horizontal linkages, vertical linkages and their interplay in the overall transition process.

*Thus, first, I argue that there is a strong interconnectedness and trade-off among economic, political and security policies during the transition, which inevitably generates social costs and limits the volume of the government's political resource necessary for transition reforms. Under these circumstances, for the transition to succeed it is crucial to better understand and manage the complex process of interplay and interaction not only between democratization and economic liberalisation, but also among all the critical policy dimensions of transition, including security.*

At the same time, questions arise:

1) Would even the best strategies of timing and sequencing of reform policies alone make it possible to eliminate the accompanying problems of social hardship and declining political legitimacy which impede the transition process, without external support?

2) To what extent should difficulties of the transition be attributed to governments and leaders, and to what extent to domestic and international constraints and causes?

This is very important to understand, especially for making correct judgements about the effectiveness of a government's policies and of domestic and international supports and demands.

Thus, the transition process will be viewed, first, as a political process of horizontal interaction of different issue policies within the political system, the state. This mostly concerns horizontal linkages existing among the issue policies at the national level.

*Second, I argue that there is an essential link and interplay not only among different policy areas -- economic, political, security -- but also there is an essential link*

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<sup>235</sup> Linz, 1984, pp. 17-18.

*and trade-off among different levels -- domestic, state and international -- within the overall transition process. And, in order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably distributed in a timely manner among those levels. This certainly concerns vertical interaction.*

*Third, I argue that the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus creating an essential and direct link and interplay between domestic and foreign policy dynamics during the transition.*

I shall now elaborate each of these assumptions. *Within my first hypothesis, I suggest that there is a strong interconnectedness and trade-off among a government's economic, political and security policies during the transition. All these dimensions are interrelated and mutually correlating.* As we have seen, the relationship between democratisation and economic reforms has been extensively studied. However, I suggest that there is also a similarly essential link and interplay with other important pillars of transition politics, such as security.

The consequences of policy changes in any of these areas resonate in other areas, often in a negative manner. These policies seem to be linked at two levels. The assumption that there is a relationship and interchange among a government's key policy areas during the transition is based on the facts that first, there is a limited amount of social costs that the domestic society is ready to bear for the sake of reforms. In other words, the amount of social support or social resource that the domestic society is ready to offer for reforms is limited. Second, all the reform policies are funded from the government's single political/legitimacy resource and the government has to prioritise among those policies. In addition, the degree of the legitimacy of the government is linked to the level of social costs of the reform policies. The less socially costly the reforms are, the higher the government's legitimacy is likely to be, and vice versa.

It is very unlikely that any government would be able to conduct such complex, systemic and simultaneous transformation as the transition with a limited political resource, unless there is a sufficient level of external demand and support. The analyses by



authors like Przeworski, Laar and Offe discussed above strongly support my argument about the critical nature of external support.

It is logical to assume that any government would usually prefer to invest its political stock in areas that are politically less costly and more rewarding. However, during the transition process governments often have to deviate from this principle of politics to follow other imperatives dictated by the logic of reform and international conditionality (although when conforming to international conditionality, governments hope to generate external support, whether in the form of economic assistance or political backing).

Obviously, at the initial stage of unpopular shock reforms, it is impossible for any government to avoid a decline in legitimacy. The question is how much decline, and whether the decline would allow the government to survive or the reform policies to continue, even if at the cost of a change in government. Thus, a government can be expected to conduct more transition reforms with less cost to its legitimacy.

At the same time, the size of that single legitimacy resource at each stage will depend on the effectiveness of the government's transition policies in the same economic, political and security areas, and their combination, interaction and interplay. Therefore, the success of transition will depend on the government's political resource and its effective allocation and use of that resource for implementing transition reforms in economic, political and security areas. At the same time, depending on the effectiveness of those policies at each previous stage, the government will be left with a particular level of political resource, which will serve as the initial political resource for each next stage of transition reforms. In other words, the volume of that limited political stock, while not an end in itself, becomes an initial resource for each next stage of transition. The pace, timing and sequencing of each new cycle of reforms in the economic, political, and security spheres will to a large extent depend upon the amount of legitimacy that the reformist government acquires after the preceding cycle of reforms.

The peculiarity of transition is that voters may have dual expectations from the government --- to conduct reforms, but also, and probably even more, to improve the living conditions. These goals, at least in the short term, can be contradictory, unless there is a sufficient level of external support. So voters may judge the effectiveness of a government

and offer it support based on the tempo of reforms but, even more importantly, on economic, political and security conditions, which change as a result of those very reforms.

The interconnectedness among those policies, and the fact that there is a limited resource at the government's disposal to pursue those policies, makes it even more important to analyse the existing situation with what is called timing, sequencing and pacing of different reform policies during the transition. Governments have to make critical choices in line with the demands and supports of domestic society and the international system as well as their own legitimacy needs. It is the choices that elites and governments have made under certain political, economic and other structural constraints that will determine whether the country will remain on the democratic transition path or not.

There is a similar gap when it comes to vertical interaction. Socialization theories study the process mostly in one direction— discussing the mechanisms by which international norms are internalized. While they offer a rich analysis of existing experience, they do not treat the domestic actors as an independent variable. Obviously, there is a need for a two-way approach. Often the causal relationship among different policy areas is not direct but intertwined, intermediated by international or domestic factors.<sup>236</sup> In this respect, as my second hypothesis, I suggest that *there is an essential link and interplay not only among different policy areas -- economic, political, security -- but also there is an essential link and trade-off among different levels -- domestic, state and international -- within the overall transition process. And, in order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably allocated in a timely manner among different levels.*

There is a link between, on the one hand, the economic conditions of a domestic society and its government's policies of economic reforms, marketisation, and, on the other hand, between those policies and the level of compliance with international economic regimes, their conditionality. In the early stages at least, because of the first shock reform steps, that link was not positive. Since they are a result of the government's economic policies, domestic economic conditions have a feedback effect on those very policies. At the very beginning of transition, the domestic support for liberalization was in harmony

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<sup>236</sup> We will see examples of this in the case of both Kyrgyzstan and Moldova.)

with the international demand for it. This was an ideal situation for the government to conduct liberalisation reform policies. However, as a result of reforms, the economic conditions of the domestic society erode. Domestic society may respond by withdrawing its support for the government's economic reform policies. Under those circumstances a demand for international support rises. If there is timely and adequate international support in response to the domestic demand, then the government can continue its economic policies. Otherwise, in a democratic environment unsatisfied domestic demand may lead to policy change, or to a change in the government, with the new government trying or not trying to continue the same reform policies. There is also a third option, when a government continues painful economic reforms without sufficient external support and against the will of the voters, thus giving up or compromising its democratization agenda. This demonstrates how the interplay between the domestic, state and the international levels occurs. It also shows how the lack of international support (vertical interaction) takes the game back to the national level (horizontal interaction), leaving the government often with no option other than to choose between market reforms or democratisation. These across-level linkages suggest that in order to make a judgement about a country's transition progress, one should follow not only the dynamics of reform scores and indicators, but also that of the economic development and international assistance and support. The same logic is applicable to the interplay with the security dimension. In other words, the interaction can produce either a positive or a negative resource, which will mean either support for, or opposition to, the government's transition policies; to domestic transformation and international integration. This leads to the third hypothesis.

*In the third hypothesis, I argue that the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus, creating an essential and direct link and interplay between domestic and foreign policy dynamics during transition.*

The aim of the government's domestic policy is to allocate political resources horizontally-among economic, political and security issue policies. The aim of government's foreign policy is to link across levels, to extract political support from and allocating political costs among different levels. The extraction and allocation occur within the existing domestic and international structural constraints and resource

limitations, and serve to attain the transition goals which have previously been set. If the linkages and the resource allocation prove to be effective or at least not too costly domestically, then the country's foreign policy survives and continues serving the transition goal; if not, it will be changed. Change does not necessarily mean a change of transition goals, targets and foreign policy direction; it can also mean a change in implementation or in the tempo of pursuing a particular transition goal or set of goals.

In that sense a variety of scenarios of interplay is possible. For example, in a given country where the economy and security are deteriorating but political liberties are in place, one should expect the government's policy (either foreign or domestic) to change. Conversely, if the economy deteriorates, security threats grow, and there is no change in the government's domestic or foreign policy, then one should look at the status of political liberties. Most probably, in that country the society will be deprived of the means of democratic self-expression. The interconnection is more obvious between the economy and security. To increase security, the government primarily needs finances, which only a well functioning economy can provide. Therefore, in the face of deteriorating security, if a government does not have the economic resources to improve its defence capabilities, it will be forced to change its domestic or foreign policy either to improve the financial situation or to eliminate the security threat. Alternatively, if the state uses existing scarce resources to arm itself, it will have no choice but to suppress democracy domestically. In that case, the state propaganda machine may be activated to try to compensate the society, for example, by feeding it with nationalistic ideology and increased propaganda.

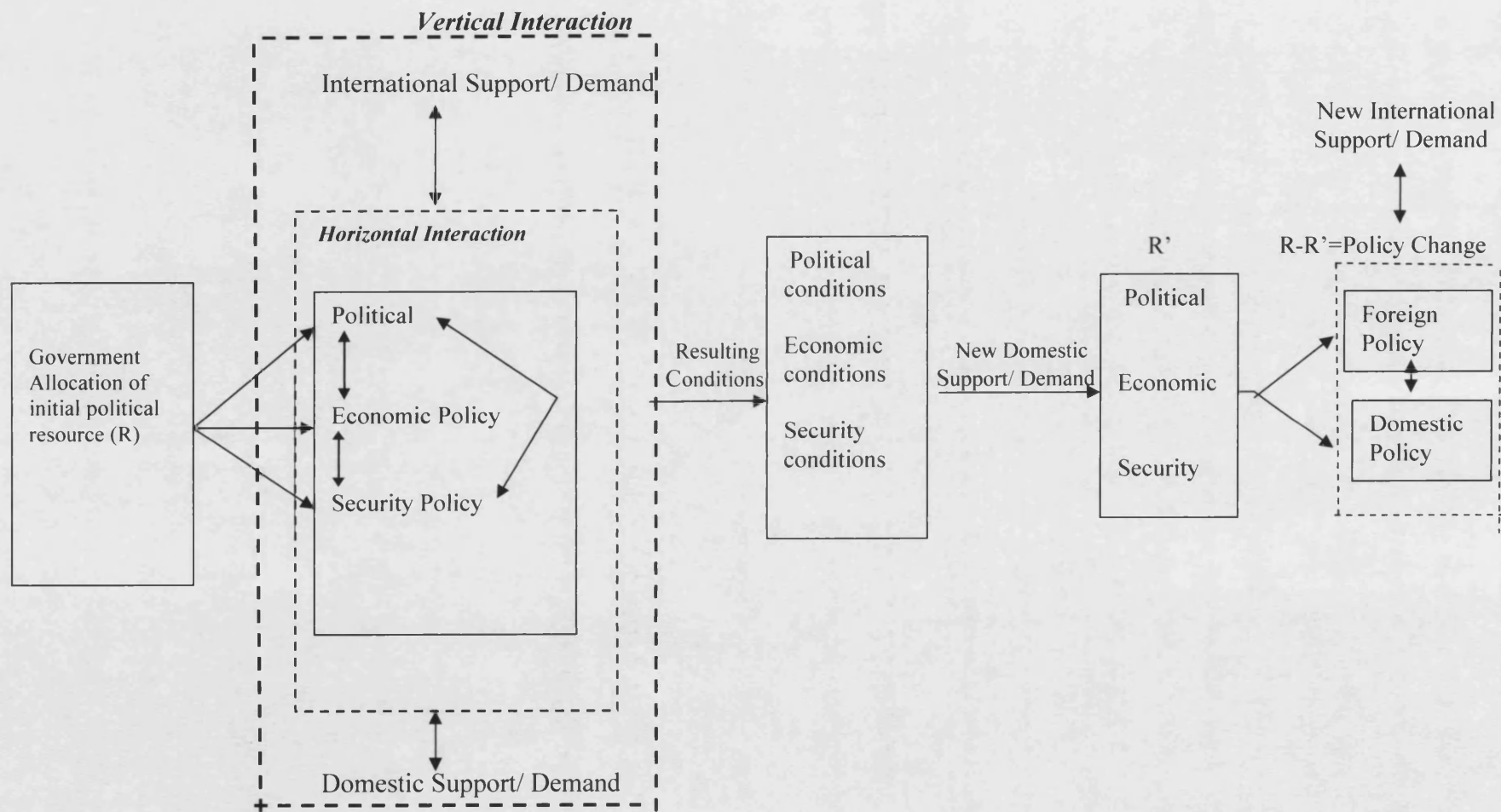
The democratisation process may lead to a rise of ethnic or religious problems and conflicts, thus creating real security concerns. The country's foreign policy direction may not be able to secure the necessary international support to prevent deepening internal division or even the breakup of the country. This may lead to a change in foreign policy direction (i.e. a change in geostrategic orientation: joining new international/regional security regimes, organisations; seeking new ties or reinforcing or halting existing bilateral ties). Alternatively, it may slow down or suspend the democratisation process.

As discussed above, in a transition country where market reforms have led to economic decline, the foreign policy will aim to seek international support in the form of economic assistance, investments, trade access, etc. If this does not succeed, under

democratic conditions the foreign policy direction will be changed. Otherwise, the democratic reforms may be abandoned.

These three hypotheses are intended to support my overarching argument that transition can be better understood if viewed as a political process of complex interaction and interplay of different issue policies within the transition state and across different levels – domestic, state and international. The following three chapters will test the validity of these assumptions on the countries of post-communist transition in general, and on two country cases in particular. For operationalisation purposes, I set out a schematic formulation of my model that aims to test these assumptions (Figure 1). This model aims to take into account 1) the initial socio-economic, political and security conditions and changes in those conditions resulting from government policies and their interaction, 2) based on those conditions, elite choices and government policies and their interaction, and 3) initial domestic and external demands and supports, their interplay and change, resulting from government policies. As one can see, there are complex interactions between these components of the transition, which could be analysed in the suggested framework.

Figure 3.1: Explaining the Dynamics of the Transition Process



## CHAPTER 4

### **States in Transition, Transition within States: Evaluating Post-Communist Transitions**

Now, more than fifteen years after the collapse of the communist system, it is obvious that we witness essentially different transition outcomes for the twenty-five post-communist states. The *Nations in Transit* report, published by Freedom House, separates three clusters of transitional countries that emerged and persisted throughout most of the 1990s and beyond: *most advanced*, *middle*, and *least advanced*. In this chapter I will try to explore why the transition paths diverged so drastically for all these 25 post-communist countries.

These countries understandably had different starting points. However, it is also the case that the conditions of transition have not been equal; therefore, there are numerous reasons for the differing outcomes. Karatnycky identifies four core reasons that account for disparate transition outcomes: “(1) dissimilarities in historical legacies and paths to post-communism; (2) the emergence of significantly different state systems; (3) substantial variations in the patterns of corruption and cronyism; and (4) considerable disparities in the development of civil society, political parties, and independent media.”<sup>237</sup> The country specific legacy of the communist past is, of course, an important but not an exhaustive basis for explaining the current state of affairs in the transition world. Past experience surely has a role in causing differences in progress in transition states. However, there was no essential difference between Ukraine and Belarus in terms of their communist past. The fact that the countries within the three groups mentioned above are geographically bounded also does not provide a sufficient basis for explaining the existing differences. The position of Yugoslavia, Belarus, and Turkmenistan in the same category cannot be explained by geography. Obviously, there is a need for a more comprehensive approach to the study of transition phenomena.

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<sup>237</sup> Adrian Karatnycky, “Nations in Transit: Emerging Dynamics of Change”, *The Nations in Transit*, 2001, p.17.

Perhaps it was not geography itself, but the fact that the Central and Eastern-European states were the first to be afforded the opportunity to associate with NATO and the European Union as candidates with clear membership prospects, which accounts for their success. Obviously, tangible possibilities and a clear prospect of integration play not the least or the last role in explaining these countries' successful transition. In these countries, politicians use the EU, as Moravcsik suggests, to add "legitimacy and credibility" to their domestic reforms.<sup>238</sup> Motyl also supports this argument:

The European Union (EU) and the North Atlantic Treaty Organisation (NATO), with respect to prospects for membership, have given preference to the most advanced countries and, thereby, have effectively relegated the second and third clusters to a single category: the outsiders or, less generously, the losers...non-membership in EU and NATO structures is tantamount to exclusion from a political-economic space that is undergoing rapid – even if somewhat indeterminate -- institutional change.<sup>239</sup>

Vachudova finds that even merely by virtue of its existence and its usual conduct, the EU has traction on the domestic politics of credible candidate states. She calls it passive leverage and suggests that "it includes the (tremendous) political and economic benefits of membership, the (dastardly) costs of exclusion, and the (not-so-nice) way that the EU treats non-member states."<sup>240</sup> However, even with these, Vachudova finds that:

The EU's passive leverage merely reinforced liberal strategies of reform in Poland, Hungary, and the Czech Republic, while failing to avert, end

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<sup>238</sup> Andrew Moravcsik, "Integrating International and Domestic Politics: A Theoretical Introduction" in Peter B. Evans, Harold K. Jacobson, Robert D. Putnam (eds.), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, University of California Press, Berkeley, Los Angeles, London, 1993, p. 515.

<sup>239</sup> Alexander J. Motyl, "Ten Years After the Soviet Collapse: Persistence of the Past and Prospects for the Future", *Nations in Transit*, 2001, pp.36-44, p. 41.

<sup>240</sup> Milada Anna Vachudova, *Europe Undivided: Democracy, Leverage, and Integration After Communism*, Oxford University Press, 2005, p. 4.



or significantly diminish rent-seeking strategies for winning and exercising power in Romania, Bulgaria, and Slovakia.<sup>241</sup>

In addition, Vachudova suggests that there is also the EU's active leverage - the deliberate policies of the EU toward candidate states that include enormous entry requirements and benefits that set the stage for effective conditionality. Three characteristics of the process make it particularly powerful: "asymmetric interdependence (candidates are weak), enforcement (tough but fair), and meritocracy (most of the time). The process mediates the costs and benefits of satisfying EU membership criteria in such a way as to make compliance attractive - and noncompliance visible and costly."<sup>242</sup>

Vachudova considers four alternative explanations for why different potential members moved with different speed and enthusiasm towards EU membership: coercion, geography, economic prosperity, the prospect for membership.<sup>243</sup> Although Vachudova agrees that almost all of them play a significant role in explaining the situation, the answer to the variation in the responses of governments to the incentives of EU membership is found in the costs that compliance imposes on the domestic power base of ruling elites. She finds that political competition is central to understanding variation in political and economic change in post-communist states.

The credible prospect of EU membership extended enormous support and demand to the elites and societies of the future members in all spheres: political, economic and security. The fact that these states are credible future members of the EU, exposed to the full force of the EU's active leverage, strengthens the hand of liberal forces against illiberal ones.<sup>244</sup>

In that sense, Vachudova's question is very much to the point:

What were the consequences of the absence of more active leverage on the part of the EU? Most important, elites in Romania, Bulgaria, and Slovakia were able to "play it both ways" for a long time – seeking

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<sup>241</sup> Vachudova, 2005, p.4.

<sup>242</sup> Vachudova, 2005, p.4.

<sup>243</sup> Vachudova, 2005, p. 75.

<sup>244</sup> Vachudova, 2005, p. 5.

membership as a matter of foreign policy, but engaging in ethnic intolerance and economic corruption as a matter of domestic politics.<sup>245</sup>

This question is even more to the point for the rest of the transition countries, which have never had even a hope of EU membership, so that they were not even exposed to the EU's passive leverage.

Another important question raised by Vachudova is the following:

Did ruling elites in Romania, Bulgaria, and Slovakia have just as much political will to comply with the EU's requirements as neighbouring states, only they were hampered by the weakness of the economy, the feebleness of the state administration, or even the backwardness of the political culture in their countries? After all, shortcomings in their economic and administrative performance could be a consequence of the structure of the economy and the state inherited from communism, and not a consequence of the actions of the politicians in power after 1989.<sup>246</sup>

In response to this question, Vachudova downplays the role of structural factors and ascribes the problems of non-compliance to the ruling elites and governments of Romania, Bulgaria, and Slovakia. However, I cannot give such an unequivocal answer to almost the same question that I raise in my first hypothesis: To what extent should difficulties of the transition be attributed to governments and leaders, and to what extent to domestic and international constraints and causes? In CIS countries, structural factors along with governments' behaviour surely play a significant role in shaping transition outcomes.

Alexandra Gheciu discusses the important role NATO played as an agent of international socialization in Central and Eastern Europe. What I find challenging is Gheciu's assertion that "the logic of socialization of Central and Eastern Europeans into norms prescribed by NATO departed in important ways from the rationalist logic of socialization."<sup>247</sup> I cannot agree that socialisation based on rational interest was not the leading force in Czech Republic and Romania. Gheciu's starting point is that the membership perspective did not have a significant socialization impact because it was

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<sup>245</sup>Vachudova, 2005, p. 102 .

<sup>246</sup> Vachudova, 2005, p. 159.

<sup>247</sup> Alexandra Gheciu, "Security Institutions as Agents of Socialization? NATO and the "New Europe", *International Organization* 59, 2005, pp. 973-1012., p. 977.

obvious from the very beginning that the Czechs would receive membership, and that the Romanians would not. I believe that the Czechs, nevertheless had to work hard and the Romanians always believed that they had the prospect of membership. As Eurobarometer polls show, the Romanians have always believed that their future is in Europe. Therefore, while not excluding the possibility that the socialization in the two countries sometimes went beyond rational interest, I think that, overall, it was based on strong rational motivations.

The role and impact of International Organizations (IOs) on the Central and East European Countries (CEECs) is studied in a book edited by Ronald Linden. International Organizations have proposed key norms of international behaviour and acted as nannies to ensure that they were applied and, consequently, that the CEECs underwent international socialization. The different kinds of accepted norms were wide ranging, encompassing aspects such as democracy, liberalization and human rights. The contributors to the book find that nannyism occurred either through an inclusive strategy such as the OSCE, or through an exclusive strategy such as NATO and the EU or an intermediate strategy such as the Council of Europe.<sup>248</sup> The relationship between the IOs and CEECs was asymmetric one and, as the contributors recognize, strong pressure to conform to Western norms came from the need to comply with norms before entry in the case of the EU and NATO. Pressure was maintained through the attraction of funding and achieving targets laid down via regular progress reports.

Along the same lines, Anders Aslund observes “In effect, the West as a whole adopted Central Europe, and Western Europe adopted the Baltics, while South-East Europe, Russia, and the rest of the CIS were left out in the cold.”<sup>249</sup> With hindsight, Aslund continues, the results look obvious: as expected, Central Europe and the Baltics have done better than the former Soviet states. However, looking closer Aslund finds outcomes, which seem less expected:

Why has Western Galicia (in Poland) done so much better than Eastern Galicia (in Ukraine), although they share history, culture, and geography as long-time parts of the Hapsburg Empire? Why has West-

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<sup>248</sup> Linden, Ronald H. (ed.), *Norms and Nannies. The Impact of International Organizations on the Central and East European States. The New International Relations of Europe*, Rowman & Littlefield, Lanham, MD, and Oxford, 2002.

<sup>249</sup> Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge University Press, 2002, p. 397.

oriented Romania done so much worse than isolated and provincial Lithuania? Why has highly developed Belarus remained a state-controlled economy while poor and distant Kyrgyzstan has become a market economy?<sup>250</sup>

As Aslund puts it, the key question is why some transition countries have done so much better than others have. If the first group of countries are those that have made the final and comprehensive transition to democracy and a market economy, the second group includes countries that have registered essential progress in only one dimension at the expense of the other. Countries of the third group have failed in both democratisation and marketisation attempts. Aslund has tried to explain this with what he calls “traps” in the transition process. Some transition countries, he argues, have chosen suboptimal paths, leading to unfavourable equilibria. After a country has fallen into one of the economic or political “under-reform traps,” Aslund continues, it cannot easily develop further, since these traps represent “suboptimal equilibria.” He explains this phenomenon with the slow pace of liberalisation and democratisation in some countries at the outset of transition.<sup>251</sup> What Aslund’s argument has in common with my approach is that he acknowledges the role of processes of political and economic interaction in the fate of transition, as a result of which there has been established some kind of political and economic equilibrium in these countries. His statement that, “the persistence of a strong anti-systemic force entails a dangerous temptation for semi-democratic leaders to abandon democracy altogether with the purported aim of ‘saving’ economic reform” coincides to some extent with my observations, since it implies a deficit of political resource.<sup>252</sup> However, the deficit of political resource may be explained not only or necessarily by the semi-democratic inclinations of a leader but, for instance, by the absence of well-established democratic institutions, a democratic regime with a legitimacy of its own, which any leader could rely on, and by the absence of sufficient domestic and international demand and support for reforms.

Moreover, explaining the shortage of political resource only by the absence of radical reform strategies cannot be satisfactory. As discussed in Chapter 3, there are

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<sup>250</sup> Aslund, 2002, p. 401.

<sup>251</sup> Aslund, 2002, p. 448.

<sup>252</sup> Aslund, 2002, p. 450.

diverse views on pace, timing and sequencing, on radical vs. slow transition reforms. Therefore, Aslund's argument that "countries have entered these 'under-reform traps' because their governments failed to undertake radical and early reforms" does not seem to be sufficiently convincing. His explanation that if the opportunity of radical and early reforms "during the extraordinary politics in the immediate aftermath of the collapse of communism has been missed, a variety of vested interests grow strong enough to trap the nation in a vicious circle" is not universally applicable.<sup>253</sup> Hungary has pursued slow but consistent and fundamental reforms (gradual reforms) throughout the entire transition process. On the other hand, Kyrgyzstan, which started with very radical and ambitious political and economic reforms, and was deemed to be a success in the early years of transition, ended up by continuously reproducing itself as a semi-authoritarian and semi-market system, which, in Aslund's terminology, can be described as an "under-reform trap" or "suboptimal equilibria."

The theories and approaches discussed previously have a legitimate place in explaining the state of affairs in transition countries. However, they do not account for the process of political interaction and interplay during the transition – both internal and external. It is that interaction that is the subject of my attention in this study.

### **Defining and Measuring Mutual Demands and Supports**

To start discussing policy interaction and interplay in the post-communist transition context, I will suggest concrete meanings and criteria for the international, state, and domestic demands and supports. To the extent possible, I will define concrete indicators for mutual demand and support during the transition process, to analyse the process of interaction and interplay. It will be difficult to assess the impact or link of a concrete demand on, or with, a concrete support. Of course, one can always explore the correlation between the two indicators. However, since in reality a political demand can be reciprocated with support from more than one different policy sphere, and vice versa, it will be more sensible to reveal the correlation of concrete support or demand indicators and the dynamics in achieving a concrete policy goal.

What is the demand-support exchange between the international level, the state and domestic society during the transition? I will combine the demands and supports into three kinds of supports and demands as suggested in the previous chapter -

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<sup>253</sup> Aslund, 2002, p. 450.

economic, political, security. In very general terms, the international community expects the states in transition to integrate into the international system. We cannot operationalise the international system per se. Instead, I can discuss the expectations or demand various international regimes and international organisations have from the state during the transition process. This would mean having the state joining the critical international regimes, complying with the conditionalities of international organisations, and improving that compliance. All these conditionalities are about support-demand balance.

### *Economic dimension*

The economic dimension has been a core dimension in the transition process, and therefore, can give us more explicit and deeper insight into national-international interaction processes.

Foreign economic aid -- in the form of humanitarian, technical, or development assistance from international financial and other institutions or from donor countries' governments -- composes the most direct international support to the countries in transition. This indicator is widely available for all transition countries in World Bank and European Bank for Reconstruction and Development (EBRD) reports. There are indirect supports as well, such as recognition of reforms by international organisations and credit rating groups, by granting membership or assessing the country's risk status. In addition, for each country in transition there are data available on its participation in critical international organisations and projects. In addition, there are country specific data available on each country's international commitments and undertakings.

In the same way, there is a support-demand balance or the need for such a balance between the state and the domestic society. Demands that a society can have from the state are wide. The most direct demand that domestic society has from the state is the fulfilment of social needs, of course. However, they are not limited to that. Such economic spheres as job creation, investment, taxes, which also depend greatly on government activity, require a more comprehensive assessment of a government's support. For that purpose, we can use such indicators as GDP per capita, GDP growth, per capita foreign direct investment, unemployment rate, and Gini coefficient. Support for government policy can be measured with material support given, such as the payment of taxes and other levies. This can be measured both in absolute volume and as a proportion of the budget income.

The picture is different from the government perspective. All governments value economic growth in itself and also because it boosts their legitimacy. This means that the same indicators of economic growth can be used for the government level as well.

What is the demand-support exchange between the international community and the state in transition? In the sphere of the economy, this may mean the liberalisation of the national economy. Indicators such as the Index of Economic Freedom compiled by the Heritage Foundation, give a general assessment of a particular economy's openness towards the international system. One can find more and more aggregate data on the reform process in countries of transition such as the liberalisation score, transition score compiled by the EBRD Transition Report, etc., in the field of the economy. All these indicators show, on a comparative basis, the success and the extent of transition of a particular transition country, which means its domestic transformation and international integration. They also describe the state's policy vis-à-vis the domestic and international levels. Therefore, they also speak about the state's foreign policy, its external direction, or its change.

In return for a state's compliance with democratic and human-rights regimes, the international community can reciprocate not only with political but also with economic support. One of the preconditions for granting foreign economic aid, for example, has been the government's democratic performance and consistency in implementing reforms. Even without such a formal linkage, it is obvious that foreign economic aid has a direct and indirect impact on the democratic development of a country and its society. Besides, stability is an important factor for attracting foreign investment. A simple correlation of the dynamics of such indicators as foreign economic aid or foreign investment on the one hand, and a country's political rights' and civil liberties' indexes on the other, can tell us whether there is any support-demand balance when it comes to a state's democratic performance and the international economic support (see tables at the end of the chapter on foreign economic aid and on Freedom House indexes).

### *Political dimension*

In the political sphere, the international community's expectation or demand will be that states in transition become more democratic, to comply with international and global human rights regimes, and to progress intensively towards meeting the conditionalities of international organisations that are effective internationally or designed for the states in transition. At the same time, this would mean the state's support for the respective international regimes. There is no scarcity of data offering aggregate indicators describing the situation. One such indicator is the coincidence of voting patterns of countries in transition with those of the European Union and the United States on resolutions related to human rights and political rights and liberties. The extent to which states in transition meet particular core conditionalities, such as the abolishment of capital punishment, put forward by some international organisations can be an important indicator in this sense.

The government in its turn expects the respective international or regional organisations to reward it materially or by recognizing its good performance. The latter can be a serious legitimacy boost for any government. Reports by reputable organisations; country resolutions in international organisations; election to high-level UN bodies, such as the Council on Human Rights; or the Economic and Social Council or other prestigious international or European organisations, are, in a way, indicators of the international support to the state. In the political sphere, again, important indicators are the status of political rights and civil liberties, and the record of the conduct of free and fair elections as well as indicators of rule of law (i.e. Transparency International's Corruption Perception Index). All these data are available for the states in transition. Not surprisingly, in this field international and domestic demands toward a state are more or less the same. Indicators measuring the status of civil liberties and political rights in all countries put forward by Freedom House, and the democratisation scores in the *Nations in Transit Report*, give a dynamic picture in this field. Therefore, the support from the state to these two levels can be the same. However, there may be differences as well, which are mainly linked to a society's traditions, customs, perceptions, values, and the specifics of its background. Sometimes meeting international human rights and civil liberties requirements collides with the domestic society's value perceptions. For instance, the requirement of the Council of Europe to abolish capital punishment was not supported initially by some societies of post-communist transition.



Within the political dimension, there is another phenomenon that deserves attention. The political processes include also issues related to cultural patterns, value systems and symbols, among others. As one of the most common ways of extracting public support, the governments use nationalism. Rulers often try to shape public perceptions, society's scale of assessment for government policies and their outcomes. In other words, governments use some propaganda tools as they conduct some interpretative explanatory activity to increase their legitimacy.

Although the overall legitimacy of a government is a result of its performance in all the dimensions discussed above, governments seek to influence the scale of the assessment of the society, to make their achievements look greater. This is not only an outcome of the political process but also one of its determinants, the impact of which is difficult to measure. The domestic society is interested in keeping its value system coherent. The domestic society can also adopt standards and scales spread globally and assess the government's activity comparatively. Different actors to add legitimacy to own policies and demands can use a prior experience of others. For example, governments of transitional countries often refer to other states in transition, which have had a similar economic reform experience, in order to explain to their domestic audiences the reasons for economic decline in their own countries. Alternatively, a domestic society, to support its demands from the government, can refer to other domestic societies' achievements. These references are stronger, more supportive and effective when the precedents are not just a few, but are widely spread. A government uses other states' successes widely as an argument, when negotiating with the international community for some benefits.

To separate and measure the portion of the government's legitimacy derived from its success in presenting and propagating its economic, political and security achievements is a complicated task. However, it will not be difficult to track. The empirical research can reveal cases when the government has either made no progress, or has declined in all the dimensions under discussion, but nevertheless preserves its legitimacy. Those are the cases where one should look for an explanation within this dimension.

The overall level of political support by the domestic society, or the level of the government's political legitimacy, is reflected in public polls. However, the results of these polls are not widely available and polls have not been conducted in a systematic manner. Eurobarometer -- surveys conducted by the EU among the transition states --

was the only source conducting polls in early years of transition on the support level of transitional societies, not only towards their respective government's policies, but also on existing values and perceptions. Meanwhile, the existing data on elections, changes in political landscapes in the parliaments of transition countries, toward left or right, speak for themselves.

### *Security dimension*

The next dimension is security. Within the security dimension, the international community expects the particular state to be a responsible, stable and predictable member of the international community. The general criterion is compliance of the given state with the international security regimes' main conventions, treaties and decisions. Membership and voting patterns of the given state in international organisations also can provide some information. Scoring methods that exist in the field of conflict assessment help evaluate the situation. The Fund for Peace, for example, uses its Conflict Assessment System Tool, an original methodology it has developed and tested over the past decade. It is a flexible model that has the capability to employ a four-step trend-line analysis, consisting of rating 12 social, economic, political, and military indicators; assessing the capabilities of five core state institutions considered essential for sustaining security; identifying idiosyncratic factors and surprises; and placing countries on a conflict map that shows the risk history of countries being analysed.<sup>254</sup>

For the Failed States Index, the Fund for Peace and the Foreign Policy magazine focused solely on the first step, which provides snapshots of state vulnerability or risk of violence for one time period each year. A state that is failing has several attributes. One of the most common is the loss of physical control of its territory or of the monopoly on the legitimate use of force. Other attributes of state failure include the erosion of legitimate authority to make collective decisions, an inability to provide reasonable public services, and the inability to interact with other states as a full member of the international community. The 12 indicators cover a wide range of elements of the risk of state failure, such as extensive corruption and criminal behavior, inability to collect taxes or otherwise draw on citizen support, large-scale involuntary dislocation of the population, sharp economic decline, group-based inequality,

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<sup>254</sup> <http://www.fundforpeace.org>.

institutionalized persecution or discrimination, severe demographic pressures, brain drain, and environmental decay. These aggregate indices and different combinations of their component indicators can be used for analyzing the security/state-building situation in the transition world. One of the problems however is the fact that especially for the first decade of transition there is no systematic data available.

A country rating based on a global survey of armed conflicts, self-determination movements, and democracy has been produced by the Center for International Development and Conflict Management at the University of Maryland.<sup>255</sup> There have been more recent attempts by scholars to develop their own methodology of evaluating a state's vulnerability to security problems. For instance, Andrei P. Tsygankov proposed an index of stateness that would combine indicators of state unity/security, economic and political viability. However, when applying his methodology to the post-Soviet states he concluded that Moldova, for instance, which is often deemed to be a failed state, is one of the three most viable states. Tsygankov himself acknowledges, of course, "that any attempt to propose indicators and construct indices can only be preliminary and suggestive of a general trend. Case studies are necessary to further test how well such indices stand against the empirical record."<sup>256</sup>

I will refrain from making quantitative analyses on the state of affairs in security sphere of transition states. One can draw conclusions based on the visible evidence without having to conduct detailed quantitative analyses. "Another challenge that should be highlighted is the dual difficulty of "state-building" and democratization. Whether it is through violent conflict or peaceful means, almost half of the Nations in Transit countries covered continue to grapple with building basic structures and consensus about belonging together in a state. A state must be able to have in place and control basic institutions in order to engage in process of democratisation."<sup>257</sup> As one can see, the main security/state-building concern in the transition states often is not external but rather ethnic, mostly secession. And one can conduct analysis based on mere facts of existing interstate or ethnic disputes and conflicts, their background and

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<sup>255</sup> <http://www.cidcm.umd.edu/pc/>

<sup>256</sup> Andrei P. Tsygankov, "Modern at last? Variety of Weak States in the post-Soviet World", *Communist and Post-Communist Studies* 40,2007, 423-439.

<sup>257</sup> Nations in Transit, 2006, p.26

dynamics. As for the status of state institutions, in addition to the above mentioned sources, there is also consistent data on market institution building and institutional performance provided by the EBRD Transition Reports. However, the situation in this sphere will be analysed in a detail in the two case studies.

Domestic society is interested in its security, both individual and collective. Within this dimension, I emphasize a society's overall military security only. The criterion for domestic society is an increase of its security by the government, which can be reflected in an increase of military spending, number of armed forces, settlement of existing and potential conflicts and elimination of perceived threats, participation of the state in security treaties, pacts, agreements, etc. Quantitative measures such as military expenditures as a proportion of GDP, or the number of military personnel per 1000 in the population, are indicators of a state's security performance. To make a judgement on the perceived threats existing in a society, one needs to conduct public polls, or at least to have expert assessments. Although not as precisely as economic growth, the security of domestic society can be measured by indicators like those mentioned above.

For the government, again, the logic is the same. The government is interested in the increase of security since it helps to increase its legitimacy. Therefore, with the same kind of reservations mentioned in relation to the economic dimension, we can use the same indicators of security measurement. I will discuss only state security issues here, which include threats to domestic society, state sovereignty and integrity. The individual security of a society's members, related to human rights, political liberties, and the rule of law, and problems of economic security will be covered within the political and economic dimensions respectively.

### **Horizontal Interaction**

As I have stated before, in this chapter I aim to explore why the transition paths diverged so drastically for post-communist countries. My first argument in this regard is that the background conditions matter. However, in countries undergoing transition, governments possess a limited resource for pursuing reforms on the political, economic and security/state-building fronts; therefore, they have to make critical choices in line with the demands and supports of domestic society and international community, as well as their own legitimacy needs. It is these choices of the elites, made under certain

political, economic and other structural constraints, that will determine what transition paths the country takes and whether the country remains on the democratic path or not.

Before analysing transition as a single political process, it would be useful to determine what role the domestic factors that I singled out in Chapter 1 might have played in shaping the transition paths of these countries and creating sub-groups that vary significantly in their reform achievement in democratization and marketisation after ten years of transition (1991-2001).

Table 4.1, which compares the initial socio-economic conditions, role of the first post-communist elites, political culture, institutional design, and other structural factors, such as state-building related or conflict related challenges, shows some similarities that countries belonging to the same region have. The countries of Central and Eastern Europe and the Baltic States and, to a less degree, those in South Eastern Europe had relatively higher GDP per capita level ranging between \$ 1300 and \$ 3700 (with the exception of Albania). Almost all of them, with few exceptions, have adopted a parliamentary political system, which, according to the theories of democratic institution building, provides better checks and balances, prevents political polarisation and promotes better social cohesion in society. Parliamentary systems are also known for their stability in terms of their policy choices and continuities. All these countries also had more or less lengthy previous democratic experience with independent state institutions.

In the countries of the CIS, in the early years of transition GDP per capita was lower than \$1300.<sup>258</sup> GDP decline in the first 4-5 critical years of radical reform was deeper than those in the CEE and SEE. If one accepts' the modernization theory argument, both "endogenous" and "exogenous"<sup>259</sup>, these countries had less chance of installing a democratic regime and consolidating it than those in the CEE and SEE region. The countries chose presidential or mixed systems with a strong executive, which, according to theory, leads to an excessive concentration of power in the hands

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<sup>258</sup> The only exception is Kazakhstan, which has vast natural resources.

<sup>259</sup> On the other hand, the "endogenous" modernization theory does not seem to be valid when one looks at individual country cases. For instance, Slovenia had the highest GDP per capita and the lowest economic decline. Nevertheless, the country was far from being a regional champion in democratisation. Among the CIS countries, Belarus had the highest GDP per capita but that did not lead to the establishment of democratic regime, despite its location. See detailed discussion about modernization theory in Chapter 1.

of the executive branch and thus, fosters authoritarianism. They were also less fortunate in their former democratic history. Not only did they lack any pre-Soviet democratic experience, but they also had no or only minimal experience of prior independent statehood.

Table 4.1 Domestic Factors Determining Transition Paths

	Socio –Economic Conditions			Political factors		Political culture	Conflict <sup>5</sup>
	GDP per capita, 1990-1995	GDP Decline <sup>6</sup> 1991-1995	Initial conditions <sup>1</sup>	Elite turnover <sup>2</sup>	Inst design <sup>3</sup>	Previous democratic experience <sup>4</sup>	
<i>Central Eastern Europe and the Baltic States</i>							
Hungary	3677.6	-2.2	3.3	Y	PL	Y	Y
Poland	2356.1	2.3	1.9	Y	mixed	Y	N
Czech Republic	3566.9	-0.8	3.5	Y	PL	Y	Y
Estonia	2860.9	-6.4	-0.4	Y	PL	Y	N
Lithuania	2324.8	-9.9	0.0	Y	mixed	Y	N
Slovenia	7551.4	-0.5	3.2	Y	PL	Y	N
Slovak Republic	2727.6	-2.6	2.9	Y	PL	Y	Y
Latvia	2160.7	-9.7	-0.2	Y	PL	Y	N
<i>South Eastern Europe</i>							
Albania	495.8	-1.4	2.1	N	PL	N	N
Bulgaria	1474.9	-2.5	2.1	N	PL	Y	N
Macedonia	1881.6	-4.6	2.5	Y	PL	N	Y
Croatia <sup>7</sup>	3502.3	-5.6	2.5	Y/W	Mixed/PL	N	Y
Romania	1340.2	-1.8	1.5	N	mixed	Y	Y
<i>Commonwealth of Independent States</i>							
<i>Western CIS and Caucasus</i>							
Moldova	562	-15.7	-1.1	N	mixed	N	Y
Armenia	467.5	-10	-1.1	Y	mixed	N	Y
Azerbaijan	747.7	-15.6	-3.2	Y	PR	N	Y
Belarus	1589.9	-8.1	-1.1	N	PR	N	N
Georgia	803.7	-20.6	-2.2	Y/W	PR	N	Y
Russia	3045	-9	-1.4	Y	PR	N	Y
Ukraine	1280.6	-13.5	-1.4	N	PR	N	Y
<i>Central Asia</i>							
Kazakhstan	1452.8	-9.3	-2.5	N	PR	N	N
Kyrgyzstan	477.4	-12.5	-2.3	Y	PR	N	Y
Tajikistan	342.2	-17.2	-2.9	W	PR	N	Y
Turkmenistan	760.7	-8.9	-3.4	N	PR	N	N
Uzbekistan	612.2	-4.0	-2.8	N	PR	N	Y
<p><sup>1</sup> EBRD's Initial Condition Index: The higher values of the initial condition index relate to more favourable starting positions; Source EBRD Transition Report 2000.</p> <p><sup>2</sup> The level of Elite Turnover indicates whether there was a regime change or the old communist elites remained in power: new elite-Yes, old elite –No.</p> <p><sup>3</sup> Institutional design: PL-parliamentary; Mixed- semi-presidential; PR-Presidential.</p> <p><sup>4</sup> Existence of previous democratic experience.</p> <p><sup>5</sup> Includes serious security and state-building challenges that the states had in the early years of post-communist transition, i.e. major ethnic conflict, external minority, open territorial disputes, etc.</p> <p><sup>6</sup> Average GDP growth rates and GDP per capita are derived from World Development Indicators database.</p> <p><sup>7</sup> Croatia changed its political system from semi-presidential to parliamentary system in 2000.</p>							

To sum up, of course structural and other domestic factors differ significantly across these regions. These countries understandably had different starting points. However, it is also the case that the conditions of transition have not been equal. There are, therefore, numerous reasons for the differing outcomes. In the same way, past experience certainly has an enormous role in causing differences in progress in transition states. However, as mentioned before, there was no essential difference between Ukraine and Belarus in terms of their communist past and legacies. The Domestic factors may have facilitated the triple transition of the countries of CEE and SEE regions more than in other regions. However, domestic factors are important, but not sufficient for explaining the overall transition dynamics. For this reason, I suggest we should look at transition, first, as a political process of interaction and trade-off between a country's political, economic and security policies.

Thus, in my first hypothesis I suggest that there is a strong interconnectedness and trade-off among a government's economic, political and security policies during the transition. The consequences of policy changes in each of these areas resonate in others, and often in a negative manner. I further argue that there is a single limited political or legitimacy resource at the government's disposal and it is unlikely that any government will be able to conduct the complex, systemic and simultaneous transformation required by transition, unless there is a sufficient level of external demand and support.

To discuss the interaction of various policies at the state level requires, first of all, a detailed study of how the reforms proceed in each of the policy areas: political, economic and security. It is not possible to conduct such a detailed, systematic examination for all 25 countries in the scope of this chapter. Instead, to give a general overview, I will use the available aggregate indicators and indexes that more or less reflect the status and dynamics of democratisation, market reforms and security/state-building in these countries to analyse the situation and to see whether the evidence supports my first hypothesis.

Unfortunately, the available quantitative data for security/state-building dimension is rather scarce and covers only recent years. Therefore, I cannot make a comparative analysis of the security/state-building dimension, and systematically correlate it with the other dimensions for all the transition countries. I will do this when

discussing concrete country cases in the following two chapters. At this stage, to discuss the horizontal interaction between different reform policies, I will focus on the two main pillars of transition -- economic and political – on which there is sufficient data. I assume that the comparative analysis of even these two dimensions should give as a primary view on general pattern of relationship between them throughout the first decade of transition.

From this point of view, the indicators of cumulative liberalisation and democratisation put forward in the *EBRD Transition Report* give a good insight into the overall reform processes in these two areas, their dynamics and correlation in all transition countries. Cumulative liberalisation denotes the number of years in which a country has achieved a score of at least 3 on price liberalisation and at least 4 on trade and foreign exchange liberalisation. Cumulative democracy denotes the number of years in which executives and legislatures have been freely and fairly elected. This information is based on the OSCE reports on country elections. According to the table on transition paths and determinants in the *EBRD Transition Report* here is the picture (table 4.2):<sup>260</sup>

These indicators show in comparison how successfully countries' political and economic reform progressed in the same (the most critical) time period. These indicators show more than the structural side of the transition process. After all, they are also the results of each government's reform policies, and of the support and demand by society and the international community for reforms.

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<sup>260</sup> Cumulative liberalisation denotes the number of years in which a country has achieved a score of at least 3-- on price liberalisation and at least 4-- on trade and foreign exchange liberalisation. Cumulative democracy denotes the number of years in which executives and legislatures have been freely and fairly elected. Source: EDRD, Transition Report 2000, p. 21.



Table 4.2 Cumulative Liberalisation and Democracy Scores (1990-2000)

	Cumulative liberalisation	Cumulative democracy
1. Hungary	10.0	11.0
2. Poland	8.0	11.0
3. Czech Republic	9.0	11.0
4. Estonia	7.0	9.0
5. Lithuania	7.0	4.0
6. Slovenia	8.0	11.0
7. Slovak Republic	9.0	10.5
8. Croatia	7.0	3.5
9. Latvia	7.0	8.0
10. Albania	8.0	6.0
11. Bulgaria	5.0	8.5
12. FYR Macedonia	7.0	6.0
13. Romania	6.0	8.0
14. Kazakhstan	3.0	0
15. Kyrgyzstan	6.0	7.0
16. Moldova	6.0	7.0
17. Ukraine	0	4.0
18. Georgia	4.0	7.0
19. Azerbaijan	0	0
20. Russia	2.0	9.0
21. Uzbekistan	0	0
22. Armenia	5.0	0
23. Belarus	0	0.5
24. Tajikistan	0	0.5
25. Turkmenistan	0	0

Based on the data presented in table 4.2, one can identify three distinct groups of countries: The first group contains the countries (Hungary, Poland, Czech Republic, Estonia, Slovenia, Slovak Republic, Albania, Bulgaria, FYR Macedonia, Romania, Latvia) that successfully managed to pursue all transition goals in parallel. These countries, mostly in Central and Eastern Europe, drastically liberalised their economies and still managed to keep their democratic records more or less clean for the same period, in the sense that they conducted better, free and fair elections, promoted the rule of law, etc. These countries had one thing in common — they were all strong candidates for the EU membership. The only exceptions seem to be Moldova and Kyrgyzstan, which according to their scores adjoin the first group of countries. Moldova and Kyrgyzstan, despite not being candidates for EU membership, surprisingly were able to both liberalize and, at the same time, democratise. They deserve special examination since they contradict my argument.

Countries in the second group (Armenia, Kazakhstan, Ukraine, Georgia and Russia) progressed in one sphere but lagged behind in the other. Geographically, they

roughly coincide with Western CIS and the Caucasus. The only exceptions seem to be Croatia and Lithuania, which according to their scores adjoin the second group of countries. Croatia and Lithuania, undoubtedly have higher scores if compared with other countries of the second group. However, both countries have substantial imbalance between the democratisation and the economic liberalisation scores. One can conclude that in countries like Armenia and Kazakhstan, and to an extent in Croatia and Lithuania, governments have put more emphasis on economic than on political reforms. Leaving aside Lithuania, which was under EU and NATO sponsorship and deserves a separate study, the rest of these countries had essentially similar problems: lack of commitment of governments to further reforms, and/or insufficient level of domestic and international demand and support. In other words, the problem was the availability of a political resource, or rather the lack of it. While meeting international demands on economic liberalisation, the governments of these countries were drastically deprived of domestic political support. Elections, in these circumstances, were seen as an opportunity to restore and consolidate their power even by undemocratic means. And there was no adequate and persistent international demand that could stop them from doing that. The existence of Croatia in this group supports my argument that without serious external demand and support (during the period covered in table 4.2 Croatia was not yet an EU applicant country) it is hard to conduct successful simultaneous transition reforms.

In this period, the governments of Russia, Ukraine and Georgia achieved higher scores in democratic than in their economic performance, since they were slow and cautious in liberalisation. In fact, they became relatively “popular” at the expense of economic reforms, and therefore could afford to conduct more or less free and fair elections, without a significant threat to their office. In 1992, Russia’s reformist government led by Gaidar lasted only 4 months and was sacrificed for the sake of political stability, as parliament demanded. Shevardnadze’s Georgia implemented gradual and socially not risky economic reforms. The same is true with regard to Ukraine under Kuchma. As one can see, in some CIS countries the contrast is more dramatic.

In the third group are the countries (Belarus, Tajikistan, Turkmenistan, Uzbekistan and Azerbaijan) in which, throughout the period covered in the table, the tempo and depth of reforms was not sufficient in either the political or the economic sphere. These countries failed to reform and chose a path that was not democratic.

These are countries where there was neither significant and persistent domestic or international support/demand for reforms, nor a reformist government.

The question remains why did the governments in the second group who declared their intentions to adopt democracy and capitalism at the same time get such mixed results? The fact that the policies of the elites in the countries of the second group, all of whom had more or less similar starting structural conditions, diverge in the sense that some succeeded in democratisation and some in economic reforms, makes the modernization argument (more specifically what comes first democracy or market) and other explanations relying on the structural or political culture perspective less convincing.

What other factor(s) affected their choices of policies and the eventual reform results. I argue that along with domestic factors, it is the political process of interaction, both horizontal and vertical, that makes a difference in transition paths. The governments had a limited political resource for pursuing reforms on the political, economic and security/state-building fronts; therefore, they had to make critical choices, and it is this that shaped differences in progress and in their overall transition paths. It is these choices of the elites, made under certain political, economic and other structural constraints that determined what transition paths the country took.

Leaving aside the third group of countries, where we cannot speak about a transition per se, a significant factor that distinguishes the first two sub-groups with different levels of success in transition is the amount of the political resource that the governments of those countries had available for advancing reforms. After the early stage of radical reforms, which almost all the countries in the first and second group initiated, the social and political costs of transition rose drastically and public discontent grew, inevitably leading to a decline in the government's legitimacy. At this critical point, the paths of post-communist countries started to diverge. As the framework in chapter 3 suggests, later policy choices not only largely depend upon the starting conditions, and the values and goals of the elites in power, but as importantly, they depend on the existing domestic and international supports and demands. If there is no domestic and international support and demand, the most probable step for a government in countries that do not have consolidated democratic and market institutions would be to abandon reforms, or to invest its political stock in the areas that are politically less costly and more rewarding, to devote more resources to one aspect of reform at the expense of another, to enhance its economic and political power.

It is the balance of demands and supports of domestic society and the international community that eventually determines the continuity of the reform policies that have been adopted. In the first group there are countries with clear prospects for EU membership. In the second group, there are countries in which domestic and international supports and demands were mixed and were not as rigorous and tangible as for the first group. In the third group are countries where there was neither any significant and persistent domestic or international support/demand for reforms, nor a reformist government.

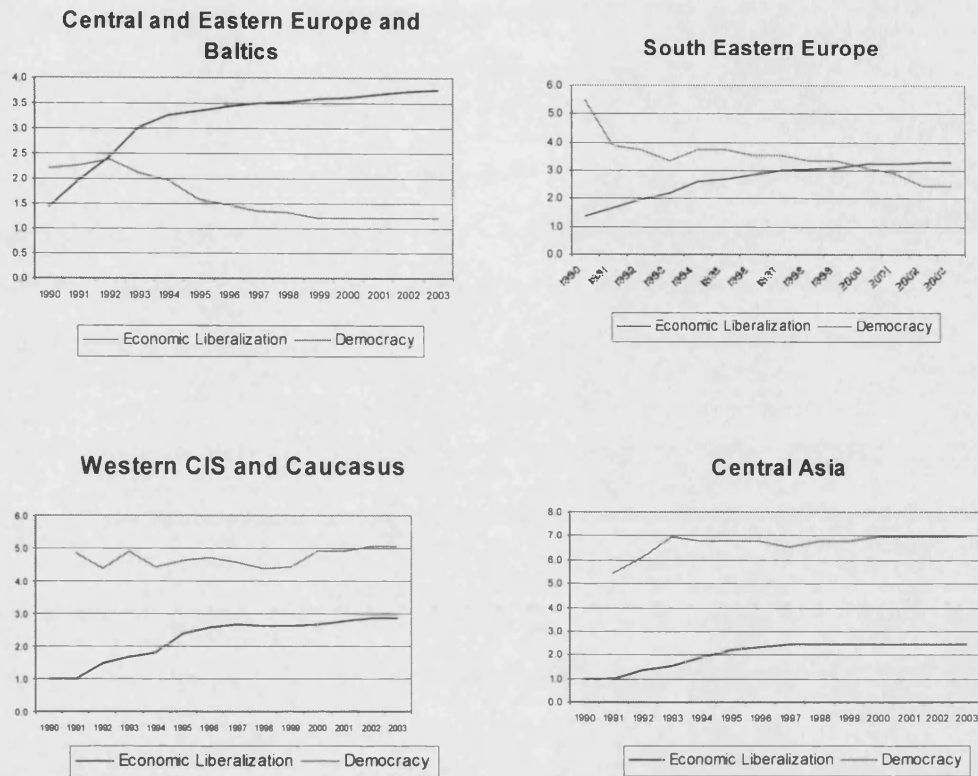
The dynamics of annual indicators of economic liberalisation and civil liberties and political rights showing the relationship between economic and political reforms also reveal similar regional patterns (Chart 4.1).<sup>261</sup> As one can see, for the countries of Central and Eastern Europe, improving economic liberalization coincides with improving democracy status. For the countries of South Eastern Europe, the pattern is the same although not as vivid as in the first group. For the countries of the Western CIS and the Caucasus, an obviously more drastic economic liberalisation tendency is accompanied by an unstable and eventually worsening situation in democracy status. As for the countries of Central Asia, we see a slight improvement of the liberalisation score in the early years and a continuous worsening of democracy status. In contrast with the concepts of conflict, compatibility, and reconciliation among policy goals described by Huntington, which define the relationship among policy goals as either that of merely conflict, or compatibility, or reconciliation, we witness all scenarios developing in parallel during the first decade of post-communist transition.<sup>262</sup> The approach I suggest does not exclude but rather explains the existence of all scenarios.

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<sup>261</sup> See table 4.5 for detailed data.

<sup>262</sup> Myron Weiner and Samuel P. Huntington, *Understanding Political Development*, Little, Brown and Company, Boston, Toronto, 1987.

Chart 4.1 Economic Liberalisation and Democracy Scores (average) 1990-2003<sup>1</sup>



<sup>1</sup>EBRD's Economic liberalization score 1990-2003 and Freedom House indices of Political rights and civil liberties, 1990-2003. Higher economic liberalisation score means more reforms; lower Freedom House index means better political rights and civil liberties

In sum, as one can see, the comparative analysis of the cumulative liberalisation and democratisation scores for the twenty-five post-communist transition countries predominantly supports my assumption that there is strong interconnectedness among reform policies, and that these governments have a limited resource for pursuing these policies. As a result, most often they end up pursuing one goal at the expense of the other. The analysis also shows that it is unlikely that the transition countries can deal themselves with such a systemic multi-issue transformation as transition, unless there is sufficient external support and demand. Because Moldova and Kyrgyzstan offer themselves as possible exceptions, I intend to focus on these two cases for more detailed study.

Even with an untrained eye, one can observe a striking difference in security/state-building challenges that different regional groups of countries face, as indicated in table 4.3. The Central and Eastern European countries and the Baltics are in much

better situation and the CIS states face the hardest challenges.<sup>263</sup> By 2006 even Kyrgyzstan and Uzbekistan are ranked as failed states.

Table 4.3 Failed State Index for Post-Communist Countries-2006<sup>264</sup>

	Failed state Index
<b><i>Central and Eastern Europe</i></b>	
Hungary	46.7
Poland	47.9
Czech Republic	41.8
Estonia	51
Lithuania	49.7
Slovenia	36.8
Slovak Republic	49.9
Latvia	56.2
<b><i>South Eastern Europe</i></b>	
Albania	68.6
Bulgaria	62.1
Macedonia	75.1
Croatia	61.9
Romania	62.6
<b><i>Western Commonwealth of Independent States and Caucasus</i></b>	
Moldova	82.5
Armenia	71.5
Azerbaijan	81.9
Belarus	84.5
Georgia	82.2
Russia	87.1
Ukraine	72.9
<b><i>Central Asia</i></b>	
Kazakhstan	71.9
Kyrgyzstan	90.3
Tajikistan	87.7
Turkmenistan	86.1
Uzbekistan	94.4

As in the case of the democratisation and marketisation scores, if one compares security indicators, one can see that countries of the same regional group have similar security/state-building levels. As discussed before, there is obviously a link among all these areas. The less pressing security and state-building problems are, the more likely it is that incumbents will be able devote more resources to other critical spheres, and

<sup>263</sup> The rank order of the states is based on the total scores of the 12 indicators. For each indicator, the ratings are placed on a scale of 0 to 10, with 0 being the lowest intensity (most stable) and 10 being the highest intensity (least stable). The total score is the sum of the 12 indicators and is on a scale of 0-120.

<sup>264</sup> Source: <http://www.fundforpeace.org>. Although the earliest comprehensive state-building/security index is for 2006, that index can still be useful since changes in this field take place slowly and many of the security challenges reflect processes that took place in the first decade of transition.

the more likely it is that the country will progress in the economic and political spheres. It is obvious that the governments of those countries that declared their choice of democracy and the market but faced serious security and state-building challenges, have to distribute their limited political resource in such a way as to meet their security and state-building needs first if possible, even when this creates the “necessity to compromise between the democratic ideal and the necessities of state security challenges.”<sup>265</sup> Meanwhile, we can see that transition countries such as Moldova and Georgia, which registered some progress in economic and political reforms, did not manage to resolve the serious security problems they face.

### **Vertical Interaction**

I argue that not only is there a link between economic, political, and security policies, but also that there is an essential link and trade-off among different levels -- domestic, state and international -- within the overall transition process. In order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is, reasonably and in a timely manner, distributed among those levels.

How about the resources and the costs of transition, have they been effectively distributed among the levels? Is support-demand balance vertically provided? For countries in transition, this means analyzing how all the relevant actors at all levels share the burden of carrying out simultaneous reforms in all core policy areas, and how the balance of such demand and support affects the ability of those actors to continue with reforms, and how it affects a country's overall pace and trajectory in transition. It is difficult to overestimate the role played by international organisations, especially the World Bank Group, the International Monetary Fund, the Council of Europe, the EU, and NATO. To what extent these organisations effectively carry out their missions individually, or as a group, is a different issue, of course. However, one should not underestimate the power and value of these organisations' political, financial, and even advisory support, policy support statements, which can have an essential, legitimising effect for a government, both domestically and internationally. These are what a

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<sup>265</sup> Reimund Seldelmann, “International Security and Democracy Building” in in Zielonka, Jan and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp. 115-116.

transitional state expects or, in my terminology, demands from the international community; at the same time, these are the material and non-material supports that the international community can offer to a state in transition.

### *Political Dimension*

Even an untrained eye can see what makes the first group of countries different from the second group of countries when one analyses the external driving forces of democratization. The first group of countries that managed to pursue all transition goals in parallel are those that had a clear EU membership prospective. Anders Aslund provides a useful insight about transition countries that differ in their reform trajectories:

Preconditions, politics, and economic policy matter, but western policy has made a great difference. Six transition countries undertook early and successful transformations, and they all gained adequate international support. While we cannot disentangle the impact of various factors and prove that they would have failed without international assistance, the coincidence is remarkable.<sup>266</sup>

What type of socialization is responsible for their successful transition is not an issue here. The fact is that these countries retained domestic support for continuing reforms because they received international support adequate to their reforms, both economic and political. More importantly, this support was in the form of membership or the prospect of membership in the EU. This made reform steps rewarding rather than painful for society, and as a result, the governments could pursue both goals with almost the same depth and intensity.

Vachudova correctly observes that in 1992 the European Commission was conscious, that offering the prospect of membership would be the best incentive for promoting liberal democracy and the market in Central and Eastern Europe and that by offering a membership perspective, “the Community will provide encouragement to those pursuing reform and make the short term economic and social consequences of

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<sup>266</sup> Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge University Press, 2002, p. 401.



adjustment easier to bear. This perspective will also provide a stimulus to investment and discourage excessive nationalism.”<sup>267</sup>

Societies in the CEECs retained substantial support for EU membership throughout the entire pre-accession phase. Through its conditionality, the EU extended the necessary demand and support to the governments in aspirant countries to build genuine democracy and a market economy. The EU extended direct criticism to rent-seeking illiberal governments in CEECs, stopped them abusing opposition parties and elections, paid close attention to democratic standards and the protection of minority rights, discouraged nationalism, helped build strong democratic and market institutions, and to create modern and independent judiciary. The external transparency of aspirant government activity demanded by the EU also produced internal transparency, thus facilitating the work of pro-reform parties and civic groups. The EU empowered domestic groups against government ill-practice wherever needed, by undermining information asymmetries, teaching the opposition parties and groups to work effectively. The EU and NATO also embarked on an intensive international socialization effort in the societies of aspirant countries. By giving access to its trade and investment market, the EU enhanced pro-reform economic groups. The EU provided sizable financial assistance and foreign investment to the governments for meeting its requirements. As I argued within my second hypothesis, in order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably and in a timely manner, distributed among the domestic, state and international levels. From this point of view, I think it is more than evident that the EU provided in a timely manner all the necessary political resource for successful and comprehensive reforms to the governments and societies of the first group of countries.

Vachudova argues that “the domestic requirements of EU membership proscribed the very mechanisms by which governing elites in illiberal states consolidated political power and cultivated their domestic power base: limited political competition, partial economic reform and ethnic nationalism.”<sup>268</sup> Meeting EU requirements threatened to undermine the domestic power of ruling elites in Romania, Bulgaria, and Slovakia by strengthening opposition forces, limiting rent-seeking

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<sup>267</sup> Vachudova, 2005, p. 102.

<sup>268</sup> Vachudova, 2005, p. 73.

opportunities from non-transparent economic deals, and precluding exploitation of ethnic issues for the sake of rallying support. Thus, Vachudova observes that the EU pursues its task of domestic reform in two ways. First, the EU alters the domestic political system by making it more competitive. Second, the EU directly influences the illiberal governments, limiting their misuse of power.<sup>269</sup> I want to emphasise, however, that both tasks demand a political resource that, it seems, can only be made available by the international community.

The second group of countries, (identified according to table 4.2) which coincides with the Western CIS and Caucasus, advanced on one front but lagged behind on another. In these countries although there was considerable financial assistance from the international financial institutions, there was little real effort to facilitate trade and investment. There was also little significant international socialisation effort with the societies of the second group's countries which might have helped to shape strong market and democratic convictions and form continual support and demand for the market and democracy within these societies. International actors did not adopt consistent policies towards illiberal governments and policies in this region, of the type that they adopted in the CEECs. In those countries where the governments had no intention to democratise the country from the beginning, this situation could be used to further justify their inaction. In the countries with more or less democratic governments, their legitimacy could suffer significantly, and they could become unenthusiastic in their democracy building.

The accession of transition countries to the Council of Europe, in general, could have been a fact of recognition of these countries' democratic reform efforts. However, it is difficult to assess to what extent the granting of accession was timely and effective for each country from the perspective of encouraging democratic reforms and as recognition of a country's accomplishments. There has always been a greater need for the CIS countries to be engaged in democratic reforms. However, the countries of Central and Eastern Europe were admitted first. The accession process started with Hungary in 1990 and ended with Armenia and Azerbaijan in 2001, although these countries applied for accession to the Council of Europe in 1992. Later Bosnia and Herzegovina were admitted in 2002, and Serbia and Montenegro in 2003. On the other hand, a simple comparison of the democracy status of each country at the time of their

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<sup>269</sup> Vachudova, 2005, p. 187.

accession attests to the fact that there has not been a common accession threshold for all countries in transition (see table 4.7 for details on Freedom House Index and accession years). Therefore, the demand–support balance in the political sphere has also been distorted.

Another EU initiative, the European Neighbourhood Policy (ENP) in which some of the countries of the CIS, such as Moldova, Georgia, Ukraine, Armenia and Azerbaijan were included in 2003-2004, is also unlikely to have a significant and, most importantly, a consistent impact on promoting democracy and human rights in these countries. A study, analysing the role of ENP as an instrument of democracy and human rights promotion in the group of participant countries argues that its impact is limited:

Although political conditionality was introduced to ENP as an institutional and identity-based legacy of Eastern enlargement and general external relations principles, it lacks the prerequisites of effectiveness: a credible membership promise, a consistent application of conditionality, and domestic conditions of impact in the target countries. Thus, the political conditionality in ENP is likely to remain a ceremonial affirmation of basic EU values and norms without major practical consequences – and to deepen the credibility crisis of the EU in this issue-area.<sup>270</sup>

### *Economic dimension*

To make a cross country, cross-region comparison of supports and demands in the economic sphere, I suggest looking at the correlation among indicators and scores that show the support for transition from each level; supports such as foreign economic aid from international organisations, foreign direct investment, economic liberalisation and economic freedom scores from the state and the domestic society, and change in per capita GDP from the domestic society. The level, and especially the decline, of GDP indicate the risks or costs that are domestically borne as a result of reforms, in particular the liberalisation of trade and the economy. In that sense, the change in GDP per capita can serve as an indicator that reflects the domestic society's degree of support or lack of support towards the economic policies conducted by the government. Foreign direct investment is an indicator describing both the benefits that the

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<sup>270</sup> Frank Schimmelfennig and Sylvia Maier, “Shared Values: Democracy and Human Rights” in *Governing Europe's Neighbourhood: Partners or Periphery?*, by Katja Weber, Michael E. Smith and Michael Baun (eds), Manchester University Press 2006.

international/global level has from the liberalisation of a particular national economy and the risks it bears by taking part in that process. To a large extent its size depends on a favourable economic environment. At the same time, FDI contributes to the enhancement of the business and economic environment. Foreign economic aid is a direct indicator of the international level's support for liberalisation and democratisation in the states in transition. The scale of reforms greatly depends on the size of the foreign economic aid. The size of the aid, in turn, depends at least nominally on the scale and tempo of reform.

It is obvious that the sizes of the above mentioned indicators are interrelated. The logic behind this is the following. The implementation of liberalisation reforms initially creates economic hardship, which is reflected in GDP decline. Continuing reforms require tight monetary and fiscal policies in transitional countries which put additional financial and social costs on the shoulders of domestic society. Adam Przeworski gives a good insight into the dynamic of popular support in the countries that undergo radical reform: "...even when people do support the radical treatment at the outset, the limited data we have indicate that this support erodes, often drastically, as social costs are experienced. Opposition is expressed in public opinion surveys, elections, strikes, and, at times, riots."<sup>271</sup>

To what extent have these transition costs been supported, compensated, or complemented by the international community for the sake of continuing the integration process and helping the domestic society sustain its support for reforms? A quick overview of lending by the international financial institutions shows an imbalance between the demand and support extended by these organisations to the states in transition. We are all aware that the International Monetary Fund (IMF), for example, has been sharply criticised for inconsiderately enforcing the neoliberal prescriptions of the Washington consensus for radical reforms, through so-called shock therapy. Without going deeply into each country's specifics, the IMF designed and, as the master of the situation, enforced measures that are reported to have adversely affected transition economies and resulted in unnecessary losses of economic output, increased unemployment, and social tension. While the IMF played an active and decisive role in drafting and starting structural reform programmes in almost all post-

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<sup>271</sup> Adam Przeworski, *Democracy And The Market: Political and Economic Reforms In Eastern Europe and Latin America*, Cambridge University Press, 1991, p. 167.

communist countries, it has not been consistent in loaning money appropriately, in accordance with each country's reform performance. Not surprisingly, "disbursements of IMF credits per capita between 1989 and 2002 were relatively equal across Central Europe and the Baltic states (60 SDR), South-Eastern Europe (78 SDR), and the CIS (78 SDR)."<sup>272</sup>

As far as overall foreign economic aid is concerned, the contrast between the above-mentioned countries is not essential, especially if one compares the starting points, reform tempos, and accordingly, the decline in economic growth of these countries. The average per capita foreign economic aid for the years 1991 – 2001 (table 4.4). has been the following: for the Czech Republic, Hungary, and Slovak Republic, it has been slightly more than US \$20; for Latvia, Lithuania, and Slovenia, almost US \$30; for Poland, \$40; Georgia, \$34; Armenia, \$52. For Kyrgyzstan it was 42, for Moldova, 15.

Foreign economic aid alone, however, can be a misleading indicator for international support to a reforming country. That indicator should be viewed in the context of the percentage of the country's gross national product the foreign economic aid comprises. It is also important to consider how hard the country was hit by the initial reforming efforts (i.e. the dynamics of GDP per capita), what the initial conditions were -- not only the economic conditions, but also the political and security conditions -- from which the country started its economic reforms. Only by taking all these factors into consideration can one get a real picture of the scope of the international support. For instance, although the difference in average per capita foreign economic aid between Armenia and Poland is \$11, for Poland, foreign economic aid composes only 1.6 percent of gross national income (GNI). By contrast, foreign economic aid composes 8.5 percent of Armenia's GNI, due largely to a huge decline in economic growth. Generally, for Central and Eastern Europe and the Baltic countries, average foreign economic aid does not exceed 1.6 percent of GNI. For Georgia, for the same reason as in Armenia, average foreign economic aid composed 8.3 percent of GNI.<sup>273</sup>

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<sup>272</sup> Alexander Cooley, "Western Conditions and Domestic Choices: The Influence of External Actors on the Post-Communist Transition", *Nations in Transit*, 2003, p. 31.

<sup>273</sup> See World Development Indicators database-2003.

Table 4.4 Foreign Economic Aid per capita in Post-Communist Countries (average), 1991-2001<sup>274</sup>

Country	Foreign Economic Aid (in US\$)
Czech Republic	22
Estonia	44
Hungary	23
Latvia	29
Lithuania	28
Poland	40
Slovak Republic	22
Slovenia	30
Albania	89
Bulgaria	27
Romania	14
Armenia	52
Azerbaijan	15
Belarus	11
Georgia	34
Kazakhstan	7
Kyrgyz Republic	42
Moldova	15
Russia	10
Tajikistan	16
Turkmenistan	6
Ukraine	8
Uzbekistan	5

One should also take into account that all these countries had different starting conditions. The EBRD has suggested an index of initial conditions, presented in table 4.1, which is derived from factor analysis and represents a weighted average of measures for the level of development, trade dependence on CMEA, macroeconomic disequilibria, distance to the EU, natural resource endowments, market memory, and state capacity. According to that index, Armenia's initial conditions index is -1.1 and Georgia's index -2.2. For comparison, I should mention that Poland's index is 3.3, the Czech Republic and Slovenia both have an initial conditions index of 3.2, and the Slovak Republic's is 2.9. The index of initial conditions for Kyrgyzstan is -2.3; for Moldova, -1.1. The picture of initial conditions also speaks to the fact that the demand-

<sup>274</sup> Source: World Bank, World Development indicators, 2003. See table 4.6 at the end of this chapter for detailed data on foreign economic aid.

support balance in the case of the above-mentioned countries has been disproportional.<sup>275</sup>

If we take GDP as an overall indicator reflecting the economic situation, then we can see that at the early stage of the transition process -- whether as a direct or indirect result of economic liberalisation -- GDP decline in the above-mentioned groups of transition states was very different. Therefore, the social tension and the need for support in order to sustain the reform tempo were quite different. In Central and Eastern Europe and the Baltic states the biggest decline in the economic growth in real GDP composed -10.3 percent and -2.2 percent in 1991 and 1992 respectively. In the states of South-Eastern Europe, on the other hand, it was -14.8 percent and -9.6 percent, and for the CIS countries -6.0 percent and -17.4 percent, and it continued at -12.7 percent in 1993, -14.1 percent in 1994, and -4.9 percent in 1995. In Kyrgyzstan in 1992-1993, GDP fell by 16.4 percent and with only minor variations, GDP per capita continued to be almost the same between 1995 and 2003. In Moldova, the biggest decrease was in 1994, - 30.1. According to the same source, compared with the pre-reform year 1989, the estimated level of real GDP in 2002 for Central and Eastern Europe and the Baltic countries overall comprised 113 percent, while for the countries of South-Eastern Europe it was 81 percent; and for the CIS countries, 65 percent.<sup>276</sup> This single comparison already indicates that there has been little correlation between the amounts of IMF funding and a given country's reform performance.

A similar pattern in terms of support-demand imbalance can be traced when examining the role of another, perhaps more important, instrument -- Foreign Direct Investment, across the three groups of countries. What foreign aid implements through its conditionality, foreign direct investment and foreign corporations do just by definition, through their character, technology, and culture of performance. Their role is enormous in helping sustain and promote reform, as well in forming and developing the private sector necessary for that legal framework, thus also promoting political reform and the democratisation process. Foreign direct investment means even more: it is a justification of economic reforms, economic liberalisation, and the social costs of

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<sup>275</sup> EBRD, *Transition Report 2000*, p. 21, Table 2.2.

<sup>276</sup> EBRD, *Transition Report Update*, May, 2003, p. 18, Table A 1.1.

reform that have been borne domestically. Besides being an instrument for promoting the liberalisation process in any country in transition, it is an end in itself.

Vachudova observes that progress in the pre-accession process built credibility in the eyes of economic actors. She demonstrates that the growth in cumulative FDI in Central and Eastern European countries after they were actively engaged with the EU reform process was very large during 1995-2000 compared with the same indicator during 1990-1994. Trade relations grew incrementally throughout this entire period. As a result, pro-EU business groups in these countries became stronger, benefiting from evolving trade and economic relations.

According to the *EBRD Transition Report*, cumulative FDI inflows for 1989 - 2002 in the Central and Eastern Europe and the Baltic countries comprised US\$1774 per capita. In the countries of South-Eastern Europe for the same period, the figure was US\$388 per capita, while for the CIS it was US\$245 per capita, and would have been even lower if it had not been for foreign investment in the oil and gas sectors of Kazakhstan and Azerbaijan. However, investment in the extractive sectors not only did not serve the ends listed above, but often retarded the reform process, both economic and political.

The overall analysis will not be complete, and the contrast in demand-support balance will not be that obvious, without presenting the levels of economic liberalisation that countries belonging to different groupings have achieved. Surprisingly, Armenia, with an Economic Freedom Indicator of 2.63, as put forward by the Heritage Foundation, has been continuously ahead of Croatia, at 3.11, Slovenia, at 2.75, and, in the last three years, it has also been ahead of such a leading country in the first group as Poland, which scores 2.81 and is almost at the same level as Hungary at 2.60, and yielding slightly to the Slovak Republic at 2.44, the Czech Republic at 2.39, and Latvia at 2.36. Armenia's index of 2.63 is also ahead of the entire group of countries of South-Eastern Europe: Albania, 3.10; Bulgaria, 3.08; Bosnia & Herzegovina, 3.30; Macedonia, 3.04; and Romania, 3.66. On comparable levels to the countries of South-Eastern Europe is Moldova with an Economic Freedom Index equal to 3.09 and Georgia at 3.19.<sup>277</sup> For Kyrgyzstan the indicator is 3.41. Economic freedom or economic openness shows a country's willingness and readiness to accept

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<sup>277</sup> See *Index of Economic Freedom-2004* by The Heritage Foundation, 2004. A higher score here means a lower level of performance.



foreign direct investments. However, the volumes of per capita foreign direct investment for the year 2002, and cumulatively for 1991 – 2002, for the same countries are as follows: Armenia, \$36 and \$2214; Croatia, \$254 and \$1631; Poland, \$108 and \$1310; Hungary, \$297 and \$3413; Latvia, \$21 and \$131; and Romania, \$52 and \$396. For Moldova, these volumes amounted to \$21 and \$131, for Kyrgyzstan, \$1 and \$93 and for Georgia, \$35 and \$221 (table 4.5).

Table 4.5 Foreign Direct Investment per capita in Post-Communist Countries, 1991-2001<sup>278</sup> (in US dollars)

Country	1991-2002	2002
Czech Republic	3504	833
Estonia	2276	209
Hungary	3413	297
Latvia	1182	108
Lithuania	1021	205
Croatia	1631	254
Poland	1310	108
Slovak Republic	1852	767
Slovenia	1818	832
Albania	27	44
Bulgaria	620	115
Macedonia, FYR	456	38
Romania	396	52
Serbia	213	18
Armenia	2214	36
Azerbaijan	678	170
Belarus	161	25
Georgia	221	35
Kazakhstan	979	174
Kyrgyz Republic	93	1
Moldova	131	21
Russia	188	24
Tajikistan	30	6
Turkmenistan	280	22
Ukraine	102	14
Uzbekistan	35	3

### *Security dimension*

Although no security scores are used to measure the trade-off among political, economic and security policies of transition countries, a brief comparative overview of the dynamics and divergence in the evolution of security problems in the post-

<sup>278</sup> The table is derived and computed from World development Indicators' 2008 database.

communist space can also give an idea of how limited the legitimacy resource of the ruling elite can be in dealing with serious security issues without adequate external support and demand.

There are several internal conflicts in the transition space, essentially Central and Eastern Europe and the CIS. These conflicts are considered the most direct threat to sovereignty and security by the so-called host states. In this respect, the states in question expect the international community to recognise their territorial integrity and to reinforce it. This touches upon the very basics of the international system. States expect the international community to support actions and measures that they implement for the sake of preserving their territorial integrity. On the other hand, society or rather, the seceding part of society, expects the international community to recognise its claim to self-determination. These cases represent dilemmas that have remained unresolved in the transition space. For example, Chechnya is a security issue for Russia, and therefore, the state undertakes respective measures adequate to its understanding and interpretation of the problem. As mentioned above, a state's natural demand would be to have international support for the steps it takes. However, Chechnya is also a human and political rights problem for the international community. Although Russia expected the international community to support its territorial integrity and sovereignty, the Council of Europe suspended the Russian delegation to the Parliamentary Assembly of the Council of Europe at the peak of the armed conflict.

Also, "the wars in Chechnya have acted as an indirect brake on Russia-EU relations."<sup>279</sup>

The Balkan conflict was rather different, in the sense that it acquired a uniquely wide-scale and bloody character in the centre of Europe, and therefore, the international community became heavily engaged. The potential conflict between Hungary and Romania over Transylvania did not evolve and it was unique in the sense that it was resolved in a civilized way. Political divorces, such as those between the Czechs and Slovaks, and between Serbia and Montenegro, present unique cases. Putting aside the bloody wars between Serbs and Croats, Serbs and Bosnians, Bosnians and Croats, and

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<sup>279</sup> For more details see Margot Light, "Russian Political Engagement with the European Union", in *Putin's Russia and the Enlarged Europe*, Roy Allison, Margot Light and Stephen White, Blackwell Publishing, 2006, p. 61.

Serbs and Kosovo, the above-mentioned cases in the countries of Central and Eastern Europe have managed to resolve their problems peacefully.

There are limits to the extent that any government will compromise the values that compose the basis of its own legitimacy. State sovereignty and security are two of the most basic values. In sovereignty-related cases, international demand/support is a prerequisite for making or supporting unpopular or unconventional decisions. How else, if not with the presence of the EU or the promise that it brings, can one explain the fact of peaceful conflict resolution in Central and Eastern Europe, at least for the above-mentioned cases? EU leverage also had a significant impact on improving the security situation of CEE countries. Containing ethnic nationalism and maintaining ethnic tolerance and the inviolability of the borders of the CEE countries was of great importance to the EU. The role of the EU in cultivating and reinforcing a civic rather than an ethnic notion of nationalism in these cases was significant and widely acknowledged. Even such a potential conflict as the problem of the Russian minority in the Baltic states was affected by the prospect of EU membership:

Russophones perceived the European Union as a factor developing a political regime under which all residents in Estonia could receive equal status via European citizenship, and would consequently be freed from their exclusionary alien status. Estonians, on the other hand, had high expectations regarding the EU role in providing security guarantees, both domestic and foreign. Therefore, international ties are crucial both to Russophones and to Estonians, although working in opposite directions. The mutual will points westward, toward Europe, an international environment which has constructively acted as a third party mediating on-going domestic conflicts, making Estonia more 'accessible' to European values and mores and pushing Estonia towards a more inclusive minority policy. This has enabled many Estonian politicians to support their policies on the basis of Brussels' prescriptions.<sup>280</sup>

The EU's tremendous efforts in the CEECs were complemented by those of NATO. Any attempt to violate these norms had come into open conflict with those countries' goal of attaining EU and NATO membership. The "Stability Pact" in 1993 and later measures came to assert these principles openly and vigorously. As one can see, the EU's enormous political, economic and security resources played a crucial role

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<sup>280</sup>Eric Berg, "Local Resistance, National Identity and Global Swings in Post-Soviet Estonia", *Europe-Asia Studies*, Vol. 54, No. 1, 2002, pp.109-122, p.114.

in advancing reforms in the CEEC's. At the same time, it is obvious that none of these instruments was available for the rest of the transition countries.

Alexandra Gheciu finds that NATO greatly helped CEE elites to redefine their conceptions of liberal-democratic identity and interests and was involved in educating and shaping public opinion, especially on such issues as national identity.<sup>281</sup> Vachudova, however, argues that neither the Council of Europe nor NATO exerted influence using the same mechanisms as the EU's active leverage. "Whatever influence these organisations did have was weaker than and different in kind from the active leverage of the EU."<sup>282</sup> I would suggest that NATO, however, complemented the EU's efforts to some extent, especially if one compares it with the situation in the CIS countries, where NATO's socialization role was not any tangible.

One of the earliest international support/demand for the resolution of some of the open and violent conflicts in the CIS came from the OSCE. However, due to the nature of the organisation, its role was limited to facilitating peace talks. There is also a relatively recent EU initiative, ENP, which has political/security aspects, including conflict prevention and resolution, in its Country Action Plans for several countries of the CIS. However, as Michael Smith and Mark Webber indicate:

On the basis of overall effectiveness, ENP is not particularly inspiring in the area of political cooperation, though it may help facilitate this goal indirectly through the other policy domains.<sup>283</sup>

In sum, one can see that the resources and costs of transition are not equally and effectively distributed among the levels, especially if it is assumed that the interest in integration is equal at all levels. The evidence shows that there is indeed an imbalance in the supports for reforms in the transition countries of the CIS. In my opinion, this largely explains the poor performance of those countries during the transition process. In my second hypothesis, I suggested that there is an essential link and interplay not only among different policy areas -- economic, political, security -- but also an essential link and trade-off among different levels -- domestic, state and international -- within the overall transition process. In order for transition to succeed, it is important that the

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<sup>281</sup> Gheciu, 2005, p. 1009.

<sup>282</sup> Vachudova, 2005, p. 132.

<sup>283</sup> Smith and Webber, in Weber, Smith and Baun, 2008.

resources and respective costs of transition have been effectively, that is, reasonably and in a timely manner, allocated among different levels.

High achievements in all spheres of the countries of Central and Eastern Europe and Baltics indicate the crucial role of international support in transition. As the analysis of the indices of the countries of the CIS shows, countries have one general resource for the overall policymaking process, which is limited, and therefore, wherever they were successful in one sphere, the success came at the expense of the other. This is especially discernible in those countries where the demand and support for the government's reform policies, first domestic and then international, are not satisfactory. In general, the analysis of indices of the countries of both groups supports my first hypothesis, in which I suggested that there is a strong interconnectedness and trade-off among a government's economic, political and security policies during the transition. In addition, I argued that it is very unlikely that, with a limited political resource, any government would be able to conduct such a complex, systemic and simultaneous transformation as the transition, unless there is a sufficient level of external demand and support. According to these indices, the only exceptions would appear to be Moldova and Kyrgyzstan. While these two countries distinguished themselves with vigorous liberalisation, as we have seen from the analysis of vertical interaction, they did not receive consistent, effective and continuous demand and support from the international community.

Other analysts have noticed the unexpectedly good performance of Moldova and Kyrgyzstan as well. A study evaluating the interaction of initial conditions, political change, reforms and economic performance in a unified framework covering 28 transition economies in East Asia, Central and Eastern Europe, and the FSU, comparing all the available data and indices, alongside its general conclusions also notes that:

Countries such as Moldova, Kyrgyz Republic, Estonia and Lithuania have liberalized substantially more than expected given their initial conditions. In contrast, the Czech and Slovak republics, which faced favourable initial circumstances, show negative values of the residuals, despite the high degree of liberalization achieved. Belarus, Romani,

Turkmenistan, and Ukraine liberalized substantially less than expected given their initial conditions.<sup>284</sup>

How did the governments of Moldova and Kyrgyzstan manage to distribute their political resource so evenly and succeed simultaneously, at least in the political and economic spheres, given the tremendous political, economic and security/state-building challenges that those countries faced. Was it due to the choice of correct policies and better timing and sequencing strategies? Was it due to elites and their choices or was it due to structural conditions? Would the two countries still look good if one added their performance in another vital sphere of transition –security, or did success in the economic and political dimensions in these countries come at the expense of security? In sum, the cases of Moldova and Kyrgyzstan deserve detailed scrutiny to see whether they represent a serious challenge to my argument. These cases will be analysed in the framework suggested in Chapter 3 to test my core arguments. To do that, I will analyse the triple process of state-building, and the building of market and democracy institutions in the two countries, in order to demonstrate how the interaction and the trade-off among key policy areas -- political, economic, security -- and among the three levels took place and what the key structural factors affecting that process were and what role the governments played. I will analyse the two countries' domestic and foreign policy dynamics to demonstrate how the demands and supports (or pull and push) from domestic society and the international community shaped and re-shaped those policies.

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<sup>284</sup> Martha de Melo, Cevdet Denizer, Alen Gelb, and Stoyan Tenev, "Circumstances and Choice: the Role of Initial Conditions and Policies in Transition Economies", *The World Bank Economic Review*, Vol. 15, No. 1, 2001, pp. 1-31, p. 16, 26.

Table 4.6 Foreign Economic Aid Per capita (current US \$)<sup>285</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	1	22	13	10	14	14	12	11	44	32	43	31
Estonia		10	68	28	30	40	42	47	66	61	47	50
Hungary	6	61	22	16	20	-24	20	18	24	25	25	41
Latvia		1	31	13	21	25	29	33	41	42	38	45
Lithuania		1	25	17	20	49	25	29	38	38	28	37
Poland	35	66	37	28	47	98	30	22	23	31	36	25
Slovak Republic	1	22	12	9	15	18	18	13	29	59	21	30
Slovenia				4	16	26	41	50	21	16	31	63
Albania	3	101	122	90	51	57	72	53	86	157	102	85
Bulgaria	2	37	17	14	19	14	22	26	29	33	38	44
Bosnia & Herzeg.			2	11	109	273	239	236	240	269	185	157
FYR Macedonia												
Romania	11	14	10	7	7	13	10	10	16	17	19	29
Serbia & Monten.					5	9	7	9	10	64	107	123
Armenia		1	6	32	57	66	90	52	61	67	69	69
Azerbaijan		0	5	11	19	15	12	23	15	21	17	28
Belarus		18	27	18	12	22	8	5	4	4	4	4
Georgia		0	4	22	33	39	58	45	39	46	32	55
Kazakhstan		7	1	1	3	4	8	9	14	11	13	10
Kyrgyz Republic			5	25	38	62	50	51	50	58	44	38
Moldova			2	7	12	15	8	15	9	25	29	28
Russia	2	4	13	16	12	11	9	5	7	13	11	8
Tajikistan			2	5	12	11	17	14	26	20	23	25
Turkmenistan			2	7	6	6	5	3	5	5	6	13
Ukraine	6	7	11	6	6	6	8	5	9	11	11	11
Uzbekistan			3	3	1	4	4	6	7	6	8	6

<sup>285</sup> Source: World Bank, *World Development Indicators*, Washington, DC, 2001.

Table 4. 7 Average Economic Liberalisation and Democracy scores for Post-communist States (1990-2005)

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b><i>Central and Eastern Europe &amp; Baltics</i></b>															
Hungary	Lib.	1.9	2.5	2.8	3.2	3.5	3.6	3.7	3.9	3.9	3.9	3.9	3.9	3.9	3.9
	Dem.	2.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Poland	Lib	2.5	2.5	2.7	3.2	3.4	3.4	3.5	3.5	3.6	3.6	3.6	3.7	3.7	3.7
	Dem.		2.2	2.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Czech Republic	Lib	1.0	2.4	3.0	3.4	3.5	3.5	3.6	3.7	3.7	3.7	3.8	3.8	3.9	3.9
	Dem.			1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Estonia	Lib	1.2	1.4	2.0	2.9	3.3	3.5	3.5	3.6	3.6	3.7	3.8	3.9	3.9	3.9
	Dem.		2.3	3.3	3.2	3.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Lithuania	Lib	1.2	1.2	1.8	2.8	3.0	3.1	3.3	3.3	3.3	3.3	3.4	3.5	3.7	3.7
	Dem.		2.3	2.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Slovenia	Lib	1.8	2.0	2.1	3.0	3.0	3.1	3.2	3.3	3.4	3.4	3.5	3.5	3.5	3.5
	Dem.		2.3	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Slovak Republic	Lib	1.0	2.4	3.0	3.2	3.4	3.4	3.5	3.5	3.6	3.6	3.7	3.7	3.8	3.8
	Dem.				3.4	2.3	2.3	2.4	2.4	2.3	1.2	1.2	1.2	1.2	1.2
Latvia	Lib	1.0	1.2	2.3	2.6	3.0	3.0	3.3	3.3	3.3	3.4	3.4	3.5	3.6	3.7
	Dem.		2.3	3.3	3.3	3.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<b><i>South Eastern Europe</i></b>															
Albania	Lib	1.0	1.1	1.8	2.1	2.4	2.7	2.8	2.8	2.8	2.9	3.0	3.1	3.1	3.1
	Dem.	7.6	4.4	4.3	2.4	3.4	3.4	4.4	4.4	4.5	4.5	4.5	3.4	3.3	3.3
Bulgaria	Lib	1.1	1.9	2.1	2.3	2.6	2.5	2.5	3.0	3.0	3.1	3.3	3.4	3.4	3.5
	Dem.	3.4	2.3	2.3	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	1.3	1.2	1.2
Macedonia	Lib	1.8	2.0	2.0	2.2	2.7	2.8	3.0	3.0	3.0	3.0	3.1	3.1	3.1	3.2
	Dem.			3.4	3.3	4.3	4.3	4.3	4.3	3.3	3.3	4.3	4.4	3.3	3.3
Croatia	Lib	1.8	2.0	2.1	2.4	2.8	3.0	3.2	3.3	3.3	3.3	3.4	3.4	3.5	3.5
	Dem.		3.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	2.3	3.2	2.2	2.2
Romania	Lib	1.0	1.3	1.8	2.1	2.5	2.7	2.7	3.0	3.0	3.1	3.2	3.2	3.2	3.2



	Dem.		5.5	4.4	4.4	4.3	4.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<i>Western Commonwealth of Independent States and Caucasus</i>															
Moldova	Lib	1.0	1.0	1.6	1.9	2.2	2.8	2.8	2.8	2.9	2.9	3.0	3.0	3.0	3.0
	Dem.		5.4	5.5	5.5	4.4	4.4	3.4	3.4	2.2	2.4	2.4	2.4	3.4	3.4
Armenia	Lib	1.0	1.0	1.6	1.7	1.7	2.3	2.8	2.8	2.9	2.9	2.9	3.0	3.1	3.2
	Dem.		5.5	4.3	3.4	3.4	4.4	5.4	5.4	4.4	4.4	4.4	4.4	4.4	4.4
Azerbaijan	Lib	1.0	1.0	1.2	1.4	1.4	1.9	2.0	2.4	2.6	2.6	2.6	2.7	2.8	2.8
	F		5.5	5.5	6.6	6.6	6.6	6.5	6.4	6.4	6.4	6.5	6.5	6.5	6.5
Belarus	Lib	1.0	1.0	1.2	1.6	1.6	2.1	1.9	1.7	1.5	1.5	1.6	1.7	1.8	1.9
	Dem.		4.4	4.3	5.4	4.4	5.5	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Georgia	Lib	1.0	1.0	1.3	1.5	1.5	2.2	2.9	3.1	3.1	3.1	3.2	3.2	3.2	3.2
	Dem.		6.5	4.5	5.5	5.5	4.5	4.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4
Russia	Lib.	1.0	1.1	2.1	2.4	2.6	2.8	3.0	3.1	2.8	2.7	2.8	2.9	3.0	3.0
	Dem		3.3	3.4	3.4	3.4	3.4	3.4	3.4	4.4	4.5	5.5	5.5	5.5	5.5
Ukraine	Lib.	1.0	1.0	1.1	1.3	1.5	2.4	2.5	2.7	2.7	2.7	2.8	2.8	3.0	3.0
	Dem		3.3	3.3	4.4	3.4	3.4	3.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4
<i>Central Asia</i>															
Kazakhstan	Lib.	1.0	1.0	1.4	1.7	1.9	2.4	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Dem.		5.4	5.5	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Kyrgyzstan	Lib	1.0	1.0	1.6	2.0	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1
	Dem.		5.4	4.2	5.3	4.3	4.4	4.4	4.4	5.5	5.5	6.5	6.5	6.5	6.5
Tajikistan	Lib.	1.0	1.0	1.4	1.5	1.5	1.9	2.0	2.0	2.3	2.3	2.5	2.5	2.6	2.6
	Dem.		3.3	6.6	7.7	7.7	7.7	7.7	7.7	6.6	6.6	6.6	6.6	6.5	6.5
Turkmenistan	Lib.	1.0	1.0	1.0	1.0	1.2	1.3	1.3	1.6	1.6	1.6	1.5	1.4	1.4	1.4
	Dem.		6.5	7.6	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Uzbekistan	Lib.	1.0	1.0	1.2	1.5	2.1	2.4	2.4	2.3	2.2	2.1	2.1	2.2	2.2	2.1
	Dem.		6.5	6.6	7.7	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6

Table 4.8 Freedom House Index and Years of Ascension in to Council of Europe<sup>286</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Croatia		3.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	2.3	3.2	2.2	2.2
Czech Republic			1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Estonia		2.3	3.3	3.2	3.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Hungary	2.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Latvia		2.3	3.3	3.3	3.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Lithuania		2.3	2.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Poland		2.2	2.2	2.2	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Slovak Republic				3.4	2.3	2.3	2.4	2.4	2.3	1.2	1.2	1.2	1.2	1.2
Slovenia		2.3	2.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Albania	7.6	4.4	4.3	2.4	3.4	3.4	4.4	4.4	4.5	4.5	4.5	3.4	3.3	3.3
Bulgaria	3.4	2.3	2.3	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	1.3	1.2	1.2
Bosnia & Herzeg.			6.6	6.6	6.6	6.6	5.5	5.5	5.5	5.5	5.4	5.4	4.4	4.4
FYR Macedonia			3.4	3.3	4.3	4.3	4.3	4.3	3.3	3.3	4.3	4.4	3.3	3.3
Romania		5.5	4.4	4.4	4.3	4.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Serbia&Monten.	5.4	6.5	6.5	6.6	6.6	6.6	6.6	6.6	6.6	5.5	4.4	3.3	3.2	3.2
Armenia		5.5	4.3	3.4	3.4	4.4	5.4	5.4	4.4	4.4	4.4	4.4	4.4	4.4
Azerbaijan		5.5	5.5	6.6	6.6	6.6	6.5	6.4	6.4	6.4	6.5	6.5	6.5	6.5
Belarus		4.4	4.3	5.4	4.4	5.5	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Georgia		6.5	4.5	5.5	5.5	4.5	4.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4
Kazakhstan		5.4	5.5	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Kyrgyz Republic		5.4	4.2	5.3	4.3	4.4	4.4	4.4	5.5	5.5	6.5	6.5	6.5	6.5
Moldova		5.4	5.5	5.5	4.4	4.4	3.4	3.4	2.2	2.4	2.4	2.4	3.4	3.4
Russia		3.3	3.4	3.4	3.4	3.4	3.4	3.4	4.4	4.5	5.5	5.5	5.5	5.5
Tajikistan		3.3	6.6	7.7	7.7	7.7	7.7	6.6	6.6	6.6	6.6	6.6	6.5	6.5
Turkmenistan		6.5	7.6	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Ukraine		3.3	3.3	4.4	3.4	3.4	3.4	3.4	3.4	3.4	4.4	4.4	4.4	4.4
Uzbekistan		6.5	6.6	7.7	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6

<sup>286</sup> Ali Piano, Arch Puddington, and Mark Y. Rosenberg (eds.), *Freedom in the World 2003: The Annual Survey of Political Rights and Civil Liberties*, Freedom House, 2003.

## CHAPTER 5

### **Kyrgyzstan's Transition Path: Inevitable Process or Subjective Choice?**

Based on the framework developed in chapter 3, in this chapter I will try to test my assumptions on Kyrgyzstan's transition experience. In particular, my first assumption is that *there is a strong interconnectedness and trade-off among economic, political and security policies during the transition, which inevitably generates social costs and limits the amount of political resource that the government has available for transition reforms.* To test this assumption, the transition in Kyrgyz republic will be viewed, first, as a political process of horizontal interaction of political, economic, and security policies.

My second assumption is related to the first. To further explain policy choices and change, one also needs to look at across level interaction. I assume that *there is an essential link and interplay not only among different policy areas -- economic, political, security – but there is also an essential link and trade-off among different levels -- domestic, state and international -- within the overall transition process. And, in order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably and in a timely manner, distributed among those levels.* In other words, one needs to check whether the support-demand balance has been vertically provided.

The shifts on the domestic front are reflected in the country's foreign policy. Changes in foreign policy direction may lead to changes in international support and demand, which will affect the transition process within the country.

Others have recognised the importance of this linkage as well. Gleason, for example, has tried to explore the extent to which the foreign policies of the Central Asian states have facilitated or promoted domestic political developments And what the relationship is “between the foreign development strategy adopted and domestic democratization”<sup>287</sup>

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<sup>287</sup> Gregory Gleason, “Foreign Policy and Domestic Reform in Central Asia”, *Central Asian Survey*, Vol. 20. No.2, 2001, pp. 167-182.

Thus, my third assumption is that *the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus creating an essential and direct link and interplay between domestic and foreign policy dynamics during the transition.*

Based on the comparative study conducted in chapter 4, Kyrgyzstan and Moldova seemed not to support my assumptions about the common pattern of transition. As we shall see later, Kyrgyzstan seriously retreated from its reform path. Already by the mid-1990s, growing authoritarianism had begun to replace the extraordinarily rapid democratisation and liberalisation of the first years. So far, no comprehensive explanation has been offered to explain this trajectory of success and decline.

1) What factors are responsible for such developments and changes? Can they be attributed mainly to the role played by the country's leadership or have there been more fundamental national and international structural factors and constraints present?

I do not underestimate the role of leaders and elites in shaping differing policy responses to similar circumstances. For example, it is difficult to detach President Akaev's long years of presidency from the current history of Kyrgyzstan, with its accomplishments and failures. To what extent those accomplishments and failures should be attributed to the personal traits of President Akaev and to what extent they are due to national and international structural constraints and factors is an issue worthy of scholarly discussion.

2) Can transition succeed in all three dimensions simultaneously, without external support; or does success in one dimension come at the expense of others? Would even the best strategies of timing and sequencing of reform policies alone make it possible to eliminate problems of social hardship and declining political legitimacy, which accompany and impede the transition process, without external support and demand? Were external factors, international demands and supports important and, if so, to what extent?

Addressing these issues will also help to explain whether the case of Kyrgyzstan's transition supports my assumptions.

Most of the studies analysing the successes and failures of Kyrgyzstan's transition discuss only one side of the problem, highlighting the importance of one specific variable or another. For example, some studies suggest that focusing on "internal" factors, such as clans and pacts among the clans, is the best way to understand the causes of

authoritarianism in Central Asia, including Kyrgyzstan. Other studies tend to focus on Akaev's personal preferences.<sup>288</sup> There are very few attempts to address the issues in a more complex and multidimensional manner. For instance, in her article "Democratisation, Legitimacy and Political Change in Central Asia," Anna Matveeva stresses the important role of political legitimacy, as I suggest in my concept, as a driving motivation in the political process.<sup>289</sup> The ruling groups in Central Asia, she finds, are also concerned with the issues of political change and the legitimacy of their rule.

The domestic requirement to provide a basis for legitimacy derives from two considerations. First, legitimacy embodies the consent of the majority of the population, and it is easier to rule in conditions of compliance than to rely heavily on enforcement mechanisms. Secondly, international pressure and fear of exclusion from the Western sphere of influence make ever more acute the need to be accepted as legitimate.... Politicians are concerned with legitimacy as they are interested in stability, which legitimate rule is more likely to deliver.<sup>290</sup>

The question that Matveeva raises about the state of affairs in the Central-Asian countries emphasises the link between the legitimacy of the rulers and the extent to which they can afford to be democratic.

The issue is whether democracy as such is unsuitable as a basis for legitimate political order in Central Asia, or whether democratisation projects live through hard times because the forms in which they were implemented failed to take into account Central-Asian realities.<sup>291</sup>

The conclusion that the author arrives at, as I do in my framework, emphasises the link between security – both domestic and state -- and policy choices, in this case the

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<sup>288</sup> See Kathleen Collins, "Clan, Pacts, and Politics in Central Asia", *Journal of Democracy* Vol. 13, No. 3, 2002, pp. 137-152.

<sup>289</sup> Anna Matveeva, "Democratisation, Legitimacy and Political Change in Central Asia", *International Affairs*, Vol. 75, No. 1, 1999, pp. 23-24.

<sup>290</sup> Matveeva, 1999, p. 23.

<sup>291</sup> Mateeva, 1999, p. 31.

chosen goals and outcomes of the transition process.

The emergent regimes are, at best, a hybrid between authoritarianism and democracy; at worst, a choice between state disintegration and totalitarianism. If the choice appears to be one between civil war, a gangster economy, and corrupt networks as a surrogate for politics, on the one hand, or authoritarian regimes headed by personal leaders who promise law and order, on the other, it is hardly surprising if attempts are made to install authoritarian rule.<sup>292</sup>

What I want to emphasise in this statement is not the conclusion itself but the linkage between the level of a state's security and that of democratisation. It supports my argument that there is a trade-off among political, economic, and security dimensions for every government and the governments of transitional countries are particularly sensitive to that trade-off, due to their limited "reservoirs" of legitimacy and the scarcity of resources that can be invested.

Analysing Central Asia's future, some authors come to conclusions that are even more sceptical. Paul Kubicek, for instance, goes even further and argues that under the circumstances, cost-benefit calculations leave no room for democratic development. Policies have costs, and one must weigh their costs against each other. In essence, then, the question is transformed into a pragmatic one: would democracy be effective? In the context of post-communist Central Asia, a variety of other goals must be considered, such as constructing nation-states, building effective political institutions, and modernizing the economy, while at the same time preventing social upheaval. These are formidable tasks, and current conditions will provide little room for democracy to consolidate itself.<sup>293</sup>

Of course, one can disagree with the substance of these statements. However, the view that the level of authoritarianism or the level of democracy is not a predetermined policy but rather derives from the circumstances, as a natural and cost-effective response to the situation, is essential to my thesis. According to Kubicek, democracy may not only be

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<sup>292</sup> Matveeva, 1999, p. 36.

<sup>293</sup> Paul Kubicek, "Authoritarianism in Central Asia: curse or cure? ", *Third World Quarterly*, Vol. 19, No 1, pp. 29- 43, 1998, p. 41.

ineffective but it may even be destructive for the integrity of the society in some circumstances.

Kubicek strongly highlights the links among different policy goals, which are core to my concept. And more importantly, he finds that the status quo reflects the existing state of affairs:

Is it worth risking democracy today, knowing that it could jeopardize social stability or even the very integrity of the state? Is a democratic experiment “worth” the possible cost of another Tajikistan? Is it realistic to expect that democracy could survive in the current conditions of Central Asia? These questions need to be answered, and they all seem to point towards acceptance of the status quo, although this does not mean that the most atrocious features of these regimes must or should be accepted.<sup>294</sup>

Another observation, emphasizing the importance of vertical linkages, Kyrgyzstan’s unique trajectory of reforms and the international community’s interest in integrating Kyrgyzstan, is suggested in the report prepared by the International Crisis Group (ICG). Since its independence, Kyrgyzstan has been described as an island of democracy and stability in the region. The ICG report acknowledges that compared with other countries in Central Asia, Kyrgyzstan has indeed carried out deeper economic and political reforms and has conducted politics that are more democratic. The report goes on to point out that:

Recent developments, however, indicate that this stability is fragile, and that hard-won democratic gains are being eroded. If the government of Kyrgyzstan resorts to authoritarianism or crumbles under the weight of the country’s moribund economy, the international community will suffer a setback for its hopes of the state and the society in Central Asia... International support and constructive pressure will be crucial in helping President Akaev embrace a more responsible political direction.<sup>295</sup>

In his article “Geographic Diffusion and the Transformation of the Postcommunist World,” Jeffrey Kopstein demonstrates that geographic proximity to the West has a

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<sup>294</sup> Kubicek, 1998, p. 41.

<sup>295</sup> International Crisis Group, *Asia report No. 22: Kyrgyzstan At Ten: Trouble in the Island of Democracy*, 2001, p. III.

positive influence on the transition of post-communist states. He explains the failure of Kyrgyzstan by its geographical isolation in the East. He tries to prove statistically that “location matters more than domestic policy itself in determining outcomes, or at least appears to influence which policies are chosen.”<sup>296</sup> What is valuable about Kopstein’s approach is that he attempts to go further and explain why “spatial context” (proximity to the West, behaviours of neighbouring states) influences transition outcomes. Among the explanations the author provides, he especially underscores the “impact of external actors on the structure of domestic interests and the policies chosen by elites.”<sup>297</sup> Kopstein concludes, “externally induced incentives are part of what accounts for differences in institutional reform, state behaviour, and popular discourse in the countries of postcommunist Europe.”<sup>298</sup> And, in this regard, no matter how well the states of Central Asia perform, their policies have been constrained by “their isolation, their politically and economically unstable and undemocratic neighbours, and the absence of sustained outside sponsorship by economically powerful, democratic states.”<sup>299</sup>

Michael Mandelbaum suggests that democratic ideas and institutions can spread through what might be called the “membership effect.” The post-communist countries aspire to become members of Western-dominated international and regional organisations, which require adopting western values, institutions, and laws. According to Mandelbaum, the closer a country is to the West geographically, the better its chance of becoming a part of the West, and the greater are its incentives to reconstruct its political and economic structures into the Western form. “With a fully functioning market economy, the Czech republic can expect to gain admission to the European Union,” states Mandelbaum. “This will not be possible for Kyrgyzstan, however,” the author continues, “not in the near future, no matter how pristine its capitalism.”<sup>300</sup>

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<sup>296</sup> Jeffrey Kopstein, “Geographic Diffusion and the Transformation of the Postcommunist World” *World Politics*, Vol. 53, No. 1, 2000, pp. 1-37, p. 24.

<sup>297</sup> Kopstein, 2000, p. 25.

<sup>298</sup> Kopstein, 2000, p. 25.

<sup>299</sup> Kopstein, 2000, p. 36.

<sup>300</sup> Michael Madelbaum, (ed.), “Introduction,” *Post-Communism: Four perspectives*, Council on Foreign Relations Books, 1996, p. 15.



As one can see, different authors reveal and emphasise different factors and links between the transition policies and goals. However, separately these factors do not fully explain Kyrgyzstan's transition trajectory. To come up with a more comprehensive explanation, I will try to analyse the links and interplay among transition factors, goals and policies in Kyrgyzstan, based on the framework developed in chapter 3.

### **Horizontal Dimension**

How did horizontal interaction take place among different policy goals, and how did policy choices and policy changes occur in Kyrgyzstan? This section discusses the country's transition policies in the economic, political and security/state-building domains, as well as their interplay, in order to highlight the domestic factors that influenced the country's overall transition path.

#### **Political Aspect**

Before discussing the domestic politics of Kyrgyzstan, it would be useful to highlight several major factors that affected Kyrgyz state-building and transition, such as its weak national identity and the tribal nature of Kyrgyz society, the political culture, based solely on the previous Soviet experience and the absence of any prior democratic experience; its geographic location and the presence of large Russian and Uzbek minorities in the country.<sup>301</sup> Other conditions, such as a low level of economic development, a traditional culture, a weak civil society, the leading role of the old nomenclature (if not within the government, within the opposition) and ethnic cleavages, continue to affect the development of Kyrgyz statehood. They also influence the country's domestic and foreign policy choices and overall transition process.

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<sup>301</sup> For detailed discussion of Kyrgyz history and identity, see Denis Sinor, *The Cambridge History of Early Inner Asia*, Cambridge: Cambridge University press, 1990; Olivier Roy, *The New Central Asia: The Creation of Nations*, New York: New York University Press, 2000; William Fierman, *Soviet Central Asia: The Failed Transformation*, Boulder: Westview Press, 1991.

Many dormant conflicts in the post-communist space were activated when the USSR started to collapse, and Kyrgyzstan was no exception.<sup>302</sup> In June 1990, the first ethnic clash between Kyrgyz and Uzbek occurred in the southern Osh of Fergana Valley, which is mostly populated by Uzbeks, the third largest minority in the country. The Kyrgyz Communist Party was unable to cope with ethnic violence in the southern city of Osh. This further weakened the Party's hold on power and accelerated its downfall within only few months. It was based on such legacy that the Kyrgyz Supreme Soviet sought to contain the mounting tension by choosing a new president in October 1990. Askar Akaev, who was a physicist, had not held high office in the Communist Party. Although he had limited political experience, he was a compromise candidate acceptable to all parties in the Supreme Soviet. In August 1991, Kyrgyzstan declared its independence, and in October 1991, Akaev was elected in a nationwide referendum. With the break-up of the Soviet Union, the Kyrgyz Republic joined the new Commonwealth of Independent States (CIS) in December 1991. Concerned by the rising exodus of Russians and other non-indigenous groups, whose departure affected the industrial sector and other areas employing skilled workers, Akaev took a number of steps to encourage them to stay. He made the Russian language an official language of the republic in 2001 (although in late 2001, the Constitutional Court turned down a proposal to allow dual citizenship with Russia). Akaev also sought to satisfy some of the demands of the Kyrgyz nationalists --setting aside some privatised farmland for ethnic Kyrgyz -- while restricting their more extremist elements.

President Akaev's reformist ideas were very radical and ambitious. On taking office, Akaev initiated democratic institution-building and substantial political liberalisation, encouraging the development of a more open press and the emergence of civil society. He even announced his country's intention to remain neutral and not to have an army. He wanted to turn the country into the Switzerland of Central Asia. He espoused massive privatisation and shock therapy. However, while undertaking that enormous task, he was not successful in implementing reforms at the speed he wanted and delivering the

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<sup>302</sup> For detailed discussion of political developments in post-soviet Kyrgyzstan see Gregory Gleason, *Central Asia: Discovering Independence*, Boulder: Westview 1997; Shireen T. Hunter, *Central Asia Since Independence*, Westport: Praeger, 1996; Ronald Z. Sagdeev and Susan Eisenhower (eds.), *Central Asia: Conflict, Resolution and Change*, Chevy Chase: CPSS press, 1995; Lena Jonson, *Russia and Central Asia: A New Web of Relations*, London: The Royal Institute of International Affairs, 1998.

results he promised. Moreover, the implementation of radical reforms has brought negative side effects. Not only did the conservative part of the country's elite turn to open opposition, but also some of his own supporters in the Supreme Soviet and the Communist Party started to oppose his policies. As a result, there was a movement to oust Akaev at the same time as the attempted coup against Gorbachev in Moscow in August 1991. In reaction, the president banned the Communist Party and seized its assets. Realising that the Soviet Union was doomed, Akaev also moved his country to independence, which few in the country wanted. Akaev was the most liberal leader in Central Asia, although his liberalism had its limitations. When he stood for president in a direct election in October 1991, no opposition candidate was allowed to register. In 1992, he continued to use former communists in the government to ensure that the state was tightly run and to prevent the growing number of Kyrgyz nationalist groups from gaining power. Akaev was able to keep control until late 1993 because he faced a divided opposition: there were a large number of fragmented nationalist groups, and there were reformed communists who were more committed to improving inter-ethnic relations than to supporting economic and political reforms.

While on the one hand, Akaev was trying to widen the scope of his powers, on the other hand, the Supreme Soviet was proposing to curtail his powers, thus trying to maintain a balance between the executive and legislative branches of government. In addition, inter-ethnic relations had grown increasingly tense. Russians left the country in large numbers due to worsening socio-economic conditions in the country, and their proportion declined to only 17 percent from 22 percent of the population in 1989.

The economic situation in the South worsened and the Uzbeks of Osh were badly hit by the temporary severance of trade with Uzbekistan after the hostile reaction of the Uzbek authorities to the Kyrgyz Republic's currency reform of May 1993. Uzbekistan closed its border with Kyrgyzstan and imposed border controls.

The situation deteriorated in late 1993 when the government was accused of appropriating part of the country's gold reserves. The government collapsed, Kulov resigned, and Akaev's position was in danger. Former high-ranking Communist Party nomenclature members who were members of parliament led this anti-incumbent attack. In response to these attacks, which threatened to bring a rapid decline of his legitimacy,

Akaev called a referendum of confidence in himself on January 30, 1994. The United States sent Vice President Al Gore to demonstrate the extent of American support. Akaev was constantly cited by the United States as an example of how democracy could flourish in Central Asia. This step of international/foreign support was a significant legitimacy boost for Akaev.

It should be noted that not every new leader in the post-Soviet space was given such support during the elections. In addition to the referendum of confidence, Akaev also offered the positions of prime minister and deputy prime minister to communists in order to bolster his position. This shows that because of the shock reforms Communists started to enjoy popularity among the public and President Akaev chose to neutralize his opponents by bringing them into the government. Moreover, while reaching a political compromise with his opposition was a positive step from the perspective of democratic theory, it also marked the beginning of the erosion of Akaev's reformist policy.

According to some sources, the referendum of confidence in January of 1994 was manipulated; with a 95.9 percent turnout, Akaev won 96.2 percent of the vote.<sup>303</sup> In sum, Akaev received a new volume of domestic and international support to continue his policies. Encouraged by the referendum result, he started to take drastic steps to weaken the legislative branch. Since it was not a professional parliament, many deputies in the Zhogorku Kenesh were either regional governors or heads of administration and thus, dependent on the patronage of the executive. Using this leverage, Akaev ensured that they boycotted parliament, thus paralysing its work and forcing the government to resign.

On the same day that he received his vote of confidence, President Akaev issued thirteen economic reform decrees launching radical economic reforms. It was widely recognised that the core of the dispute between the president and the parliament was the issue of economic reform, with Akaev being perceived as the pro-reform progressive force and the parliament as an anti-reformist remnant from the Soviet era. Early in his tenure, he argued that the Kyrgyz parliament was populated with Soviet-era holdovers who opposed political and economic reforms. This assertion was generally viewed with sympathy by liberal forces both in Kyrgyzstan and abroad. To proceed further with his reform agenda, Akaev sought to reduce parliament's powers in favour of the executive, gradually turning

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<sup>303</sup> *ITAR-TASS news agency*, "Akayev scores 'landslide' in referendum", February 1, 1994.

the country into a “delegative democracy” where the president rules by decrees and horizontal accountability is absent.<sup>304</sup> All powers had passed into the president’s hands, with the justification that it was necessary for the sake of the reforms.

In sum, in only three to four years after coming to power as a democratic leader, Akaev had lost a significant amount of public and elite support due to the radical reforms he conducted in the economic sphere, his state-building policies and the external and internal security threats to the country (as I will demonstrate in the next two sections). He started pursuing mutually contradictory policies at the same time; on the one hand, he pushed a new cycle of radical economic reform, which was becoming more and more difficult due to the rising social and political costs. On the other hand, he used the need for further reforms as a pretext to gradually alter the established democratic institutions to further strengthen his hold on power. In this early period, it is obvious that, at least in the political sphere, Akaev also had relatively high international support (as demonstrated by OSCE/ODHIR statements on Kyrgyz elections, foreign visits, etc.), which, however, was not accompanied with a similarly persistent and adequate international demand for not diverting from the democratic path. This almost unconditional international support waned relatively late.

Interestingly, the consolidation of his power coincided with Akaev’s attacks on the free press, which had become unprecedentedly hostile to him.<sup>305</sup> In general, the media in the Kyrgyz Republic were relatively free compared to Turkmenistan and Uzbekistan until President Akaev began to curb their activities in 1995. Since then, anti-government

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<sup>304</sup> Guillermo O’Donnell describes Delegative Democracy as a political system that meets Robert Dahl’s definition of democracy but is less representative and more majoritarian, extremely plebiscitary, and anti-institutional. See Guillermo O’Donnell, “Delegative Democracy,” *Journal of Democracy*, Vol. 5, No. 1, January 1994, pp. 55-69.

<sup>305</sup> A Russian-language newspaper published by the Zhogorku Kenesh, *Svobodnyye Gory*, was banned by the courts, legal procedures were used against two other publications: *Politika* and *Res Publika*.

newspapers have often come under pressure and in early 2002, legal cases stopped the operation of several papers critical of the government.<sup>306</sup>

The parliament's hostility to Akaev's reforms and repeated allegations of high-level corruption in the executive branch led to confrontation between the president and the parliament. Akaev responded by circumventing the legislature. The isolation of the parliament and successful harassment of the press gave Akaev the ability to reshape and alter the political landscape in a way that best fitted his political aspirations and, most importantly, the security of his presidency. To expand his powers further, he proposed changes in the constitution that had been adopted in 1993. On October 22, 1994, a referendum ratified the new presidential powers (including the right to call more referenda) and altered the structure of the legislative branch to reduce the number of deputies.

Askar Akaev's main argument for changing the structure of the parliament was that it made the legislative branch a better reflection of the entire social spectrum of society. The new parliament was to be transitional, as the country was only taking its first steps towards democracy. He argued that a "Western-style parliamentary system was not practical while the country had a weak economy and an under-developed civil society."<sup>307</sup> In reality, however, he was hoping to have a more compliant parliament by forming an informal pro-government majority. To his frustration, the main opponents who had led the attacks on him in the previous parliament were elected to the upper house in the first round of voting. It was obvious that this parliament would be even more hostile to political and economic reforms. Not surprisingly, Akaev took advantage of existing divisions among the deputies and once more expanded his powers at the expense of the parliament by introducing new rules. Interestingly, the parliamentary elections in 1995 were reported by

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<sup>306</sup> More than 400 newspapers were registered in late 2001, but their accessibility is limited. Russian-language newspapers published in Bishkek have the largest circulation: in 1998 more than 80% of newspaper copies sold were in Russian. Russian-language channels, including ORT and RTR, attract the largest audiences. According to the UN, the number of television sets dropped from 18 per 100 inhabitants in 1992 to just 8 per 100 inhabitants in 2000, Economist Intelligence Unit, *Country Profile 2003, Kyrgyz Republic*, p. 22.

<sup>307</sup> Liz Fuller and Michael Mihalka, "The IMF delegation in Bishkek was waiting for the election results, before going ahead with loans to the Central Bank," *OMRI Daily Digests*, February 6, 1995.

observer missions of the Organisation for Security and Cooperation in Europe (OSCE) to have been “generally fair, with quite high turnout and inessential criticism of the practice of multiple voting by heads of families and other minor irregularities countenanced by the authorities.”<sup>308</sup> However, as Paul Kubicek puts it, the case of the 1995 parliamentary elections in Kyrgyzstan, the freest elections in the region, is instructive. “This does not necessarily mean that the formation of more democratic systems will be more reformist or responsive in Central Asia.”<sup>309</sup>

Although tensions continued between the parliament and the president, the institutions of civil society developed relatively freely. The *Nations in Transit* score measuring civil society’s independence, influence, and viability remained the same (4.50) during the years 1997 - 2005. In contrast, the attitude towards the independent media and therefore, freedom of speech, deteriorated drastically. The relevant score given by Freedom House, reflecting the existence and implementation of relevant policies promoting an independent media, declined from 5 to 6 in 2005.<sup>310</sup> Akaev imposed a number of restrictions on the independent media and the political opposition. The presidential administration defended its actions by arguing that strong executive powers were needed to deal with pressing security and economic problems. In fact, however, they were exploiting existing difficulties to establish that Akaev was irreplaceable. During the 2000 presidential elections, for example, the president’s supporters argued that the opposition’s lack of experience and integrity would put not only the safety, but even the very existence, of Kyrgyzstan at risk. Akaev won the elections with more than 74 percent of the vote despite widespread accusations of irregularities. After the election, relations between the executive branch and the parliament steadily eroded, as did the relationship between the presidential administration and the media. This is a vivid example of how the government can use propaganda, as suggested in previous chapters, to shape public perceptions in order to gain

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<sup>308</sup> OSCE/ ODIHR, *Statement on the parliamentary election in Kyrgyzstan*, 1994.

<sup>309</sup> Kubicek, 1998, p. 40.

<sup>310</sup> Jeannette Goehring and Amanda Schnetzer, *Nations in Transit 2005: Democratization in East Central Europe and Eurasia*, Freedom House, Rowman & Littlefield Publishers, Inc., 2005.

the support of the domestic society, in an attempt to fill the legitimacy gap resulting from inefficient economic, security, and other policies.

One can also observe that as the leadership gained more power, it became more authoritarian in an attempt to defend itself against rising criticism, to maintain itself in office, and to stay in power unchallenged and unopposed. For example, in 1995, the pro-presidential block in parliament began a campaign to cancel the 1996 presidential elections. The argument used was that the presidential polls would be unnecessarily divisive for society and the elite. Government officials claimed by September to have collected more than 1.16 million signatures in favour of a referendum that, following the precedents in Kazakhstan, Turkmenistan, and Uzbekistan, would cancel the presidential elections and keep the president in power for another five years unopposed. The Legislative Assembly blocked the referendum campaign. However, two days later, the Assembly voted unanimously to bring elections forward by a year, to December 24, 1995.

During his electoral campaign, Akaev stressed that he would focus in the future on three major issues: (1) the revival of the economy, (2) the prevention of the emigration of the Russian-speaking population, and (3) the resolution of tension between the inhabitants of northern and southern Kyrgyzstan, knowing that the people of southern Kyrgyzstan were dissatisfied with the fact that almost all key government positions were filled by northerners.<sup>311</sup> Thus, domestic society's integrity was a major concern already in 1995 and was further exacerbated by the growing economic hardship.

Akaev won a decisive victory in the December elections. There were two explanations for this. First, he changed the electoral rules to make it harder for opposition nominees to register as candidates. He controlled the Central Electoral Commission and the media. Second, under the circumstances, Akaev was presented, and eventually viewed by the large majority of Kyrgyz society, as the only candidate who could resolve the problems that the Kyrgyz state and society faced. Not surprisingly, 71.6 percent of the 86 percent of the electorate who cast their vote reportedly voted in favour of Akaev remaining as president. Most interestingly, the representatives of the UNDP and the OSCE described

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<sup>311</sup> Interfax, October 11, 1995.



the presidential election as "generally free and open" and a step forward compared to the parliamentary elections.<sup>312</sup>

One can observe that already in 1995 the support-demand from the international community was not adequate in the case of Kyrgyzstan. The support that the country was getting from the international community (i.e., positive evaluations of manipulated elections) was not accompanied by an adequate demand on the government of Kyrgyzstan to become more democratic. In other words, there was not enough pressure from outside for further political reforms. In fact, in the public polls conducted in 1999 only 25 percent of those interviewed were satisfied with the course of political reforms, while 46 percent of them were dissatisfied.<sup>313</sup> These data mean that there was a demand from domestic society for a change, which was not met by the government.

Successfully retaining his office, Akaev spent 1996 enhancing his position. Immediately after the election, Akaev submitted a draft law, which would give him sweeping powers. The new law, which was passed with a 94.31 percent "yes" vote on February 10, 1996, vastly expanded the powers of the Kyrgyz presidency. The President would have the power to personally formulate domestic and foreign policy, coordinate the functioning of the branches of government, and directly appoint and dismiss cabinet ministers, ambassadors, and judges without consulting the Kyrgyz parliament. The opposition in the Zhogorku Kengesh criticised the draft as an attempt to turn Kyrgyzstan into a "presidential republic."<sup>314</sup> Once again, Akaev presented the expansion of his powers as necessary in order to accelerate economic, political, and legal reforms and to rein in regional and clan influences in the Kyrgyz government.<sup>315</sup>

The rest of 1996 was characterised by a continued presidential anti-corruption drive. Large numbers of officials were sacked or disciplined, with little noticeable effect on

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<sup>312</sup> Reuters, December 28, 1995.

<sup>313</sup> Talanbek Sakishev and Sergey Doronin, "Are We Able to Use Public Opinion or Not" in *Res Publica*, Bishkek, December 28, 1999, p. 3. (in Russian) 1200 people were interviewed by SGI CMA independent sociological centre.

<sup>314</sup> OMRI Daily Digest, January 10, 1996.

<sup>315</sup> Jamestown Foundation's Broadcast, "Kyrgyz President Expands Powers", February 14, 1996, Vol. II, No. 31.

the level of corruption. In parallel, the president also continued his pressure on the independent press. It was in this period that Amnesty International indicated that the country had taken some steps backwards. According to their report, while Kyrgyzstan was still the most democratic of the former Soviet Central Asian republics, there was an alarming departure from the international community's ideals of human rights.<sup>316</sup> However, even at that time Western analysts were still optimistic about the future of Kyrgyz democracy. Some analysts even thought that some democratic procedures were perhaps incompatible with the existing political culture and national traditions of Kyrgyzstan, and it would take time for the country's leadership to introduce them. They concluded that in order for Kyrgyzstan to keep its image of a democratic country, "a method of introducing these accepted Western norms without gross deviation from traditional wisdom must be found."<sup>317</sup> The U.S. State Department's annual human rights report, issued on January, 1997, said that the human rights situation in Central Asia had deteriorated in 1996. The report noted that the growth of presidential power in Kazakhstan and Kyrgyzstan caused them to lag in the development of democracy and human rights.<sup>318</sup>

Further developments deepened Akaev's authoritarian stance. In 1998, the Constitutional Court ruled that he could stand for a third term. Following his court victory, Akaev initiated further constitutional changes in 1998.

The presidential elections in 2000 again registered a decisive victory for the incumbent president. According to the OSCE, the "remarkable level of transparency" in that poll "had been marred by irregularities." The report concluded that "The 2000 Kyrgyz presidential election failed to comply with OSCE commitments for democratic elections." Nevertheless, "democratic developments in the Kyrgyz Republic remain comparatively viable though increasingly challenged."<sup>319</sup>

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<sup>316</sup> Amnesty International, *Kyrgyzstan: A tarnished human rights record*, May 1996, AI INDEX: EUR 58/01/96 at <http://web.amnesty.org>.

<sup>317</sup> Bruce Pannier, "Kyrgyzstan's Democratic Glow Dims", *OMRI Analytical Brief #140*, 1996.

<sup>318</sup> *OMRI Daily Digest*, January 31, 1997.

<sup>319</sup> OSCE/ODIHR, Preliminary statement on the presidential election in Kyrgyzstan, 29 October 2000 at <http://osce.org/odihr-elections/documents.html>.

In sum, one could observe further attempts to fill the government's increasing deficit of legitimacy -- resulting from the deteriorating economy, security, and inadequate policies -- not only by pro-incumbent rhetoric but also by constant consolidation of presidential power at the expense of other branches. After his election in 2000, Akaev launched a new set of initiatives to alter key democratic institutions: changes in the constitution, election law, in the status of the judiciary, and in the role of political parties. All of these changes were aimed at minimising the accountability of the executive branch as well as preventing any challenge to the president's authority. Thus, Akaev tried to make his power look both legal and legitimate, by institutionalising the existing de facto, pro-presidential status quo.

Although the first Kyrgyz constitution adopted in 1993 provided for a relatively fair distribution of power between the president, government, and parliament, repeated amendments by Akaev gradually increased his powers at the expense of parliament. Once again a referendum was conducted in February 2003, to boost Akaev's legitimacy and respond to a wave of increasing political unrest. The new amendments granted legal immunity to former presidents, their families, and changed the election system from a proportional to a majoritarian system. The opposition again was severely critical and made repeated calls for his resignation. The population was asked to vote on two items: should a new package of constitutional amendments be adopted, and should the president serve out the remainder of his term, meaning until 2005. Referendum results showed over 76 percent supported the amendments, and no less important, nearly 79 percent supported President Akaev serving out his term. Turnout, although a matter of serious doubt, was claimed to be as high as about 88 percent of the registered electorate.<sup>320</sup>

Despite the official results being disputed in a number of respects, according to the Economic Intelligence Unit's Country Report, Akaev is likely to have had the support of a majority of those who cast a vote. Very interestingly, according to the same report, independent surveys carried out in January in the Kyrgyz Republic's main urban centres --

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<sup>320</sup> *Kabar news agency*, Bishkek, "Kyrgyz referendum final results confirm people support president", February 6, 2003.

Bishkek, the capital, and Osh, in the South -- showed that some 66 percent of respondents supported the referendum proposals.<sup>321</sup>

In that period there was some international pressure for political reforms. However, it was not sufficient to generate drastic changes in the political system already geared towards authoritarianism. The electoral code was amended to meet international requirements. Although there were some improvements<sup>322</sup>, the occasion was also used to alter the law to best fit the executive's aspirations to reproduce itself. There was no doubt that the amendments to the election law -- banning those with a criminal record from standing for the presidency and preserving a Kyrgyz language test for presidential candidates -- were specifically designed to prevent the imprisoned former vice president, Russian speaker Kulov, Akaev's main challenger, from contending the presidency in the next elections.

However, as mentioned in previous chapters, the comparative experience plays an essential role in shaping domestic societies' views and actions. The chain reaction effect of peaceful regime changes in Georgia and Ukraine, where the incumbents were ousted and opposition forces took a majority of seats in parliament, was significant for the opposition parties in Kyrgyzstan. On the verge of the 2005 parliamentary elections the opposition parties had already started to merge and form election blocks in Kyrgyzstan.

The February 2005 parliamentary elections were marred by irregularities. Falsified elections triggered mass protests in March with demands for President Akaev's resignation. Within only a few days, Akaev's government was ousted and replaced with Kurmanbek Bakiev. Bakiev was the leader of the People's Movement, which was a loose coalition among opposition parties. In a contested election, where Bakiev ran in tandem

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<sup>321</sup> Economist Intelligence Unit, *Country Profile 2004, Kyrgyz Republic*, p. 5.

<sup>322</sup> Such as giving observers and participants full access to electoral documents, envisaging more detailed voting and counting procedures, decreasing the proportion of civil servants on such commissions, and excluding members of the state administration from serving on district election commissions.

with the political prisoner and former Vice President, Felix Kulov, he won the majority of the votes in July 2005 and became the President of Kyrgyzstan.<sup>323</sup>

In the context of wide public and elite discontent with Akaev's policies, there were high expectations from Bakiev's government. Did the change of government in Kyrgyzstan bring about a more democratic regime in the context of the same structural constraints? The key policy steps to be addressed urgently by Bakiev's government were: 1) political reforms -- to re-establish the balance between the branches of power, restoring civil rights and political freedoms, opening up closed media outlets, and freeing jailed political prisoners and journalists; 2) economic reforms -- addressing the issues of poor governance that made corruption and patronage chronic features of the country's economy, addressing the issue of south-north regional and social inequalities adequately (i.e., creating more job openings in the South, and directing more public and private investments to the region), redistributing illegally privatised property, and resolving land ownership issues; 3) security concerns, both internal and external -- handling issues of U.S. and Russian military bases, resolving minority issues, and containing the expansion of the radical Islamic Hizb ut-Tahrir organisation.

In addition, the post-revolution environment seems to be unstable. There have been prison revolts, political violence, and the security forces have become less controllable. In addition, there has been growing discontent in the Uzbek community about discrimination against them and numerous cases of clashes between the titular nation and ethnic Chinese living in Kyrgyzstan.

Facing the same problems, however, the elected government of Bakiev, who was originally from the South (a more deprived part of the country) did not enjoy the same trust and legitimacy as Akaev did in the early stages of his tenure. According to a public opinion poll conducted in Bishkek and a number of other cities in 2006, only 17 percent of respondents said that they trusted Bakiev, and 58 percent said that they expected a second

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<sup>323</sup> Christopher Walker, "The Former Soviet Union's Next Wave of Democratization," *A EurasiaNet Commentary* July 14, 2005.

revolution.<sup>324</sup> Thus, with its limited resources of legitimacy, the new government was even more limited than the old one in manoeuvring between the issues of democratization, economic reform, and overall stability.

Bakiev's democratic stance lasted a shorter period than his predecessor's. Shortly after his election, he started to curtail the independent media.<sup>325</sup> There was also noticeable intolerance of dissidence. Instead of dealing with urgent problems of security and privatization deals, Bakiev started to suppress internal opposition. Bakiev also started to use the same populist steps of circumventing the legislative branch and using referendums to strengthen his position vis-à-vis other branches of power. For instance, he ordered a national referendum to be held at the end of 2006, aimed at offering voters "the choice of various systems of government, the possible removal of presidential, parliamentary, and judicial immunity, and some questions on judicial reform."<sup>326</sup>

Even so, Bakiev was reluctant to address the issue of amending the constitution to restore the balance of power between legislative and executive branches. Many in civil society and in the opposition found that the changes that the 300-member Constitutional Assembly, chaired by Bakiev, suggested were minor and aimed at diverting attention from the major problems.<sup>327</sup> Tension grew between the parliament and Bakiev because of these controversial constitutional changes. Bakiev blamed the parliament for advancing "untimely constitutional-reform demands" and openly accused the parliament of attempting to "go beyond its mandate" and seize power, thus contributing to the atmosphere of instability in the country.<sup>328</sup>

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<sup>324</sup> EurasiaDigest, "Poll Shows just 17 Percent of Public Trusts Kyrgyz President", *Kyrgyz Daily Digest*, February 10, 2006.

<sup>325</sup> See for instance, "Kyrgyz Presidential Administration Head Sues Newspaper for 1 Million", *Eurasia Digest*, RFE/RL, February 16, 2006; "Kyrgyz Journalists Protest Dismissal of Editor," *Eurasia Digest*, RFE/RL, January 31, 2006.

<sup>326</sup> *RFE/RL Newslines*, "Kyrgyz President Orders Preparations for Nationwide Referendum", December 22, 2005.

<sup>327</sup> See Leila Saralaeva and Cholpon Orozbekova, "Kyrgyz Leader Pushes for More Power", *IWPR, Reporting Central Asia*, no. 420, 15 November 2005.

<sup>328</sup> Bruce Pannier, "Kyrgyz President Slams Parliament in Address", *Eurasia Insight*, February 4, 2006.

Pressured by public demonstrations, Bakiev submitted another draft constitution, which ceded some of his powers to the parliament. However, in late December 2006 Bakiev pushed through a revised version of the constitution that overturned many of the initial concessions. After the parliamentary approval of the constitution, Bakiev then tried to reinstate Kulov as prime minister. Kulov's nomination was overturned by two successive parliamentary votes and as a result he joined the opposition. In April 2007 mass protests demanding constitutional reform and the resignation of the president began again.

In sum, Bakiev's administration faces the same challenges as those that Akaev faced, or even worse, since the country's political stability was seriously undermined after the revolution. And, as we can see, his policy choices were no different from those of his predecessor. Clearly, post-Akaev developments prove that Kyrgyzstan's problematic transition should be attributed largely to existing national and international structural constraints and factors and not just to the leader's personality.

In this section, I have tried to demonstrate how the politics of reform evolved after the installation of a post-communist regime. Overall, Kyrgyzstan's political transition can roughly be divided into two periods:

1991-1994- country's new post-communist leadership pursued political reforms and initiated substantial liberalisation of politics and established all basic democratic institutions;

1995-2006- Akaev's domestic policies became more authoritarian. He gradually amended the constitution, undermined the key democratic institutions and distorted the "rules of democratic game." Widespread public and elite discontent in 2000-2005 led to the downfall of Akaev's regime. However, two or three years after the leadership change, which was labelled as the "Tulip revolution", not much had changed in the general trend towards authoritarianism. Furthermore, the country's human rights record deteriorated further, the country became defined as a failed state, and crime and corruption become widespread.<sup>329</sup>

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<sup>329</sup> Alexander Kuptadze, "Organized crime before and after the Tulip Revolution: the changing dynamics of upperworld-underworld networks", *Central Asian Survey* Vol, 27, No. 3, 2008 , pp. 279-299.

I have demonstrated the dual nature of political reforms: on the one hand, core institutions of democracy and market were built and significant freedom of political rights and civil liberties were allowed. On the other hand, the political institutions were modified and distorted in order to cope with the social and political costs of economic reforms and state-building. The incomplete turnover of the elite, which meant that the country's legislative branch was dominated by the former communist top nomenclature for most of the time, was also a factor that often forced the country's leadership to violate the rules of the game in order to push for further reforms. The situation was exacerbated due to structural factors inherent to the country, such as south-north cleavages, and other security issues. In other words, the missing link between these two periods of political developments lies in the parallel developments in other key dimensions. It would be incomplete, if not impossible, to explain this divergence from the democratic path of reforms without taking into account the interplay of political, economic and security aspects of the country's transition. As some authors correctly noted about this transformation of politics in Kyrgyzstan:

...in response to pressures from neighbours, a mounting economic crisis and increased domestic criticism, Akaev's regime became increasingly corrupt and authoritarian.<sup>330</sup>

It appears that democratic institutions and political liberties in Kyrgyzstan were sacrificed first and suffered most when serious tensions emerged in the process of simultaneous changes in economic, political and security spheres and when structural constraints become even more compelling.

There were no persistent and sufficient international demands and supports to prevent the country leaders from reversing their initially democratic policies and part of the reason was that, as it will be demonstrated in the next sections, no serious socialisation effort was made by any of major regional and international players.

Why did Akaev's government prefer to pursue economic reforms at the expense of its legitimacy and why did it not abandon them first? I think the explanation can be found

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<sup>330</sup> Sally Cummings, "'Revolution' not revolution", *Central Asian Survey* Vol. 27, No. 3, 2008, pp.223-228, p. 224.



in two factors. First, compared to the political field, where international actors engaged intermittently during elections, international and regional actors in the economic sphere were more involved in the country. Not only was their assistance more sizable but their engagement was also relatively more consistent, compared to the political sphere. The second reason why economic reforms were continued despite their mounting social costs was the promise of benefits that the country could reap (i.e. high foreign direct investments) after establishing a free market.

### **Economic Aspect**

The collapse of the Soviet Union in December 1991 paved the way for independence for the Central-Asian republics but it also undermined their economic systems. The Kyrgyz SSR had received a large volume of transfers and subsidies from the centre and was fully dependent on inter-republican trade. The breakdown of the command economy resulted in a rapid decline in the country's living standards. It is with this legacy that the new post-communist government of Kyrgyzstan, the first among the CIS countries, accepted an IMF stand-by agreement in 1993 and embraced the recommendations of the multilateral institutions to liberalise its economy. Beginning in 1994, it entered into the three-year Enhanced Structural Adjustment Facility Arrangement. Kyrgyzstan opted for a radical reform strategy.

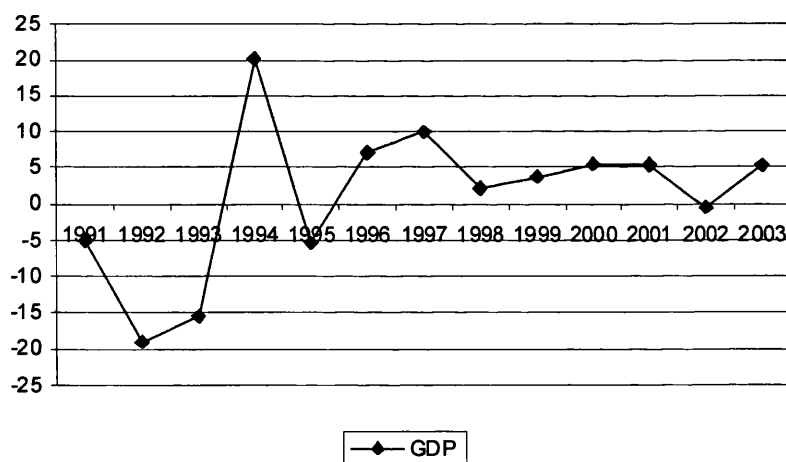
In general, one can observe a diversity of approaches towards reform strategies not only in the CIS but also across the entire post-communist transition space. Some analysts attribute Kyrgyzstan's choice to several factors: its political and economic legacy, the scarcity of natural resources, the post-Soviet political environment and leadership, and the international and regional economic situation. Under these circumstances, Kyrgyzstan had no choice other than to rely on international support, for which radical reforms were demanded as a precondition. Of course, Akaev's personal convictions and vision played not the least role. Other analysts argue that "at the initial stage of the transition era (1991-92), Kyrgyzstan's government did not have a clear picture of the direction, methods and speed of implementation of economic changes. However, the Russian "shock therapy"

approach affected Kyrgyzstan's government's decision to speed up its reforms.<sup>331</sup> I would also add the World Bank's and IMF's advice in the choice of a reform strategy.

During the 1990s the economic reforms were conducted in three major directions: 1) macroeconomic stabilisation and the introduction of a national currency; 2) price and trade liberalisation and decentralization of the state management; 3) deregulation, privatisation and restructuring.<sup>332</sup>

As in most of the post-communist countries, radical reforms led to disastrous changes in the socio-economic situation in Kyrgyzstan. Due to the reforms, the Kyrgyz economy experienced a much deeper decline in GDP in the 1990s compared to that of other Central-Asian Republics. GDP growth rates decreased significantly (see Charts 5.1, 5.2). For instance, between 1992 and 1993, GDP fell by 16.4 percent. With only minor variations, GDP per capita continued to be almost the same between 1995 and 2003 -- \$330.7 and \$333.6 respectively. The official unemployment rate in 2001 comprised 17.4 percent, compared to 14.5 percent in 1995.<sup>333</sup>

Chart 5.1 Growth in real GDP in Kyrgyzstan, 1991-2003 (percentage)



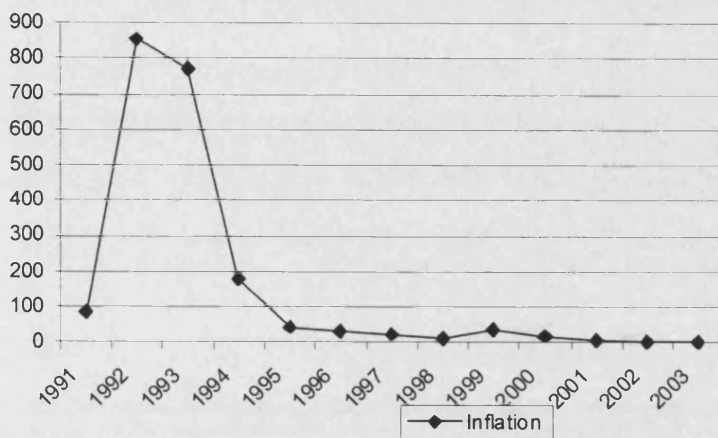
Source: EBRD, 2003

<sup>331</sup> Rafis Abazov, "Economic Transition in Kyrgyzstan", *Central Asian Survey* Vol.18, No.2, 1999, pp. 197-223.

<sup>332</sup> World Bank, *Kyrgyzstan: The Transition to a Market Economy*, 1993.

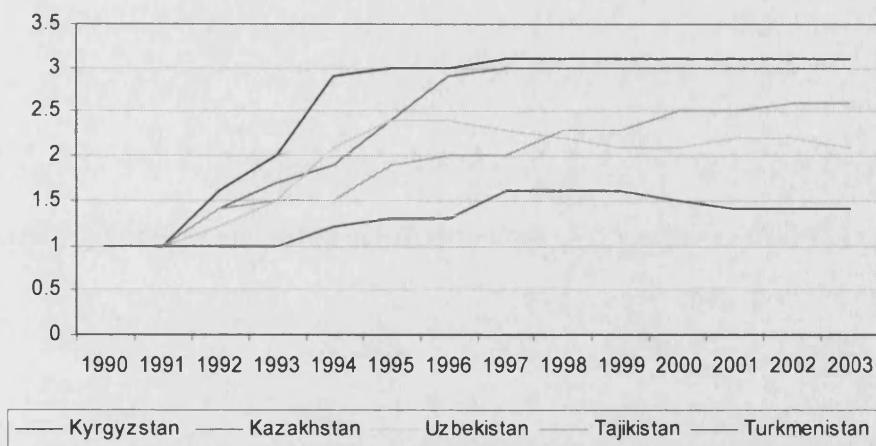
<sup>333</sup> EBRD, *Transition Report 2003: Integration and Regional Cooperation*, 2003, p. 162.

Chart 5.2 Change in Consumer Prices, 1991 to 2003 (percentage)



Source: EBRD, 2003.

Chart 5.3 Comparative Progress in Economic Liberalisation in Central Asia, 1990-2003



In contrast to the political reforms described in the previous section, Akaev's government was consistent in its economic liberalization efforts. According to the EBRD's liberalisation index, Kyrgyzstan was a leading reformer in the entire Central Asia region and the most drastic changes took place in the first 3-4 years after independence.(Chart 5.3)

However, the pay off from following the multilateral financial institutions' prescriptions was incommensurate with the rising social and political costs in the country.

Radical economic reforms engendered high levels of unemployment and mass impoverishment, deepened regional disparities, and increased social inequality. All these side effects, accompanied by the abolition of the social safety net and deterioration in the health and education systems, resulted in a rapid decline in the country's living standard. This caused public discontent towards the reforms as well as the government. As the results of public opinion polls show, Kyrgyz society has become largely divided on the issues of the economic situation and the reforms in the country. According to a public opinion survey conducted in October 1999, 56 percent of those interviewed thought that the economic situation in the country had worsened, 45.4 percent thought that the Kyrgyz government's economic course was wrong, and 40 percent thought that unemployment was the main problem.<sup>334</sup> Interestingly, despite these views, Akaev (but not his radical reform policies) still enjoyed a significant amount of support among the population in 1999. He was considered the most popular politician, and about one third of those interviewed insisted that they would cast their vote for him. As mentioned before in this chapter, this was the result of state propaganda and the targeted actions of the government against the opposition leaders.

Economic decline made the structural cleavages identified at the beginning of this chapter more acute and pressing. As will be demonstrated in the next section on security and state-building, mounting economic hardship led to further polarisation in Kyrgyz society. In the most critical period, reportedly, there was even an attempt by the government to reverse some of its radical economic policies. The worst economic crisis experienced in 1993 "forced the government to return to the system of selective state intervention." However, "under the pressure of the international assisting organisations in 1994 the government liberalised the prices again."<sup>335</sup>

In addition to economic stagnation, especially outside the capital, the declining standard of living, rising social inequality, and the process of economic stabilisation made the disparity between the poorest and richest groups in society especially visible. Compared with 1989, when 35 percent of the population was estimated to be poor, in 1993

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<sup>334</sup> Source: Sakishev and Doronin, 1999, p. 3.

<sup>335</sup> Abazov, 1999, p.205.

more than 80 percent of the population was estimated to be below the poverty line. In 2000, according to the World Bank estimates, 64 percent of the population lived below the poverty line.<sup>336</sup> The regional disparities in economic development became even larger. According to the 2002 *Nations in Transit* report, 70 percent of all investments to that point had been attracted by the capital and the surrounding economic zone.

The gap in economic development dividing the north and south widened even more. Disparities between the centre and the remote eastern and southern regions became sharper in levels of salaries and unemployment. They sometimes differed by as much as twice or even three times. The most significant negative effect of economic recession, widespread poverty, a deteriorating social infrastructure, and unemployment, according to the report, was declining support for democratic reforms.<sup>337</sup> As the 2002 *Nations in Transit* Report pointed out, “Widely promised economic recovery came slowly, and only a few people have benefited from foreign investment.”<sup>338</sup> As will be demonstrated in the next section, there were even attempts at secession in the southern part of the country and heightened activity by Islamic fundamentalist groups. In other words, economic deterioration undermined not only the pace of political and market reforms but the overall stability and security of the state.

According to *Nations in Transit* report:

...most of the country’s urban, middle-class intelligentsia, which in the early 1990s served as the main electoral base of democratic organisations, has lost its social status and has been compelled to struggle for survival. Many are increasingly in favour of quick fixes and “strong hand” policies. The spread of poverty and economic inequality among rural populations could engender social unrest and support of radical militant organisations.<sup>339</sup>

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<sup>336</sup> World Bank, *Kyrgyz Republic Country Data: Kyrgyz Republic at a Glance*, Washington, DC: September 2000, [http://www.worldbank.org/data/countrydata/aag/kgz\\_aag.pdf](http://www.worldbank.org/data/countrydata/aag/kgz_aag.pdf).

<sup>337</sup> Karatnycky, Motyl and Schnetzer (eds.), *Nations In Transit 2002: Civil Society, Democracy, and Markets in East Central Europe and the Newly Independent States*, Freedom House, 2002, p. 236.

<sup>338</sup> Karatnycky, Motyl and Schnetzer, 2002, p. 237.

<sup>339</sup> Karatnycky, Motyl and Schnetzer, 2002, p. 236.

The country, which had been recognised as one of the toughest reformers, was ranked 110th out of 177 countries by the United Nations Development Program's Human Development Index in 2006.<sup>340</sup>

In sum, although the theorists and designers of economic reform predict that the more radical the reforms, the sooner the recovery, this did not happen in Kyrgyzstan. There were positive results, of course, after the first stage of difficult reforms, such as the achievement of macroeconomic stabilisation, the emergence of a private sector, the creation of a relatively liberal economic environment. However, the immediate impact of those positive changes on high levels of unemployment, mass impoverishment, social polarisation and wide spread corruption was inconspicuous. The recovery was slow, because, despite the generous economic assistance, there has no commensurate volume of foreign investment and risk insurance, debt restructuring, or trade access.

To what extent can one blame the choice of the reform path and sequencing for such a steep decline and extreme economic hardship in Kyrgyzstan. Would the adoption of a more gradual strategy of reform have prevented such a decline? The comparative experience in Eastern Europe and the former Soviet countries, as well as in some other transition countries, demonstrates that radical reforms almost entirely ignored the social side of economic reforms. The reform experience across the region also suggests that the situation would have been only slightly different, given the unfavourable starting conditions of Kyrgyzstan.<sup>341</sup>

However, as I stated in Chapter 3, different country strategies were not just the subjective choice of the governments but also reflections of the objective structural and political circumstances existing in and around these countries. In this particular case, the Kyrgyz leadership did not have much choice but to follow the IFI's advice and to embrace quick and radical reforms given its harsh structural conditions and legacies: it was deprived

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<sup>340</sup> UNDP, *Human Development Report*, 2006.

<sup>341</sup> See for instance, Yahqi Tong, *Transitions from State Socialism: Economic and Political Change in Hungary and China*, Lanham: Rowman and Littlefield, 1997.

of natural resources, was among the poorest states even during the Soviet period and no alternative strategies were available.

Second, as I have stated, my aim is not to focus on technical aspects of reforms, but rather to understand the political side of the issue. The reform strategy was chosen in the early stage of transition and what I am interested is what factors played a role in the change (if any) of economic policy at a later stage; how the results of economic reforms affected policies in other key spheres, what factors and conditions emerged from their interplay that influenced the overall path of transition.

Economic deterioration affected the domestic society to the point that it withdrew its support for continuing the government's economic reform policy. In other words, due to the country's isolation, poor resources, and other factors, the political and social costs of market reforms were high in Kyrgyzstan, and the country's leadership was not able to cope with the costs appropriately. The failures on the economic front were accompanied by failures in other dimensions and began to threaten the very stability and integrity of the state. Without sufficient security, economic and political support and demand from the international community, the relatively liberal administration of President Akaev quickly exhausted its legitimacy resource. In order to compensate his lost legitimacy and to maintain the status quo, he opted for more authoritarian measures, i.e., ruling by decree, calling for frequent "votes of confidence," curbing the rights of the parliament, and suppressing the media and political opposition. As already noted above, receiving weaker or insufficient support-demand impulses from the international community in the political sphere, Akaev tightened his grip on power and undermined democratic institutions without any major resistance from outside the system.

### **Security Aspect**

Immediately after gaining independence, the Kyrgyz leadership faced serious security and state-building challenges. Ethnic clashes started between the Kyrgyz and Uzbeks, in the southern city of Osh, which is largely populated by Uzbeks and was placed

within the borders of the new Kyrgyz state during the Soviet period. By 1993 there were even attempts in Osh to push for political autonomy.<sup>342</sup>

Besides inter-ethnic tension, there were other potential conflicts in the country that surfaced after the demise of the Soviet empire. Not only is there tension between south and north Kyrgyzstan, but a considerable rivalry also exists between the Kyrgyz of Osh and the rest of the southern Kyrgyz Republic, on the one hand, and the northern Kyrgyz on the other. The country's mountainous terrain, which geographically separates the country's North from the South, exacerbates this problem. The regional disparities between the South and North in terms of economic development and living standards, as well as the elite's participation in the government, are quite significant. Southern Kyrgyzstan is poorer and more deprived. This intra-Kyrgyz tension is one of longstanding tribal rivalries intensified by the fact that the North dominates the country's economy. The economic decline and increasing social tensions have essentially threatened the integrity and social cohesion of Kyrgyz society, if not of the Kyrgyz state. The North-South Kyrgyz divide has not spilled over into violence to date but it has grown into a chronic feature of politics and an urgent policy issue. The sub-regional cleavages have often made even the enforcement of the rule of law and the implementation of basic state functions such as tax collection a challenging task in some areas.

Economic hardship and the inability of the state to protect its borders encouraged the flourishing of radical Islamist groups in the southern part of the country. The Islamic militant insurgencies in the south of the country increased again in 1999 and 2000. Tensions have grown in relations with Uzbekistan, an essentially powerful neighbour that is striving to assert itself as a regional power. Therefore, the Kyrgyz government has had to be flexible in its relations with Uzbekistan. Although there were threats from Uzbekistan, the Kyrgyz Republic joined the Uzbek-dominated Central Asian Economic Union. There remains a substantial risk that Uzbekistan might intervene militarily in southern Kyrgyzstan if it deems that the government in Bishkek is not acting effectively to halt the Islamic Movement of Uzbekistan (IMU) organisation. Even a small-scale intervention on Uzbekistan's part would raise fears that Tashkent was seeking to annex territory and

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<sup>342</sup> Martha Brill Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, United States Institute of Peace press, Washington, DC 1996.



possibly provoke clashes between the ethnic Uzbek and Kyrgyz communities. As a result, the Kyrgyz Republic has needed to take a harder stance against Islamic fundamentalism in order to limit Uzbekistan's inclination for unilateral action against alleged militant Islamic groups stationed outside its borders. However, the continuation of unauthorised crossings into Kyrgyz territory by the Uzbek security services in 2004 caused some tension in the bilateral relations. Other sources of tension have emerged since 2000, after the decision by Uzbekistan to build fences and minefields in the border areas led to the death or injury of several Kyrgyz citizens. The Uzbek government refused to clear the mines or provide maps showing their location. Disagreements over the shared use of water resources and ownership of energy deposits in border areas have also persisted. Also, a memorandum signed by Uzbekistan and Kyrgyz prime ministers on the exchange of land was voted down by the Kyrgyz parliament in 2001.

Incursions by militant Islamic groups prompted the Kyrgyz government to tighten its border controls to prevent attacks, as well as to prevent illegal arms and drug trafficking. Since then, the government has seriously increased its expenditure on defence and has concluded security agreements with China on the guarding of border areas. However, the country remains heavily dependent on Russian or Uzbek military support to counter new incursions. Of course, the heightened security measures have had serious economic consequences. Security concerns play an important role for foreign companies when considering investment opportunities. In addition, “the expansion of border restrictions hampered trade, denying many farmers in the area of their main source of income.”<sup>343</sup> In 2003 there were also clashes and riots on the border of Kyrgyzstan and Tajikistan over farmlands that were claimed by both sides and the situation was complicated by the fact that there are two Tajik enclaves on Kyrgyz territory where residents did not want any border restriction to prevent them crossing to their motherland.

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<sup>343</sup> Alisher Khadimov, “Kyrgyz-Tajik Border Riots Highlight Building Inter-Ethnic Tension in Central Asia”, *EurasiaNet Eurasia Insight*, July 2003.

Although Kazakhstan and Uzbekistan have recognized their existing borders with Kyrgyzstan, as of 1996 Tajikistan had still not done so. Relations with China have improved steadily since independence. There had been some complications in 2001 created by the reaction of some Kyrgyz parliamentarians to bilateral agreements on border delimitation, which they claimed would deprive the Kyrgyz Republic of pastoral land. If ratified, these would give China more than 100,000 hectares of Kyrgyz territory. It was also argued that by giving away substantial territory without informing the parliament, Akaev was in breach of the constitution. The Kyrgyz government made serious efforts to control the damage caused by the leak of two secret border agreements signed with China in 1996 and 1999, also threatening to begin impeachment proceedings against President Akaev for the misconduct of the border matters. The agreement was ratified by the parliament only in 2002, and the two countries finally settled their border demarcation disputes.<sup>344</sup> After that economic cooperation agreements were signed, and the volume of trade has increased. Chinese nuclear tests at the test site in Xinjiang province, some 1,000 kilometres from the border, caused fears in Kyrgyz provinces adjacent to China, leading to official protests from the Kyrgyz Republic. The Kyrgyz Republic hosts at least 40,000 ethnic Uighurs, many of them emigrants from China's Xinjiang region, who oppose China's rule in Xinjiang. In order to remain on friendly terms with China, the Kyrgyz authorities have refused to register the Uighur Freedom Organisation and a Uighur cultural organisation called Ittipak (Unity). The Kyrgyz government continues to monitor and suppress Uighur separatist activity, which China claims is still conducted from bases in the Kyrgyz mountains.

The border issue with China affected Akaev's legitimacy. At the same time, the government used the militant Islamic threat to unify society and to contain the criticism of Akaev.

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<sup>344</sup> The Jamestown Foundation, "One Small Step from Democracy to Autocracy", *Prism*, Volume 7, Issue 8, August 29, 2001, <http://www.jamestown.org>.

Akaev's initial intention not to have an army proved to be unrealistic. Nevertheless, the Kyrgyz defence forces are small and in a poor state of readiness. The Kyrgyz Republic has one motorised rifle division, two brigades of mountain troops, an air defence brigade, and smaller tank and artillery units. Security concerns have prompted the Kyrgyz leadership to channel more and more resources to the country's defence system. For instance, while Kyrgyzstan spent \$30 million in 2000 to fight Islamic militants, about 13 percent of the country's total budget, in 2001 the amount was doubled.<sup>345</sup> Meanwhile, the Kyrgyz government has been accused by the opposition of exaggerating the threat of Islamist extremism to cover up its poor economic management. As one of the Central Asia experts put it:

The overwhelming preoccupation of Kyrgyzstan's leaders, like those of most other states in the region, has been with trying to control external challenges to domestic security. These security concerns have been used to explain away failings of democratic political institution building. Although in fairness, some of these security concerns are real and addressing them has eaten up an enormous amount of official attention.<sup>346</sup>

As suggested previously, addressing security concerns drained valuable political and economic resources, so vital for advancing transition reforms in other dimensions. Although Bakiev was originally from the south, and many expected that his leadership might ameliorate the growing north-south divide, the situation has not improved much. Some even claim that Bakiev underestimated the role of a unifying state ideology which contributed to "intensification of divisions between northern and southern political elites."<sup>347</sup>

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<sup>345</sup> *BBC News*, "Calls for bigger Kyrgyz defence budget", April 13, 2001.

<sup>346</sup> Martha Brill Olcott, "The Case of Luxury Democracy", *Testimony before the Helsinki Commission*, December 12, 2001.

<sup>347</sup> Erica Marat, "National Ideology and State-building in Kyrgyzstan and Tajikistan", *Silk Road Paper*, January 2008, Central Asia-Caucasus Institute.

## **Vertical Dimension**

To what extent have the Kyrgyz state's reform policies been demanded, supported, compensated, or complemented by the international community in order to help the domestic society sustain its support for reforms and to prevent the divergence of the government and the society from a democratic path of transition.

### **Political Aspect**

Since its independence, there has been a limited and rather 'formal' engagement of international and regional political and security organisations in Kyrgyzstan, perhaps with the exception of the OSCE, which has been more active.

The cooperation between Kyrgyzstan and the European Union has been based on the belief of the EU states that to achieve their basic strategic goals, such as containing Islamic radicalism or preventing nuclear proliferation, they need to engage the Central Asian states with EU institutions and assist them in their reforms. Desire to establish a good relationship with the EU was understandably important for the radical reformist Kyrgyz leadership. The relationship of Kyrgyzstan with the European Union has been evolving within the Partnership and Cooperation Agreement (PCA) signed in February 1995. This agreement covers the entire spectrum of relationship, from economic and trade to political and human rights issues. In addition to economic assistance and trade access, the PCA establishes an ongoing political dialogue between the EU and Kyrgyzstan. To speak, however, about the serious practical involvement of the EU in any of these issues would be wrong. As one of the experts noted: "The EU's presence in Bishkek was always rather tenuous, with only one EU-country embassy in Bishkek, and most EC funding going to TACIS programming, almost none of it linked to democratisation or human rights."<sup>348</sup>

The OSCE has been the main Western political organisation in Central Asia and in Kyrgyzstan in particular, throughout the entire transition period. Kyrgyzstan became a member of the OSCE on October 1992. The OSCE provided an early and functional instrument to enhance Kyrgyzstan's presence in the international arena. It aimed to enhance security of the Kyrgyz state and society and to promote democracy, human rights

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<sup>348</sup> David Lewis, "The Dynamics of Regime Change: Domestic and International Factors in the Tulip Revolution", *Central Asian Survey*, Vol. 27, No. 3, 2008, pp. 265-277, p. 270.

and market principles in Kyrgyzstan. Nevertheless, thus far the OSCE has not proved effective in achieving any of these tasks. This is because of the OSCE's lack of resources, inability, or unwillingness to become deeply and consistently involved in any area, especially if its major Western members do not have urgent interests. Kyrgyzstan continues to be vulnerable to outside pressures by its immediate neighbours and other regional players. Although there has been a working plan adopted by the organisation and the government of Kyrgyzstan on those issues, there has not been noticeable progress in ensuring transparent and fair elections, in the effort to guarantee border security and solve trans-boundary problems, in combating corruption, or in freedom of speech and the development of independent mass media. Recently, however, there has been some progress, on issues such as establishing the office of an Ombudsman on human rights, reform of the law-enforcement system, opening an OSCE Academy to educate and propagate the OSCE principles within Kyrgyz society. However, these are institutional arrangements and it is too early to speak about real progress in human rights and democracy or in the socialisation of Kyrgyz society. The OSCE's failure to extend sufficient demand to the Kyrgyz government, its continuing optimism and positive reporting on elections throughout the Akaev tenure, as discussed earlier in this chapter, surely played a negative role in the shortcomings in the state of democracy in Kyrgyzstan today.

Not surprisingly, the "vacuum" that the OSCE and other international political organisations persistently failed to fill, has gradually been filled by other, less democratic regional alternatives. As Roy Allison correctly notes:

Monitoring elections by different regional organisations in Eurasia in CIS states, prompted by Russia and conducted under the aegis of CIS and Shanghai Cooperative Organisation (SCO), now contests the OSCE's terms of democratisation. It is seeking to create alternative rules and practices for democratisation and to confer legitimacy on this basis to the leadership of those states under political scrutiny.<sup>349</sup>

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<sup>349</sup> Roy Allison, "Virtual Regionalism, Regional Structures and Regime Security in Central Asia", *Central Asian Survey*, Vol. 27, No. 2, 2008, pp. 185-202, p.190.

Kyrgyzstan has good relations overall with the United States despite criticism from the latter for human rights violations and undemocratic practices in the Kyrgyz Republic. During the early years of independence, relations with the United States were even better. As already mentioned, Akaev received glowing personal endorsements from both U.S. President Bill Clinton and Vice President Gore, as well as significant economic assistance from the United States government. This lasted until the closure of the Kyrgyz parliament by Akaev.

The role of the US and NATO could have been significant in the international socialisation of Kyrgyzstan, especially after their deeper security engagement in the country after 2001. However, as some experts suggest, the new role “accorded to them [some Central Asian states] in the war on terrorism has led to a new self-confidence among the leaders, as it has allowed them to bring something to the international community and not just take from it.” In other words, their new enhanced role in the global fight against terror made them “less rather more vulnerable to US criticism.”<sup>350</sup>

To sum up, on the one hand, the interplay of domestic politics of political, economic reforms and security/state-building generated high social and political costs and, as a result, the domestic support for the incumbent government waned, as demonstrated in the previous section. On the other hand, there was not sufficient international engagement in the country that would meaningfully and persistently extend the necessary demand and support to the government, work with society, and thus prevent the incumbent from reversing the liberal reform policies he had adopted earlier.

In the exit strategy for Kyrgyzstan recommended by the International Crisis Group, a special role is ascribed to the international community, to not only its support but also its demand.

The resolution of Kyrgyzstan’s political crisis is largely in the hands of the Kyrgyz themselves. But the international community can play a positive role from backstage by pushing for political reform, supporting dialogue between political groups, and opposing actions of the government and opposition that will only worsen the situation...Poorly targeted financial aid has lessened the pressure on the government to push for its own solutions to economic problems and has probably promoted the growing corruption within the system. Further assistance must take into account the

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<sup>350</sup> Martha Brill Olcott, “Taking Stock of Central Asia”, *Journal of International Affairs*, Vol.56, No. 2, 2003, pp. 3-17. p. 17.

problems of governance and political stability, focusing on reforms of the political system and the introduction of more transparency.<sup>351</sup>

The International Crisis Group Report is an attempt at a comprehensive and critical assessment of the international community's role in the Kyrgyz Republic's transition, which concludes that "it would be extremely significant if the main Western political players could develop a common platform on at least the basics of systemic reform. A common message from the U.S., EU, OSCE, and other governments and international organisations is more likely to be influential..."<sup>352</sup> Such an understanding of the international community's role supports my assumption that it is very unlikely that with a limited political resource any government would be able to conduct such complex, systemic and simultaneous transformation as the transition, unless there is a sufficient level of external demand and support.

### **Economic Aspect**

As already mentioned, the engagement of the international community in Kyrgyzstan's economic reforms was relatively more significant than in its security and political reforms. The question is whether international and regional financial institutions' demand and supports were adequate and balanced.

### ***Foreign Direct Investment (FDI)***

I deem foreign direct investment to be an indicator of external support.<sup>353</sup> After analysing the investment situation in post-communist states in transition and their experience in attracting foreign direct investments, Anders Aslund concludes that people and governments in post-communist states often had misperceptions about Foreign Direct Investment. "Especially in the former Soviet countries, people were concerned about sharply falling rates of investment and thought of FDI as a substitute for faltering domestic

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<sup>351</sup> International Crisis Group (ICG), *Asia Report N 37, "Kyrgyzstan's Political Crisis: An Exit Strategy,"* Osh/Brussels 2002, p. 27.

<sup>352</sup> ICG, 2002, p. 28.

investments.” However, “illusions about hungry foreign investors died slowly and bitterly” the author continues. According to Aslund, “foreign investment financing neither can nor should play a major role in the early transition” rather “it has come as the proof of the success of reform rather than a catalyst of growth.”<sup>354</sup>

Thus, Aslund considers Foreign Direct Investment as an indicator of success of reform.

Table 5.1 Foreign Direct Investment in Kyrgyzstan (net in US\$ million)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Kyrgyzstan	10	38	96	47	83	87	38	-7	-1	16	45
Belarus	18	11	15	105	350	201	443	119	96	434	250
Armenia	1	8	25	18	52	221	122	104	70	110	135

Source: EBRD Transition report 2003.

Kyrgyzstan is not an exception to this common description. Throughout the decade, a series of active steps were taken in the country to eliminate obstacles adversely affecting foreign economic engagement. There is no discrimination against foreign investors. The current commercial code in Kyrgyzstan takes a common approach to domestic and foreign investors. However, this approach has been perceived as unfair by the local, less wealthy businessmen. Moreover, this approach has not brought the expected volume of foreign investment. Foreign investment in Kyrgyzstan was regulated by the Law on Foreign

<sup>353</sup> Some studies try to explain the implications of different types of foreign capital flows (i.e., foreign official aid, foreign direct investment, portfolio investment) on the political system of a destination country. For instance, foreign direct investors are considered more likely than aid donors to care about domestic politics and about a certain level of liberalisation. Portfolio investments, however, apply the highest degree of pressure for market reforms. It is argued that this type of foreign capital flow can restrict discretionary powers of authoritarian governments by disciplining the business environment, limiting patronage, and strengthening civil society. See Charles Lindblom, “The Market as Prison,” *Journal of Democracy*, pp. 324-336; J. A. Winters, “Indonesia: on the Mostly Negative Role of Transnational Capital in Democratization” in Armijo, L.E. (ed.) *Financial Globalization and Democracy in Emerging Markets*, Plagrave, New York, 2001. For the application of these hypotheses to the states of Central Asia and Caucasus, see Oksan Bayulgen, “Foreign Capital in Central Asia and the Caucasus: Curse or Blessing?”, *Communist and Post-Communist studies* 38, 2005, pp. 49-69.

<sup>354</sup> Aslund, 2002, pp. 436-437.



Investments of 1997. A new Law on Investment was adopted in March 2003.<sup>355</sup> There are restrictions on the inflow of foreign investment in terms of volume and the sectors of the economy. Foreign investors can be the sole owners of property. They enjoy a liberal visa regime and a liberal currency regime. Tax and customs privileges for foreign investors are considered by the international financial institutions to be ineffective in attracting foreign direct investment, and also discriminatory and expensive. However, in an attempt to attract foreign investments, Kyrgyzstan has established four free economic zones, in areas suitable for mass production. Businesses in these zones are exempt from all taxes, levies, and customs duties on exports, imports, and re-exports except for a 1 to 2 percent charge on the income earned from the sale of goods and services produced. Exports are free of quotas and licensing requirements. Despite all these measures and privileges, Kyrgyzstan's free economic zones, the biggest of which I visited some years ago, do not have much to impress one, apart from a handful of small enterprises.

Despite the introduction of special incentives for foreign investors and a liberal exchange-rate regime, total FDI inflows since independence are less than US\$550 million, (table 5.1) and most of it is invested in the gold mining sector. In 2003 net FDI did not exceed US\$45 million. The capital, Bishkek, has received 50 percent of the country's total FDI inflows. The volume of portfolio investment is small as well. Local analysts consider the scarcity of valuable natural resources, the long distance from world trade arteries, high transportation expenses, large taxes, and a small internal market space as the main impediments for financial investment into Kyrgyzstan.<sup>356</sup> One of the "side effects" of the limited Western interest is that the Kyrgyz authorities began to look to more traditional partners in the CIS, especially Russia and Kazakhstan and to engage in more eastward regional economic organisations, such as Eurasian Economic Community.

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<sup>355</sup> Source: Ministry of Finance of the Kyrgyz Republic, <http://www.minfin.kg/eng>.

<sup>356</sup> Aijan Baltabaeva, "Investors Attracted but Not Appear", *Central Asia-Caucasus Analyst*, March 26, 2003.

### *Trade Access*

For emerging market economies, access to large export markets is critical for economic growth. The long-term success of economic reforms and economic development in the transitioning countries depends on integration into the world trade system. According to Aslund, “Recovery in all transition economies has been preceded by a substantial restructuring and expansion of exports. The openness of Western markets has been vital.”<sup>357</sup> After a three-year accession process, Kyrgyzstan became a member of the World Trade Organisation (WTO) in 1998. Interestingly, Kyrgyzstan and Latvia were the first countries of the entire former Soviet space to enter the WTO in 1998. Estonia and Georgia entered a year later, in 1999, while Lithuania did not enter until 2000. As is well known, a country seeking WTO membership has to undergo serious domestic economic transformation and it has to create a legal regime and external trade regulations that accord with WTO principles and demands. In sum, a country has to make serious compromises that become essential sacrifices for some period of time. The most direct consequence of WTO membership for Kyrgyzstan has been the declining contribution of tariff revenues to the state budget. Before joining the WTO, the average tariff rate was 9.18 percent; in 2000, in line with WTO obligations, it had fallen to 5.2 percent and it continued decreasing further, reaching 5.07 percent in 2002. The share of customs revenues overall fell from 6.2 percent in 1998 to 2.4 percent in 2001 as a result of reduction of tariffs and decline in imports.<sup>358</sup>

All these figures are simply to show that any liberalisation, including the liberalisation of the trade regime, entails essential and concrete costs for the country and its population, at least in the short run. Despite Kyrgyzstan’s strenuous efforts towards meeting WTO requirements, it cannot benefit yet from WTO membership. The 2003 *Transition Report* points out that “As the experience of countries such as Georgia, the Kyrgyz Republic, and Moldova shows, WTO membership on its own does not guarantee unhindered access to international and regional markets, or the removal of key trade

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<sup>357</sup> Aslund, 2002, p. 428.

<sup>358</sup> United Nations Economic and Social Commission for Asia and the Pacific, *Managing Globalization in Selected Countries with Economies in Transition*, New York, 2003, p. 89.

barriers.”<sup>359</sup> Kyrgyzstan faces serious obstacles: geographical remoteness, lack of investments, little access to Western markets, poor industries and low quality products, the fact that it is a landlocked country which does not have WTO member countries as its neighbours (although China is formally a member, it is still in the transition period), and other reasons present serious obstacles. In sum, although the Kyrgyz government’s foreign policy in relation to this issue, namely its foreign trade and economic policy, has been directed to joining the WTO and to supporting the international trade regime, it has become a costly and unrewarding policy for Kyrgyz domestic society. Eventually, it decreased popular support for the government’s policy in this area and in general.

### ***Foreign Debt***

According to the European Bank of Reconstruction and Development’s *Transition Report*, the Kyrgyz Republic’s total external debt stock was US\$1.7 billion at the end of 2001, equivalent to 138.9 percent of GDP. Some 45 percent of this was owed to multilateral institutions on concessionary terms. External debt continued to remain high at the end of 2003, comprising 93 percent of GDP (see table 5.2). Faced with an increasingly unsustainable debt burden over the past years, with destructive implications for the economy, in 2002 the government finally managed to conclude a debt-rescheduling agreement with the Paris Club of creditors. However, the debt overhang continues to limit the government’s policy choices. Even with Paris Club debt relief, fiscal adjustment continues to be critical. The country’s external debt burden has been unsustainably high since 1999, and has required payments of US\$117.2 million.

Moreover, the debt rescheduling was neither timely nor conditioned on further economic reforms and democratic improvements. Many analysts have acknowledged that it will not help a country that no longer has a firm commitment to sustaining economic and political reforms.<sup>360</sup>

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<sup>359</sup> EBRD, *Transition Report 2003: Integration and Regional Cooperation*, 2003, p. 20.

<sup>360</sup> Daan van der Schriek, “Kyrgyz Economy More in Need of Reform than Aid,” *BBC Report*, January 25, 2002.

Table 5.2 External Debt of Kyrgyzstan as a percentage of GDP, 1994-2003

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
37.3	61.2	71.4	96.9	119.3	170.1	155.8	138.9	134.9	93

Source: EBRD *Transition Report 2003*.

In sum, Kyrgyzstan has achieved significant results in the economic sphere in terms of establishing the basic institutions of a capitalist economy, adopting laws and regulations that would ensure economic liberalisation, and opening the country for integration into the world economy. These achievements are reflected in the Index of Economic Freedom (see Table 5.3; on scale of 1 to 5, higher scores mean a lower level of performance).

Table 5.3 Index of Economic Freedom in Kyrgyzstan, 1995-2006<sup>361</sup>

2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
2.99	3.34	3.41	3.46	3.60	3.75	3.73	3.68	3.95	N/A	N/A	N/A

The review of international financial institutions' and other economic actors' involvement in Kyrgyzstan shows that their financial assistance policy to Kyrgyzstan was inconsistent and the support and demand balance was significantly distorted. Approximately US\$1.7billion in loans has been allocated to the Kyrgyz government, mostly from international financial institutions. Many valuable programmes and a considerable amount of macroeconomic reform were implemented. However, there has not been an adequate volume of foreign investments and risk insurance, debt restructuring, or trade access. The membership of WTO did not have any significant impact on the country's economic situation for the reasons stated above. In fact, it had a negative effect; it created additional barriers for the country's trade with its immediate neighbours. As a result, economic deterioration affected domestic society to the point where it withdrew its support for continuing the government's economic reform policy. Moreover, as one can conclude from this section on the economic dimension, economic deterioration also negatively affected the security and the stability of the state and society.

<sup>361</sup> Source: The Heritage Foundation, 2006 Index of Economic Freedom at <http://www.heritage.org>.

## Security Dimension

Kyrgyzstan's geographic location, as well as its weak and dependent economy and divided society, makes it particularly vulnerable to geopolitical shifts and major power pressures.<sup>362</sup> Geopolitical factors play a significant role in either escalating or defusing the tensions existing in Kyrgyz society. Realizing the challenge, Akaev pursued a "multi-vectoral" foreign policy to maintain balanced relationships with the large powers -- Russia, China, and the United States -- and to ensure their participation in the defence and economic security of the country. As Martha Olcott puts it:

Kyrgyzstan's foreign policy is governed by two basic considerations. The first is that the country is too small and too poor to become economically viable without considerable outside assistance. The second is that it lies in a nervous and volatile corner of the globe, vulnerable to a number of unpleasant possibilities. Both of these considerations force Kyrgyzstan to play slightly different roles simultaneously in its relations with the outside world, which has sometimes made the country's foreign policy seem confused or contradictory."<sup>363</sup>

As already indicated, Russia, China, and the United States are the main players in the region. The European countries and the EU have minimal, rather reluctant, interest in the country, although the EU concluded a Partnership and Cooperation Agreement with Kyrgyzstan in early 1995.

Relations with Russia are particularly sensitive, given the presence of a large Russian minority in the country and the specific character of the former Soviet economy. This has often inclined Akaev to yield to Russian pressure, whether over economic issues or the position of the Russian minority in his own country. Another major incentive for pursuing close cooperation with Russia is the apparent regional terrorist threat. Russian border guards keep watch over the Chinese frontier. The recent presence of U.S. military

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<sup>362</sup> For Kyrgyzstan's security issues, see Martha B. Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, Washington: USIP, 1996; William E. Odom, *Commonwealth or Empire? Russia, Central Asia and the Transcaucasus*, Indianapolis: Hudson Institute, 1996, Hafiz Malik (ed.), *Central Asia: Its Strategic Importance and Future Prospects*, New York: St. Martins press, 1996.

<sup>363</sup> Martha Brill Olcott, *Central Asia's New States: Independence, Foreign Policy, and Regional Security*, United States Institute of Peace Press, Washington, D.C., 1996, p.87.

forces on Kyrgyz territory has been balanced by an agreement signed with Russia in December 2002 allowing Russian forces to establish a base at Kant, some 20 kilometres from the capital, Bishkek. The granting of a long-term lease to Western forces in 2003 was followed by an agreement allowing Russia to reinforce its airbase in the Kyrgyz Republic as part of its air defence umbrella. In addition to bilateral security relations, there is considerable defence cooperation with Russia within the Framework of the CIS and Collective Security Treaty Organisation. Most of the CIS troops in the Kyrgyz Republic were under CIS and Kyrgyz joint command until 1993. These forces are nominally under full Kyrgyz command, but, in practice, operational command is shared with Russia. The existing overall good relations between the Kyrgyz Republic and the Russian Federation do not help much to stop ethnic Russians migrating from the Kyrgyz Republic.

Kyrgyzstan joined the NATO's Partnership for Peace (PfP) program in 1994. Within the PfP Kyrgyzstan has participated in a number of PfP exercises. NATO started seeking deeper cooperation with Central Asian partners based on decisions taken in Istanbul Summit of 2004. NATO and Kyrgyzstan started developing practical cooperation in a number of areas through the newly established Individual Partnership Programme (IPP). Key areas include security and peacekeeping cooperation, especially counter-terrorism cooperation and border security, defence reform, crisis management, and civil emergency planning. The country joined the PfP Planning and Review Process (PARP) in 2007 to work more closely with the Allies on military interoperability and defence planning initiatives. Kyrgyzstan also provides essential support to NATO's ISAF mission in Afghanistan by allowing NATO Allies to use the Manas Airbase outside of Bishkek for logistic support to the ISAF mission. As one can see, more or less meaningful cooperation started only recently. As for Kyrgyzstan's participation in NATO's Partnership for Peace (PfP) programme, it has been more political than military in its meaning. Kyrgyz governments have continuously stated that Kyrgyzstan has no intention of becoming a NATO member. Nor has the NATO side demonstrated any persistent desire to further the relationship. The existing level of cooperation with Kyrgyzstan, which provides its facilities for the fight against the terror, seems to be mutually satisfactory. However, NATO's engagement does not have any direct impact on alleviating country's security problems related to regional security threats.

The events of September 11, 2001, created a new situation in Central Asia and reopened a possibility for Akaev to improve his relations with the U.S. leadership. The Kyrgyz Republic extended its support to the U.S.-led War on Terror. The Kyrgyz parliament voted to permit the United States to base military aircraft and personnel on Kyrgyz territory. However, the presence of international coalition forces at the Manas Air Base has only added to the strategic competition around the country. There are many members of parliament and within the broader Kyrgyz society who criticise the bombing of Afghanistan and subsequent military operations in Iraq and who have resisted the idea of a long-term U.S. presence in the Kyrgyz Republic. Some have also expressed concern as to how such developments would be viewed in Russia. Nevertheless, Akaev continued supporting the international coalition. On the other hand, the Kyrgyz Republic's relations with Russia developed to the level of strategic ally in 2003.

The Kyrgyz Republic is also a member of several regional organisations, including the Commonwealth of Independent States, the Shanghai Co-operation Organisation, the Collective Security Treaty Organisation, and, more recently, the Eurasian Economic Community. However, these have largely proved ineffective in enhancing regional security and economic cooperation, and foreign policy has therefore tended to be conducted primarily along bilateral lines.

Of course, Kyrgyz government's primary motivation of engagement in these regional organisations was to enhance regional security. However, some experts claim that these organisations have a more specific and compelling function of 'protective integration', especially after "colour revolutions":

This engagement creates a basis for political solidarity between state leaders and their protecting against and resistance to a perceived interventionist agenda of democracy-promotion by Western states, international organisations and donor agencies."<sup>364</sup>

From this review, one can see that security challenges and their costs were much higher than a small and poor country like Kyrgyzstan could bear without serious damage to its economy and domestic politics. As Seldelmann rightly noted, the relationship between

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<sup>364</sup> Allison, 2008, p. 188.

democracy and security is very delicate and sensitive. Immediate security threats and state-building challenges often lead to the necessity to compromise between the democratic ideal and the necessities of state security.<sup>365</sup> Kyrgyzstan's foreign policy aimed to search for support to remedy its multiple internal and external security threats. However, there was no meaningful engagement by the international community in this area. The engagement of NATO's and the OSCE in regional security efforts was rather symbolic and insignificant. This made the country's leadership search intensively for other alternatives to guarantee the integrity of its borders and resolve security issues. Its new partners, such as China, Russia and the more eastward looking regional organisations, such as the SCO, CSTO, took the primary role. As there is less engagement by international organisations, the country's government has also become less vulnerable to international pressure to democratise.

### **Conclusion: Interaction**

In chapter 3 of my thesis I first argued that in order to understand transition in a country, it should be viewed as a political process in which there is a strong interconnectedness among the economic, security, and political policies of a government. The discussion in this chapter and recent developments in Kyrgyzstan demonstrate not only that such interrelation and interplay exists, but also explains to a great extent why the country has transitioned to an even more authoritarian regime.

In the economic dimension, market reforms have failed to bring economic prosperity. Radical reforms engendered a high level of unemployment and mass impoverishment. More than 60 percent of the population live below the poverty line.<sup>366</sup> This extreme poverty has increased the social as well as the regional disparities and the north-south divide in the country. It has brought about public discontent with the economic situation, threatening political stability in the country. As public opinion polls show,

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<sup>365</sup> Reimund Seldelmann, "International Security and Democracy Building" in in Zielonka, Jan and Alex Pravda (eds.), *Democratic Consolidation in Eastern Europe Volume 2: International and Transnational Factors*, Oxford University Press, 2001, pp. 112-138.

<sup>366</sup> World Bank, *Kyrgyz Republic Country Data: Kyrgyz Republic at a Glance*, Washington, DC: September 2005.



Kyrgyz society has become largely divided on the issues of the economic situation and reforms in the country. Domestic society essentially withdrew its support for the government's reform policy. Continuing vital economic measures was no longer possible without going against the will of people. The eroding economic situation had a negative impact not only on the political but also on the security sphere.

In the security dimension, independence has not diminished the security threats in Kyrgyzstan. They include incursions by the guerrilla organisation IMU, ethnic tensions between the Uzbeks and Kyrgyz in the southern part of the country, and disputes with neighbouring states over borders, resources, and the conduct of counter-insurgency campaigns. Economic hardship and the weakness of the central state to protect its borders instigated the flourishing of radical Islamist groups in the southern part of the country. In the context of poverty and unemployment, the underground Islamist group Hizb ut-Tahrir (Party of Freedom) has become even more popular. The deprivation of democratic self-expression has activated anti-regime forces in the country:

As the authorities have become increasingly authoritarian and repressive, the popularity of Hizb ut-Tahrir (Party of Freedom) has grown concomitantly. Because all other avenues of criticism and opposition have been closed, the secretive movement has become one of the few remaining outlets for any kind of dissent, despite being outlawed since November 2003. Recently, Hizb ut-Tahrir has turned its attention to the dissemination of anti-government propaganda, which has caused the Kyrgyz authorities greater concern.<sup>367</sup>

The addressing of some of these security concerns, however, has meant violating the basic "rules of the game" of democracy. Numerous territorial disputes and border demarcation issues and Akaev's attempts to resolve them peacefully made him politically more vulnerable and damaged his legitimacy. For instance, Akaev's popularity suffered greatly in 2001 when it was discovered that the government had signed three secret border agreements with China. The parliament threatened to begin impeachment proceedings against him for the misconduct of the border issues. Improvement of the relationship with China came at the expense of depriving the Uighur ethnic minority of their independent

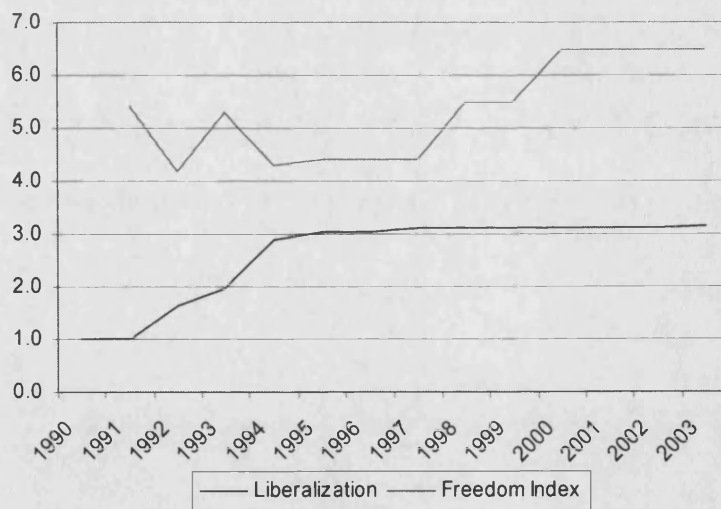
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<sup>367</sup>International Crisis Group, 2004.

cultural and political organisations.<sup>368</sup> The security situation and measures to address it in turn affected the economy negatively by draining political and financial resources, and impeding trade and investment. Security concerns also served as a pretext for the government to toughen its control over the country, thus curtailing democracy.

All the problems stemming from the deteriorating economic situation and numerous security challenges resulted in a deep legitimacy crisis in the country. In order to compensate for his lost domestic support and to maintain the stability and integrity of the state and his regime, Akaev began curbing civil liberties and political freedoms, while continuing economic liberalisation (see Chart 5.4). More often he opted for more authoritarian measures in order to enforce his policies without resistance from the elite and society, i.e., ruling by decree, calling for frequent “votes of confidence,” curbing the rights of the parliament, suppressing the independent media, and jailing his political opponents.

Chart 5.4 Dynamics of Political Rights and Civil liberties and Liberalization Index, 1991-2003



In addition to the measures described above, Akaev undertook serious “remodelling” of the basic institutions of democracy, such as modifying the country’s constitution and the election code, thus trying to legalise de facto the pro-presidential

<sup>368</sup> This is in a country where civil society was developing freely and independently.

status quo. The government's propaganda machine served the same purpose. This is a vivid example of how a government can try to change the rules of the game and to use propaganda means to shape public perceptions to gain domestic society's support, thus trying to fill the legitimacy gap resulting from inefficient economic, security, and other policies.

In sum, all these simultaneous developments in the domestic politics of Kyrgyzstan demonstrate the horizontal interconnectedness of economic, political and security policies during the transition and how the high social and political costs of those policies forced the government to choose among them because of insufficient and inconsistent external support and demand. The limited volume of political resource available to the government made it undertake critical revisions and even reversals in its initially radical policies, driven by the desire to ensure the survival of its own regime.

Not surprisingly, these developments created a vicious cycle. Partial and arbitrary reforms in the political sphere and repressions against political opponents had further direct and indirect consequences for the economy, the security and the government's overall legitimacy. Consequently, it shattered the government's credibility in the eyes of the international community.

The analysis of the political, economic, and security dimensions and their interrelation in post-communist Kyrgyzstan shows that the growing authoritarianism of Akaev was a reaction to compensate his declining legitimacy and maintain the stability which had been eroding as a result of intermingled political, economic, and security cleavages. As the International Crisis Group, analysing developments in Kyrgyzstan and the causes of authoritarianism, correctly noted, "In retrospect, Akaev's authoritarian bent has been more a steady evolution than a sudden shift."<sup>369</sup>

The explanation for such an "evolutionary" or gradual shift to authoritarianism lies not only in those domestic political, economic, and security cleavages and Akaev's attempts to address them with the least possible damage to his legitimacy, but also in the interaction among domestic, state and international levels. How were the resources and costs of transition distributed among domestic, state and international levels in Kyrgyzstan? To what extent was a support-demand balance provided vertically?

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<sup>369</sup> ICG, 2001, p. 26.

Due to poor starting conditions, geographical isolation, scarcity in resources, tremendous security concerns, and societal divisions, the political and social costs of democratisation in Kyrgyzstan were extremely high. And the country's leadership was unable to cope alone with the costs in a satisfactory manner. Although Kyrgyzstan did get foreign economic aid, whether for objective or subjective reasons there has not been an adequate volume of foreign investment and risk insurance, debt restructuring, or trade access, on the one hand, and strict political conditionality on the other. Nor did Kyrgyzstan benefit from the international socialization available to transition countries closer to the European Union. In the context of severe hardship and criticism of poorly targeted and mismanaged foreign aid and a heavy external debt burden, Akaev's government was perceived as bankrupt, weak, and corrupt by Kyrgyz society. In the same way, the high expectations that foreign direct investments would pour into a country so advanced in liberalising its economy proved to be false. As a result, economic deterioration affected the domestic society to the point that it withdrew its support for the continuation of the government's economic reform policy. The failures on the economic front were accompanied by failures in other dimensions and started to threaten the very stability and integrity of the state and the society. Without sufficient economic and political support-demand from the international community, the relatively liberal government of Akaev quickly exhausted its legitimacy resource and started moving towards authoritarianism. And there was insufficient international engagement to stop him from doing that.

The involvement of regional and international political organisations in Kyrgyzstan has been limited and rather formal. With the exception of some economic programmes through TACIS and some exchange within the PCA, it would be wrong to speak about any practical involvement by the EU. The OSCE, although it has been involved since the independence of Kyrgyzstan, has not achieved noticeable progress in helping the conduct of transparent and fair elections, guaranteeing the security of borders, solving trans-boundary problems, combating corruption, or ensuring freedom of speech and the development of independent mass media. The OSCE's failure to extend sufficient demand to the Kyrgyz government, its continuing optimism and positive reporting on elections throughout Akaev's tenure, as discussed in this chapter, surely played a negative role in encouraging the current state of affairs in the field of democracy. NATO's engagement in

Kyrgyzstan's security efforts was rather insignificant. Its engagement did not have any direct impact on alleviating country's security problems related to regional security threats. In addition, one cannot speak about any real effort by these organisations to engage Kyrgyzstan in international socialisation. The vacuum created by the minimal engagement of western organizations was filled by alternative regional organisations.

All these facts support my argument that one of the reasons why there was a slow down and even a reversal in Kyrgyzstan's transition trajectory is that the resources and respective costs of transition have not been distributed reasonably and in a timely manner among the three levels. As the ICG Report correctly noted:

Overall, Western assistance has done little to promote democracy in Kyrgyzstan and is partly responsible for the present political crisis. Further assistance must take into account the problems of governance and political stability, focusing on reforms of the political system and the introduction of more transparency. It is no longer possible to separate political and economic reforms... [in Kyrgyzstan]. Further aid – particularly that flowing into conflict-prevention programs – should consider the political aspects of development as well as basic welfare needs. The latter will only be effective under a political system that improves governance, and promotes stability.<sup>370</sup>

My other argument was that the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus creating an essential and direct link and interplay between domestic and foreign policy dynamics during the transition. I argued that in countries where the economy and security are deteriorating but political liberties are in place, one should expect a change in government policy, be it domestic or foreign. If policy change does not occur, I suggested looking into the political dimension of the government's policy to see whether the society in that particular country is deprived of democratic self-expression. I also suggested that if the democratisation process leads to a rise of ethnic or religious conflict, the country's foreign policy would aim to seek the necessary international support for preventing a deepening internal division or even the breakup of the country. If a country's foreign policy direction fails to secure that support, it may lead to a change in the foreign policy direction (i.e. changing its

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<sup>370</sup> ICG, 2001, p. 27.

geostrategic orientation: joining new international/regional security regimes, organisations; seeking new or reinforcing or halting existing bilateral ties). Alternatively, the government may slow down or suspend the democratisation process.

The case of Kyrgyzstan demonstrates that despite some failed attempts, Kyrgyzstan was not able to resolve its political, economic and security problems within the foreign policy it initially adopted. There was not much room for change, and despite some insignificant attempts, foreign policy remained largely unchanged. As some authors correctly observed, Akaev's foreign policy was a "confused and contradictory one".<sup>371</sup>

There were also some unsuccessful attempts to complement different foreign policy directions. However, overall there has not been any foreign policy shift. In this particular case, as one can see, limits in foreign policy choices made the government address its problems mostly by revising and adjusting its domestic policy choices. Kyrgyzstan would have been in a better position, in terms of consolidating its newly born and fragile democracy and capitalism, had international support and demand been more persistent and adequate. In this regard, a policy recommendation that one can draw from this analysis is that as a government's economic, security, and political policies are interrelated and interdependent, support-demand from the international community should address all spheres equally and take into consideration the mutual impact of and consequences for policies on each other. Another conclusion is that there should be greater international support and demand for those countries where the costs of transition are objectively high. Finally, it is not quick results but the country's long-term commitment to reform which should be the criterion for continuing international engagement.

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<sup>371</sup> Olcott, 1996.

## CHAPTER 6

### **Moldova's Transition: Success or Failure?**

#### **Introduction**

Based on the framework developed in chapter 3, in this chapter I will try to test my assumptions on Moldova's transition experience. In particular, my first assumption is that *there is a strong interconnectedness and trade-off among economic, political and security policies during transition. Success in one dimension often comes at the expense of success in another. It is hard to achieve progress in all dimensions, unless there is sufficient external support.* To test this assumption, the transition in Moldova will be viewed, first, as a political process of horizontal interaction of political, economic, and security policies.

My second assumption is related to the first. To further explain policy choices and change, one also needs to look into across level interaction. I assume that *there is also an essential link and interplay among different levels -- domestic, state and international -- within the overall transition process. And, in order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably and in a timely manner, distributed among those levels.* In other words, one needs to check whether the support-demand balance has been vertically provided.

As I suggested in chapter 3, countries in transition often exhibit critical shifts in foreign and domestic politics within a short period of time. In this chapter I also aim to demonstrate in Moldova's case how the shifts on the domestic front were reflected in the country's foreign policy. Changes in foreign policy direction may lead to changes in international support and demand, which will affect the transition process within the country. Thus, my third assumption is that *the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus creating an essential and direct link and interplay between domestic and foreign policy dynamics during transition.*

At first glance Moldova seems to present a serious challenge to my arguments. As indicated in Chapter 4, in Moldova, where security and the economy were in decline,

reforms had been progressing at least until 2000 and so had democracy. As in the case of Kyrgyzstan, in Moldova the cumulative indicators of both economic and political reforms continued to be equally high throughout the first decade of transition, even while the economy and security were continually declining. However, in Moldova this pattern changed after the Communist Party came to power and the trend in political liberalisation reversed.

What factors explain these developments in Moldova? What factors differentiate Moldova from the second group of countries identified in chapter 4, that is, countries that succeeded in one area of reform but lagged behind in others? Among the factors distinguishing that group from the first group of countries, that is, those which succeeded more or less in all spheres of reform, were their starting conditions, and more importantly, the degree of external demand and support that they received throughout transition.

Can transition succeed in all three dimensions simultaneously, without external support; or will success in one dimension come at the expense of the others? Can such developments be attributed mainly to the role played by the country's leadership or are more fundamental national and international structural factors and constraints responsible? Were external factors, international demands and supports important and, if so, to what extent?

Scholars give different, though complementary, explanations for Moldova's transition pattern. Way Lucan, for instance, explains it by the weakness of the Moldovan state and the high degree to which the elite is split. According to him, pluralism survived in Moldova "not because leaders are especially democratic or because societal actors are particularly strong, but because the government is too fragmented and the state too weak to impose authoritarian rule in a democratic international context." Lucan calls this state of affairs "pluralism by default," a form of political competition specific to weak states.<sup>372</sup> As Lucan contends:

... the relative resilience displayed by Moldovan pluralism is less a product of contingency and much more a function of long-term structural factors - just not those typically associated with democracy. In post-Soviet states without the rule of law, a democratic history, or a dynamic civil society, the

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<sup>372</sup> Lucan A. Way, "Pluralism by Default in Moldova", *Journal of Democracy* Vol. 13, No. 4, 2002, p. 127.



degree to which pluralism endures has depended on how severely split elites are, and how long they stay that way.<sup>373</sup>

According to the 2001 *Nations in Transit* report on Moldova the explanation is in the failure of the state and the political system:

Moldova has been one of the democratic stand-outs in an otherwise dismal post-Soviet array. Its elections have been free and fair, its parliament strong, and its political culture tolerant of minorities. Still, a decade after independence, Moldova is something close to a failed state. Its economy is in tatters, with a little foreign investment... And the situation in Transnistria is no closer to being resolved... Its main political parties repeatedly have shown themselves willing to block needed reforms, often simply because a reform bill was proposed by a rival political faction... The continued presence of Russian troops... The future of Moldova as a viable state is thus in doubt.<sup>374</sup>

These two explanations are not far from each other and, in a way, they support my approach. While the first emphasises the existence of a somewhat disintegrated society, the second points to the close-to-disintegration state. They can, of course, explain many peculiarities of Moldova's transition. In this chapter I will look into Moldova's transition in much greater detail, to find the answers to the research questions raised above.

Scholars of transition politics list numerous factors that, according to them, have impacted Moldova's transition. William Crowther, for instance, finds that Moldovan democratisation to date has been affected most powerfully by "(1) the character of the immediate transition from communism, (2) the international environment, (3) the course of intra-elite politics in the early transition, (4) the interest cleavage structure in Moldovan society, and finally (5) the process of political party formation."<sup>375</sup> I agree with him only partially because some of the factors that he points out are, I believe, outcomes of other,

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<sup>373</sup> Lucan, 2002, pp. 137-138.

<sup>374</sup> Adrian Karatnycky, Alexander Motyl, and Amanda Schetzer (eds.), *Nations in Transit*, 2001, Freedom House, 2001, p. 274.

<sup>375</sup> Crowther, 1997, p. 282.

more deeply rooted causes. Of course, the smooth transition that allowed many Communists to join the nationalist umbrella organisation, thus providing a large scale continuity of the old elite, played a significant role in the later Communist election victory. However, the formation of the political party system and even the way in which intra-elite politics evolved in Moldova, including the large presence of the Communist *nomenklatura* in the new politics of Moldova, are a reflection of the existing socioeconomic and identity cleavages that the country inherited from the past.

In this regard, Igor Munteanu's observations are more profound. He suggests that there were at least four constraints shaping the Moldovan political agenda: "(1) competing loci of identity; (2) dilemmas of modern state-building; (3) socio-economic cleavages; (4) vulnerabilities to external factors." Munteanu also distinguishes other dimensions of Moldovan transition such as political, economic, social and a transition in culture and national values.<sup>376</sup>

### **Background**

Before going into the details of Moldova's transition to market and democracy, it is worth identifying those historical, socio-economic, and cultural factors that might have left their trace on Moldova's transition, from the perspective of democratisation theories. One can identify several specific features that have had an impact on Moldova's transition.

First, Moldova emerged from the former Soviet Union as a country lacking a clear state and national identity. In 1940, when Romania formally ceded Bessarabia to the Soviet Union, a new Moldovan SSR was formed. However, large parts of the province are currently incorporated into Romania and Ukraine. With the re-establishment of Soviet rule, as a part of its general Russification policy Cyrillic script was imposed on the Moldovan language, which is in fact the same as Romanian. Moldovans were separated and isolated from Romania. The immigration to Moldova of large groups of Russians and Ukrainians was encouraged. Thus, an artificial separate Moldovan national identity-building process

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<sup>376</sup> Igor Munteanu, "Reforms Against Disintegration of State in Moldova" in Gheorghe Cojocaru, David Darchiashvili, Guram Dumbadze, Igor Munteanu, and Tamara Pataria (eds.), *Anthology of Comparative Studies: Societies in Transition: Moldova and Georgia*, Caucasian Institute for Peace, Democracy, and Development, Tbilisi, 2001, p.74.

started after the country's incorporation into the USSR. It is not surprising that even after a decade of independence, the issues of state-building and national identity are still prominent:

...in Moldova the survival of the state itself within its present boundaries must be considered uncertain. Most conspicuously, there is still no 'national idea,' no body of beliefs that can unify a disparate society in place of the official ideology of the recent past.<sup>377</sup>

In addition, having been a relatively underdeveloped periphery in "greater Romania" without a sense of a distinct national identity, Moldova did not have a political culture of democratic politics and institutions. As Crowther noted:

Moldova had no pre-Soviet model of indigenous national-level democratic institutions to fall back on once the constraints of the Soviet system were removed. Although it had participated in Romanian political life during the interwar period, national-level politics were almost exclusively 'Bucharest' politics, and far removed from affairs in Moldova. Furthermore, democratic tendencies in Moldova itself were vigorously suppressed up to the very end of the Soviet period.<sup>378</sup>

Thus, with a weak national identity and a lack of state-level institutional memories, not to mention the absence of democratic experience, Moldova's chances of building democracy were not very high, according to democratisation theories. Dankwart Rustow, the founder of the transition approach to democratisation, considers "national unity" the key premise for democratisation to succeed.<sup>379</sup>

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<sup>377</sup> Stephen White, Margot Light, John Lowenhardt, "Belarus, Moldova and Ukraine: Looking East or Looking West?", *Perspectives on European Politics and Society*, 2001, 2:2, pp. 289-304.

<sup>378</sup> William Crowther, "The Politics of Democratisation in Post-communist Moldova" in *Democratic Changes and Authoritarian reactions in Russia, Ukraine, Belarus, and Moldova*, edited by Karen Dawisha and Brice Parrott, Cambridge University Press, 1997, p. 288.

<sup>379</sup> See, Dankwart A. Rustow, "Transition to Democracy: Toward a Dynamic Model", *Comparative Politics* 2, April 1970, pp. 337-363.

Moldova's weak economy has been the second important factor. During the Soviet period, it remained largely agricultural and noticeably backward even in comparison with other Soviet republics. Capital investment and industrial employment rates were below the Soviet national averages. In addition to economic underdevelopment, the republic was one of the most corrupt regions in the USSR. Thus, Moldova's transition was doomed to failure from the perspective of modernisation theories as well.

Democratisation theories underscore the challenge that multiethnic states present for democratisation. Moldova's ethnic diversity is the third specific feature which later presented a serious challenge to Moldova's state-building and overall post-communist transition. Only 65 percent of the population are culturally Moldovan-Romanian. Ukrainians and Russians compose 14.2 percent and 13 percent respectively of the population; while the Turkic Christian Gagauz minority comprise 4 percent. Not only do large ethnic groups coexist in Moldova, but some of the groups (i.e., the Russians and Ukrainians) have powerful "motherlands" that back their fellow compatriots, thus fuelling the existing ethnic tensions.

Taking into consideration all the legacies that post-Soviet Moldova inherited, it is not surprising that Moldova's post-communist transition became tightly intertwined with state- and nation-building and with a search for a national identity.

### **Horizontal Dimension**

How did horizontal interaction take place among different policy goals, and how did policy choices and policy changes occur in Moldova? This section discusses the country's transition policies in economic, political and security/state-building and their interplay in order to highlight the domestic factors that influenced the country's overall transition path. The specific feature of Moldova's transition is its immediate and vivid reflection in the country's foreign policy dynamics. Unlike in Kyrgyzstan, which did not have many foreign policy options to manoeuvre throughout its transition, Moldova's transition path and its policy interactions were inextricably linked to the country's foreign policy choices.

### **Political Aspect**

Moldova had taken some steps towards independence well before the collapse of the Soviet Union. In 1989 an umbrella national organisation, the Popular Front of Moldova, was formed around the idea of “Romanization.” Its formation had a mobilizing effect on the masses and intensified pro-independence pressure. The first move towards independence was the restoration of the Roman alphabet and the adoption of Romanian as the national language by the Communist government on August 31, 1989. Popular pressure eventually resulted in the dismissal in November 1989 of the First Secretary of the Communist Party of Moldavia (CPM), Semyon Grossu, and his replacement by an ethnic Moldovan, Petru Lucinschi. The Supreme Soviet (parliament) elections held in February 1990 produced a fundamental change in the republic’s leadership. In the process of that election campaign a partial rapprochement was established between the reformist wing of the Communist Party and the Popular Front, and a substantial flow of reformist-minded Communists to the Popular Front took place.<sup>380</sup>

In general, the transfer of power from the Communists to nationalists in Moldova was gradual and peaceful. Such a smooth transfer of power ensured a high degree of communist elite continuity in post-independence politics of Moldova. At that point, the Popular Front announced its official platform which called for full sovereignty, a return to the use of traditional national symbols, demilitarisation, private property and free market, and full political pluralism. In April 1990 the Supreme Soviet, with the support of the Popular Front, elected CPM member Mircea Snegur as its chairman. In the executive and legislative branches many positions became filled by members of the Popular Front. Mircea Druc, an economist and ardent pro-Romanian member of the Popular Front, was appointed prime minister in May 1990. Druc assembled a reform-minded cabinet and initiated a series of economic and political reforms. In parallel, the constitutional privileges enjoyed by the Communist Party of Moldova, which had ensured its leading position in politics, were abrogated. All these measures ensured the country’s transition to independent statehood and reform. Interestingly, both the Popular Front politicians as well

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<sup>380</sup> Crowther, 1997, p. 292.

as the reformed Communists used ethnic issues to generate mass support. Mircea Snegur also associated himself with the Popular Front and its political programme.

The initial steps of political liberalisation in Moldova brought not just ideological cleavages to the surface, but also ethnic issues. In contrast to Kyrgyzstan, where ethnic minority issues and other intra-regional cleavages did not play a role in politics (perhaps with the exception of the Russian minority), in Moldova there was a strong politicisation of minority issues. The shift in political control to the ethnic Moldovan opposition was accompanied by increasingly serious interethnic confrontation. A series of provocative actions by the Popular Front legislators, acting under the influence of pro-Romanian extremists, fuelled minority concerns with regard to their future in a republic controlled by the titular nationality. As a result, even changes of the state symbols proved to be very divisive.

On August 31, the republic's Supreme Soviet, passed the version of the state language law supported by the Popular Front. It was in this context that Moldova's minorities – Russian, Ukrainian, and Gagauz – began to mobilise to advance their own interests in opposition to what they clearly perceived as threatening behaviour on the part of the Moldovan majority.<sup>381</sup> It is obvious that at that time, in order to generate mass support, leaders of both the Moldovan and minority communities played the ethnic card heavily. On the Moldovan side, reformers seeking democratisation and an end to the command economy joined with nationalists in an effort to bring down the Soviet system. On the Russophone side of the divide, a link was forged between members of the minority communities, who felt threatened by the militant rhetoric of Moldovan nationalism, and local party/state leaders whose positions were threatened by the collapse of the Soviet political order. These competing coalitions were consolidated during and shortly after the legislative elections of 1990, which played a pivotal role in destabilizing ethnic accord.<sup>382</sup> In this period the alliance of reformist Communists and the Popular Front became critical for the future of Moldova. While in the new parliament about one-third of deputies were

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<sup>381</sup> Donald Dyer (ed.), *Studies in Moldovan: The History, Culture, Language and Contemporary Politics of People of Moldova*, East European Monographs, Boulder, Columbia University Press, New York, 1996, p. 33.

<sup>382</sup> Dyer, 1996, p. 34.

selected from the reformist Communist list, the Popular Front had the support of the majority of deputies.

The ethnic breakdown of deputies elected to the 1990 Supreme Soviet did not reflect the multiethnic structure of Moldovan society. Ethnic Romanians comprised about 69 percent of the entire legislature, and not surprisingly, all high-level positions in the legislature were held by them. The same was true in the executive branch, where eighteen of twenty positions were occupied by ethnic Romanians.

In 1991 the country declared its independence following the attempted coup against Gorbachev in August 1991. Romania was the first country to recognise the new state. Moreover, the Romanian Mare party, as well as other political parties in Romania, called for unification with Moldova, much to the alarm of the other ethnic groups that lived in Moldova.

As in all umbrella organisations in the former Soviet Union, political forces in the Popular Front very soon started to splinter, giving birth to radical nationalists and more moderates. Faced with what they considered a concerted effort by the Romanian nationalists to dominate the republic, and having little hope that their interests could be effectively pursued, conservatives and minority activists in the new parliament banded together and started to resist major initiatives. Represented most effectively in the Supreme Soviet by the Savetskaya Moldoviya faction, these forces became increasingly inflexible.

In May 1990, following street confrontations in the capital that were orchestrated by the radical Popular Front leaders, 100 Russophone deputies withdrew from the republican Supreme Soviet. Further complicating the political situation, local elections held simultaneously with those for the Supreme Soviet transferred a series of local governments to minority leaders. As confrontation grew in the parliament, local forces entered into the worsening interethnic conflict. In areas in which non-Moldovans formed a local majority, city and district authorities began to develop alternative representative institutions. In the minority regions, local governments actively resisted what they considered to be discriminatory legislation from Chisinau. In some areas there was even some violent resistance against the Popular Front's actions.<sup>383</sup>

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<sup>383</sup> Dyer, 1996, p. 36.

Recognizing the growing unpopularity of the Popular Front, President Snegur started to distance himself from its extremist position. He soon consolidated his position as an independent political actor by successfully arguing for direct presidential elections, which he won in 1991 unopposed. With a drastic shift of political views in the executive, an ideological discord emerged between the legislative and executive branches of power. Meanwhile, discontent with the government for its inability to respond to the economic crisis and to find solutions to the interethnic conflicts in Transnistria and the Gagauz grew. These factors detracted from the legitimacy of the nationalists in the Popular Front and paved the way for more moderate forces of the Moldovan elite to come to power. The political situation in Moldova began to shift in a more positive direction. This occurred, at least in part, as a consequence of popular dissatisfaction with the conflict. The appointment of Moldova's reformist Communist Party First Secretary, Petru Lucinschi, as ambassador to Russia, signalled a shift in the balance of political forces. It was also hoped that Lucinschi would use his Moscow ties to promote accommodation on the Transnistrian question. A second prominent reformer from the former Communist leadership, Andrei Sangheli, assumed the duties of Prime Minister.

The Sangheli government represented an obvious departure from the period of Popular Front dominance, as it promised a more efficient economic reform program and a more moderate approach to the nationality question. His government included substantial minority representation. While the conflict with Transnistria continued, the government distanced itself from the position of the Popular Front and pursued a strategy that was aimed to reduce both interethnic confrontation and conflict between former Communists and anti-Communists. By taking a more flexible approach, Sangheli's government, in cooperation with an equally accommodationist President Snegur, was able to reduce significantly the level of ethnic hostility in the area controlled by Chisinau. This more flexible approach generated a positive attitude from the Russophone population in Bessarabia and helped to reduce the level of violence involved in the separatist dispute.

These new moderate policies provoked a strong resistance from pan-Romanian deputies in parliament, who accused the government of being pro-Moscow. Unable to influence the policymaking process anymore, the Popular Front deputies pursued a strategy of impeding any policy that might compromise their conception of the republic's



Romanian identity. Their behaviour de-legitimised the Popular Front further. In December 1992, President Snegur, who clearly supported the more conciliatory course, provoked a political crisis by delivering a speech in parliament warning against the extremes of either unification with Romania or closer integration into the CIS. One can see the strong link between the country's foreign policy orientation and the cohesion of the domestic society and the state, the cohesiveness of political elites. President Snegur's pro-independence stance no doubt reflected public attitudes. It also further increased differences between moderates and more radical nationalists within the Moldovan elite and inside the Front itself, thus accelerating the course of decline of the party. While agrarians shaped themselves into an increasingly cohesive force, by early 1993 the Popular Front had further factionalised. Another blow to its prestige was the withdrawal of intellectuals from the party. They formed the "Congress of the Intellectuals" and started pursuing a more moderate nationalist agenda. In the same way, managerial elites, frustrated with the Front's economic failures and in anticipation of its collapse, broke with the organisation. These events drastically reduced the once-dominant Popular Front's parliamentary representation. In response to these events, the chairman of the parliament Alexandru Moshanu, representing the Popular Front, resigned in protest over policy differences and the increasing influence of former Communists. However, he could not rally public attention and support. Not only was his resignation accepted, but the legislature overwhelmingly voted to replace him with Petru Lucinschi, the head of former Communists.

Lucinschi's election to the leading position in parliament marked a fundamental change in Moldovan politics and the possibility of a period of ethnic reconciliation. With the Popular Front in decline, power in the parliament shifted to the bloc of agrarian deputies. Having support from other moderate groups, Agrarians were able to play a dominant role in the legislature. While predominantly comprised of Moldovans, the new majority included a number of Ukrainians, Bulgarians, and Russians in their ranks. While remaining a critical issue, ethnic politics stopped being the single preoccupying issue in Moldovan politics. This allowed the attention of the elite and the public to focus on issues of economic reform. It essentially weakened the hold of the more radical elements in the leadership of the minority communities, thus permitting a solution for at least one of the

two major interethnic problems – Gagauz. Overall, these changes resulted in harmonizing elite politics with mass opinion, in many ways.<sup>384</sup>

It became apparent that the existing parliament was no longer legitimate, given the changed conditions in the republic. The parliament, dominated by moderate Agrarians, voted for the dissolution of the legislature. 1993-1994 were years of drastic political and economic changes. The country embarked on radical economic reforms.

A new election law enacted in 1993 proposed a proportional representation system. The parliamentary elections in 1994 resulted in drastic changes in the direction of the country's foreign and domestic policies. First of all, the turnout was very high, comprising about 80 percent of all registered voters, which is an indication of how eager Moldovan society was to change the existing state of affairs. Second, within only two to three years after independence, the policy priorities had changed significantly to better reflect the changing environment of the country's transition. The main issues during the election campaign were competing plans for the resolution of the separatist crisis, different economic reform strategies, and the question of Moldova's international orientation. The range of ideological positions represented in the elections was quite broad. Reform Communists, represented primarily by the Socialist Party and the Agrarian Democratic Party, called for a slower transition to capitalism. They argued for participation in the CIS and taking a conciliatory approach to the minority issue and the separatist crisis. In contrast, the Popular Front and the National Christian Party campaigned for unification with Romania.<sup>385</sup>

Parties advocating ethnic reconciliation and accommodation, as well as strengthening Moldovan identity, came to replace the Popular Front and other political parties supporting the idea of "pan-Romanianism." Legislative control was passed to the Agrarian Democratic Party with 56 of the 104 seats in the parliament. It favoured closer links with the CIS in order to prevent a Romanian takeover, rather than from a desire to

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<sup>384</sup> Dyer, 1996, p. 37.

<sup>385</sup> Crowther, 1997, p. 311.

restore the Soviet Union. The Socialist Bloc won 28 seats. The radical nationalist won very few seats.<sup>386</sup>

Thus, the 1994 parliamentary elections confirmed the new political direction the country was taking. The results of the election instantly resolved the prior ideological conflicts of pan-Romanians versus moderates between the legislative and executive branches. By forming a clear majority in the legislative branch, the moderates were able to consolidate their power. Sangheli remained as Prime Minister and Lucinschi as chairman of the parliament. Thus, the nationalist and pan-Romanianist policies of the Popular Front that had prevailed in the early years of transition proved to be ineffective or even destructive both domestically and internationally. In a very short period of time, these policies marginalised ethnic minorities, bringing the Moldovan state and society to the edge of disintegration. As a result, those policies de-legitimised the ruling political force and raised the necessity of either changing the government or changing the Popular Front's policies. Naturally, the Popular Front was not able to change its policies, because this would further compromise its already eroded legitimacy, if not finally undermine it. As a result, more moderate and pragmatic Agrarian Democrats came to replace the nationalists. While the new government's stance on issues of state-building was very different from the stance of the Popular Front, it continued the economic reforms already started by the Popular Front.

Within the new political environment, major problematic issues -- such as the status of the Gagauz region and the new constitution -- were resolved. Agreement was reached on local autonomy for Gagauz, thus putting an end to at least one of the country's separatist problems, with positive implications for the other. The Agrarian party also fulfilled its pre-election commitment to accelerate economic reforms, particularly the pace of privatisation. By the end of 1995 Moldova was already considered to be one of the ambitious reformers among the newly independent states. However, the continuation of radical reform was taking its toll. While being able to bring hyperinflation following price liberalisation under control, GDP fell by almost 31% in 1994, poverty levels increased, deepening the social

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<sup>386</sup> Source: BBC, Summary of World Broadcasts.

and economic crisis in the country and leading to the withdrawal of domestic support for reforms.

The new Moldovan constitution adopted in 1994 reflected the national orientation of the new majority, the Agrarians.<sup>387</sup> It established a semi-presidential republic, with both the president and parliament to be elected by popular vote. The Constitution prevented an excessive concentration of power in the hands of the president by creating a “semi-presidential” system, rather than the “presidential republic” that Snegur, then President, wished for.

The president, as the head of the executive, was to choose the prime minister-designate, who was then obliged to select members of a government from the parties present in the parliament. The principal function of the parliament lay in approving the government and its programme. The new constitution also included significant steps towards ethnic accommodation. It anticipated a special autonomous status for Transnistria and the Gagauz region. The Moldovan constitution failed to win over Transnistria. The region voted for its own charter, proclaiming Transnistria’s full independence, in December 1995.

However, the arrangement for forming governments clearly allowed a great deal of scope for conflict. Not surprisingly, both legislative and executive branches shared the opinion that the division of power made the executive weak and ineffective and made debates over policy issues prolonged and fruitless at the expense of the economy. The tension between the executive and legislative branches began to be reflected in all policy directions.

As in Kyrgyzstan and elsewhere in the CIS, in Moldova the incumbent’s (Snegur) first reaction to the deteriorating social and economic situation and the resulting decline in domestic support was to tighten his grip on power by trying to amend the constitution. He argued for the formation of a “Presidential State” in which the directly elected executive would determine policy directions and carry out necessary reforms. Snegur also detached

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<sup>387</sup> *ITAR-TASS news agency*, “New constitution adopted”, Moscow, 28 July, 1994.

himself from his centre-left political base and, in a sharp reversal of his previous position, took a rightist pro-Romanian stance.<sup>388</sup>

In the context of Moldova's recently prevailing trend of relative ethnic moderation, pro-Moscow stance and growing discontent from social and economic situation in the country that led to a decline in domestic support, both elite and public, it is not surprising that Snegur lost in free and fair presidential elections held in 1996 to more democratic-centrist political forces. In the two-round elections, Lucinschi emerged as a winner.

Lucinschi's victory owed much to his programme of moderately paced reform, ethnic harmony, and a moderate orientation toward Russia. With this approach, as William Crowther observes, Lucinschi was able to capitalise on a widespread perception that he would be more able than Snegur to resolve the ongoing Transnistrian dispute and less likely to destabilise the republic by moving to an overtly pro-Romanian policy. At the same time, "Lucinschi's reputation as a moderate pro-reformer promised change at a pace that was not threatening to an already economically strapped population."<sup>389</sup> Some results soon appeared. In May 1997 Moldova and Transnistria signed a Memorandum of Understanding.

President Lucinschi selected the outgoing prime minister, Ion Ciubuk, former Communist *nomenklatura* member, to form a new government. Ciubuk resigned after one year on the grounds that he was unable to consolidate the government because of the political diversity among its members.<sup>390</sup> The negative influence of the Russian economic crisis of late 1998 also played a major role. A new government comprised of members of governing coalition, the Alliance for Democracy and Reforms was formed in March 1999, led by Prime Minister Ion Sturza.

Sturza's government identified progress toward eventual membership of the EU as its principal foreign policy goal. With that in mind, it aimed to establish the country's image as a favourable location for investment. Domestically, it intended to press ahead

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<sup>388</sup> Crowther, 1997, p. 320.

<sup>389</sup> Crowther, p. 320.

<sup>390</sup> Reportedly, internal strife within the coalition made the distribution of ministerial portfolios and government offices a subject of political contention. However, critics also mentioned the prime minister's own incompetence.

with structural reforms, establish strict financial discipline, and improve the administration. In addition, and not surprisingly, it expressed its intention to stop social decline and secure the welfare of vulnerable sections of society. However, that was not possible at that stage of economic reforms. In fact, the reverse was the case: according to the EIU Moldova report, in 1997-98, in order to reduce its budget arrears, the government was forced to cut spending in such areas as education, health care, social benefits and agricultural subsidies.<sup>391</sup> This decrease in social spending provoked mass protests and was successfully manipulated by the Communists who comprised the majority in the parliament.

Meanwhile, the mounting social costs of the economic reform gradually led to a further decline in domestic support for the centrist-reformer government and paved the way for a communist comeback in Moldova. During the local elections in 1999, the Communists increased their already significant representation at the local level, another strong indication of how domestic society's support for the incumbent political forces and their policies had declined. These changes had implications at the elite level, increasing the tensions both among parliamentary factions and between the parliament and the president. Meanwhile, Lucinschi, as a result of the economic decline and unresolved security problems, began to lose the political support of the society and of the shaky political coalition in the legislative branch. Frustrated by the endless internal strife among his parliamentary partners and following the pattern of other former Soviet states, he started to campaign for constitutional reforms in Moldova. Both sides agreed that the division of power under the existing system had resulted in a weak executive and prolonged debates over policy, at the expense of the economy. However, they had contradictory views about how to handle the problem. Lucinschi strove to establish a presidential republic that would have given the president the authority to act decisively when futile parliamentary debates resulted in potential economic and political instability. Parliament responded with its own version, which envisaged a parliamentary system within a strong presidency. The Council of Europe's Venice Commission found the parliament's draft more acceptable. The latter would strengthen the government's executive powers without breaching Western democratic norms.

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<sup>391</sup> Economic Intelligence Unit, *Belarus and Moldova: Country Report*, 1998.

Eventually, the legislative branch succeeded and in spring 2000 the new constitutional amendments were formally approved, transforming Moldova into a parliamentary republic.<sup>392</sup> The new legislation on the mechanism for electing the president was passed by parliament in September. These changes, which meant that the President was to be elected by parliament rather than through a direct vote, were designed to strengthen parliament's positions vis-à-vis Lucinschi.<sup>393</sup> The changes were actively promoted by the Communist Party which was preparing advantageous conditions for its political victory..President Lucinschi at first refused to promulgate the law, but he capitulated after his initial veto was overturned. His initiative became another unfulfilled attempt to tighten the control of the executive over the country at the expense of democratic norms and procedures.

The choice between a fully parliamentary system and a fully presidential system occupied Moldovan politicians throughout 1999 and 2000. Yet the choice was in large measure a false one, driven more by political intrigues among Moldova's political interests than by a dispassionate consideration of the country's institutional problems. Why was the strengthening of the executive successful in Kyrgyzstan but not in Moldova? In Kyrgyzstan there was a strong and committed reformist leader. As a reaction to public and elite discontent, he was able to concentrate all powers in his hands, dominate the political landscape and continue costly reforms by suppressing political freedoms. Part of the reason why Akaev succeeded was that he did not have a strong and unified opposition and, more importantly, the Communists were not represented as a political force. As a result, there were no real political alternatives to Akaev's regime. In Moldova the counter-elite was highly fragmented and it was not possible to consolidate them behind any national idea. At the same time, the reformed communists were politically active, organised and were viewed by domestic society, which was exhausted and disappointed from economic decline, as an alternative to the incumbent.

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<sup>392</sup> Moldovan parliament seizes power to elect president, *Agence France Press*, 21 July, 2000.

<sup>393</sup> *Nations in Transit 2002*, Moldova Country Report, p. 286.

No matter how progressive it was, Sturza's government became the first victim of the new situation. Reportedly, the energetic and reformist Prime Minister Ion Sturza presented a political threat to Lucinschi. Although the government had a strong approval rating by Western governments and international financial institutions, Lucinschi had repeatedly criticised the Prime Minister. Therefore, Sturza's ouster in November 1999 was perceived by the West as a sign of regress. A no-confidence action initiated by Communist deputies was also supported by the previously anti-Communist Christian Democratic Popular Party and independent parliamentarians allied with Lucinschi himself. According to the *Nations in Transit* 2001 country report for Moldova:

This strange alliance confirmed not only Lucinschi's political debt to the Communists, but also revealed the deep divisions within the Alliance for Democracy and Reforms. As in earlier parliamentary confrontations, Sturza's demise had less to do with disputes over policy than with internal rivalries within the governing coalition-especially between the leaders of the two rightist factions.<sup>394</sup>

Although the international lending agencies had generally praised Sturza, the International Monetary Fund suspended its programme in Moldova a week before the dismissal vote, when Sturza's government was obviously already in danger. So did the World Bank, by postponing its structural adjustment credit agreement. This strong reaction came in response to the parliament's failure to approve the programme of privatisation of the wine and tobacco industries. In other words, this meant withdrawing international support. Naturally, this further undermined the government's legitimacy.

Although the *Nations in Transit* report does not see policy issues as a cause of the government ousting and ascribes the problem to internal rivalries only, I cannot agree with this interpretation. There seemed to be more serious underlying causes for Sturza's dismissal. There was an essential change in the political environment which made the dismissal possible. First, Sturza's government was strongly reformist and pro-Western and, as Communist takeovers at local-level elections indicated, it had lost the support of society due to its adoption of a radical reform strategy. This fact was acknowledged by Sturza himself: "Those politicians who took all the hard decisions for the economy during the

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<sup>394</sup> *Nations in Transit* 2001, Moldova Country Report, p. 275.



transition had very short political lives... It took some years to appreciate what's been achieved. My main task is to insure that the process of democracy is irreversible."<sup>395</sup>

Second, Sturza's government lost support at all three levels. It was not just domestic society and the international community that withdrew their support for economic reforms; the policy preferences of the governing elite changed drastically as well. With the evident strengthening of the Communists, cooperation with them was deemed to be imperative. Both parliamentary factions and President Lucinschi sought to co-opt and re-align with the Communists. Third, the sanctions applied by the international financial institutions further undermined the already troubled government of Prime Minister Sturza. This is, in fact, a vivid case of the international demand-support balance not taking the domestic political reality into account, thus contributing to, and even accelerating, the replacement of the reformist government. Overall, this marked the beginning of the left's takeover, with respective domestic and foreign policy changes following it. Initially, the President and the right-wing parties adopted some accommodationist if not conformist policies, sacrificing the reformist government, and, in the next elections, they themselves were ousted by the CPM.

The fact that the fall of the Sturza government sparked such a serious crisis is more evidence that the increasing acrimony within and between the executive and the legislature had deeper structural explanations. Approval of a new technocratic government under Dumitru Braghis took place in December 1999, after two prime ministerial candidates had failed to get the parliament's endorsement. Overall, between the 1998 election and May 2000 there had been three governments, with the last one, led by Dumitru Braghis, periodically threatening to resign. However, Braghis remained in office until the prolonged struggle between President Petru Lucinschi and parliament over Moldova's form of government came to an end.

After the third failed attempt to elect a President, President Lucinschi exercised his constitutional right to dismiss the parliament. In the early parliamentary elections, the Communists emerged as the winner. The Communist Party's absolute majority in the 101-

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<sup>395</sup> Entrepreneur Prime Minister hopes to build prosperous Moldova, *Economic Globalization is Ion Sturza's Recipe for Success*, Special International Report Prepared by *The Washington Times* Advertising Department, published on April 22, 1999.

seat Parliament made it the most powerful political entity since Moldova's independence. The numerous international organisations that observed the elections said the vote was free and fair. Moldovans in Transnistria did not take part in the elections.

Parliament's dissolution and the subsequent early elections revealed how deep Moldova's political crisis was. One should note that from the old parliament, apart from the Communists, only the CDPP won seats in the new body. The Braghis Alliance was the only outside group to win seats, thanks to the efforts of acting Prime Minister Dumitru Braghis who, for example, decreased the arrears in pensions and salaries owed to public employees prior to the election.

Some observers believe that the total victory of Communists was a direct consequence of the failure of the right-wing parties to form an anti-Communist coalition, an electoral bloc that could defeat the Communists, as had been the case in the 1998 parliamentary elections. However, any re-grouping of the political forces is, after all, only a surface reflection of underlying social, economic, and political processes. Not surprisingly, many local and international analysts explained the election results, first of all, by the changing attitudes in Moldovan society. According to the *Nations in Transit's* 2002 Moldova country report:

The Communist Party's victory was not only a sign that many Moldovans long for the social benefits, free medical services, and better living conditions of the Soviet era, but also a firm voice against the reformists, who had largely failed to deliver on their promises of the past decade. The Communists' winning message was that the governing parties were unable to deliver economic growth and, as a result of their economic mismanagement, most of the country's population lives in poverty.<sup>396</sup>

According to Igor Munteanu, the crisis of legitimacy of successive leaderships became a crisis of legitimacy of the new Moldovan state.

For several reasons, the emerging new state in the Republic of Moldova failed to earn the trust of its citizens primarily because of the lack of effective policies... societal reformers often emerged more as ideological crusaders in favour of the hard-line version of liberalism, long forgotten in most developed, modern democracies, than as wise and considered agents of social change... Ordinary people feel themselves that they were the

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<sup>396</sup> *Nations in Transit 2002*, Moldova Country Report, p. 286.

victims rather than the beneficiaries of the transition to a market economy... Claiming with obstinacy that the state is supposed to take care of changes but having only poor if any result in securing the minimal needs and expectations of citizens, politicians in Moldova are blamed today for what they have incriminated several years ago to the Soviet partocracy.<sup>397</sup>

In my opinion, the Communist takeover was not surprising. There was, in fact, a high level of old elite continuity in Moldova, and the old nomenclature members had been running the country since it became independent. But since the Communist Party was suspended, the old nomenclature was scattered throughout different parties. Once the party was allowed to register and participate in the 1998 elections, the takeover occurred. Although it had been suspended for many years, the Communist Party still managed to remain the most organised party and it benefited considerably from its Soviet-era network of local branches and grassroots. The Communist Party campaigned aggressively, with the most populist slogans, generously promising people what they wanted to hear.

The return of Communists to power was almost unavoidable in the context of ethnic conflicts threatening the state's integrity, mass impoverishment and endless and futile political struggles that the domestic society witnessed and experienced (given that political liberty still existed and free and fair elections were possible). However, immediately after the elections, contrary to the CPM's electoral promises, the Communist leader, Vladimir Voronin, stated that his party would not revise Moldova's privatisation programme and would cooperate with the World Bank and the International Monetary Fund.<sup>398</sup>

Some analysts predicted such a u-turn in political attitudes, showing how interconnected political, economic and state-building policies were in that period:

While the CPM has a monopoly on power, this could be undermined by continued economic decline, internal party splits and a nationalist backlash against its pro-Russian orientation. The CPM will seek allies in domestic

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<sup>397</sup> Munteanu, 2001, p. 78.

<sup>398</sup> *BBC Summary of World Broadcasts*, "Communist leader pledges adherence to IMF agreements", 28 March, 2001.

politics, and will seek to find the external partner, whether Russia or the IFIs, best able to assist in the long- term revival of the economy.<sup>399</sup>

Whether made to seek international legitimacy or out of his own policy convictions, Voronin's statement deserves attention. It meant that the government decided to act against the will of those who had cast their ballots for anti-market policies. Was that possible within a democratic political system? Such a step contained the serious potential of authoritarian politics, of imposing further unpopular economic measures, even if understandably for the sake of the economic development of the country. Not surprisingly, the next elections in Moldova, the local elections of 2003, were assessed by international monitors as the worst elections since the country's independence. And as we will see below, this was not the only violation of democracy. This leaves us with the same question as in the case of other CIS countries: was retreating from democratic principles to impose some authoritarian elements imperative to achieving approximately 6 percent positive economic growth in 2000 for the first time since independence, and 30 percent of economic growth from 2000 to 2004?

At the same time, Voronin reaffirmed that the CPM's objectives included joining the proposed Russia-Belarus union and reintroducing Russian as an official language in Moldova, along with Romanian. Here once more we witness a foreign policy shift to better meet, as the Communist leaders believed, the country's economic and security needs and expectations. The election results proved that there was a wide perception among the domestic society that the keys to restoring the economy and territorial integrity of the country were in the hands of the Communists, and that close ties with Russia and the CIS would help resolve these fundamental problems. The CPM also said that it would keep its promise to reverse administrative-territorial reforms, reverting to the Soviet system of counties called rayons. The Communist Party, though, had to form a government, and President Voronin and his team were unprepared to take on the full responsibility of governing. The Communists found themselves in a difficult situation when the time came to select people to work in the executive branch. Their solution was to establish a technocratic government. To avoid competition between the parliament and the presidency,

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<sup>399</sup> Oxford Analytica, *Moldova: Communist Victory leaves much undecided*, March 2001.

Voronin selected the inexperienced and little known Eugenia Ostapciuc as the speaker of the parliament, as a compromise candidate.

Voronin captured 71 of the 89 votes cast by members of parliament, and as expected, was elected Moldova's next President. Voronin nominated Vasile Tarlev, an ethnic Bulgarian who was the manager of the one of the few profitable state-run enterprises in Moldova, as the country's Prime Minister. Tarlev's team won the backing of 75 members of parliament from the Communist Party and the Braghis Alliance. Thus, Moldova became the first and only former Soviet country where the Communists returned to power. Voronin, meanwhile, kept his post as First Secretary of the CPM's Central Committee, thus uniquely and unprecedentedly positioning himself to control both the executive and the legislative branches. Thus, Communists created the first ever government in Moldova since its independence which was not only willing but also able to take full control.

Despite the fact that Moldova is a parliamentary republic, President Voronin continues to be the most influential figure in politics since 2001, having concentrated in his hands both legislative and the executive power. While many scholars consider parliamentarism as a proven path to democratic consolidation, this has not been the case in Moldova. As Lucan Way correctly noted: "...in contrast to what Juan Linz has assumed when writing about 'perils of presidentialism,' the establishment of a parliamentary system has not promoted democratic development in Moldova. If anything, the opposite has been the case."<sup>400</sup> Starting from 2001, the status of civil and political rights in the country started to deteriorate. The *Nations in Transit* 2003 Moldova country report quotes rapporteurs from the Parliamentary Assembly of the Council of Europe who noted that, although the Communist Party came to power in a democratic way, "it changed overnight... democratic institutions and violated human rights."<sup>401</sup> The regime's competitiveness also significantly decreased. Initially, as a result of the extraordinarily high 6 percent minimum required for any party to enter the legislature, several centre-right parties failed to qualify for seats. Ironically those were parties that had supported the Communist's initiative for raising the

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<sup>400</sup> Way, 2002, p. 131.

<sup>401</sup> *Nations in Transit*, 2003.

threshold to 6 percent. Furthermore, Communist authorities took even tougher actions, temporarily banning a political party in January 2002 after it protested laws mandating the increased study of the Russian language in general-education schools.

However, the most noticeable problems have been with the press. In late November 2001, the Economic Court ordered the closure of the stridently antigovernment weekly *Kommersant Moldovy* -- the first such closure in the history of post-Soviet Moldova. State television and radio, the main source of news for much of the country, have been widely criticised for severely limiting access to members of the opposition. In the spring of 2002, journalists unsuccessfully went on strike as a protest against what they saw as undue pressure to stick to the party line. In mid-March the anchorman of the Russian-language newscast was fired after he aired information on the protest. A recent change in the media law, made in response to demands by the Parliamentary Assembly of the Council of Europe, has been widely criticised for leaving in place the most important mechanisms through which the government can control the media. The Communists also reduced judicial independence. They had replaced 70 percent of the heads of district and appellate courts.

As the *Nations in Transit* 2006 Moldova country report correctly concludes:

the government manipulates rather than violates the existing democratic framework, achieving a certain stability through co-optation of important societal, political, and economic actors rather than coercion of outright abuses of human rights.<sup>402</sup>

However, according to the same report, since the Communist Party came to power in 2001, Moldovan politics have been marked by increasing centralization and a tendency toward soft authoritarianism. Moldova's scores on democracy, electoral practices, civil society, independence of the media, and independence of the judiciary have worsened.<sup>403</sup> In the same period, however, the Moldovan economy started to rise and already in 2002, Moldova registered economic growth of 6.4 percent. This provides vivid support for my assumption regarding the interconnectedness of different policies during transition, and my

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<sup>402</sup> *Nations in Transit*, 2006, p. 4.

<sup>403</sup> *Freedom in the World* 2006, "Moldova Country Report", p. 477.

assertion that success in one dimension of transition often comes at the expense of another, unless there is serious international demand and support.

As one can see, throughout the Moldovan transition there was a persistent attempt by the executive, namely by all three presidents, to consolidate their hold on power. Both President Snegur and President Lucinschi argued for a stronger presidency as the solution to the political regime's obvious ineffectiveness and declining legitimacy, and they tried to obtain this goal through constitution changes. Although Snegur managed to push through some constitutional changes, Lucinschi failed. The fact that they did not succeed does not necessarily mean that there was no structural necessity for consolidating executive power. After all, President Voronin also came to the same conviction and pursued the same goal, although in a different way. While keeping his post as First Secretary of the CPM's Central Committee, even under the parliamentary system, he managed to concentrate both the executive and the legislative power in his hands in an unprecedented manner.

To sum up, the frequent turnover of political forces in power in Moldova showed that the process of pursuing political and economic reforms in parallel with state and nation-building proved to be costly for incumbent governments. Having more foreign policy choices than Kyrgyzstan, transition politics in Moldova were also accompanied by an intense yet unsuccessful search for a foreign policy orientation that would help Moldova gain international support for restoring the country's territorial integrity and integrating the country economically and politically. Meanwhile, the domestic political support, which existed at the beginning of the transition, eroded as a result of radical economic reforms.

The rising social costs of economic reforms, inefficient policy making, futile foreign policy choices and inadequate international support left successive governments with limited choices: either to stop the reforms [or to undertake them selectively] or continue those radical reforms [that was the only way to receive vital foreign assistance and to save their declining legitimacy and power] despite the social and economic decline. Due to structural factors inherent in the country, tightening the grip over the country by the executive proved to be impossible until 2001, when the Communists came to power. But why did the early attempts to consolidate power fail in Moldova; what factors hampered the consolidation of power earlier? Authors, such as Lucan, have offered explanations which seem to be credible and which also support my approach. According to Lucan,

tensions in Moldova over national identity “have been severe enough to undercut efforts by any single group to monopolise political power in the country. The basis for pluralism, in other words, has also been the basis for civil war...”<sup>404</sup> And as mentioned above, the Moldovan elite has been split into three: nationalists, supporting unification with Romania; leftists, striving for closer ties to Russia; and centrists, seeking to preserve Moldova. The author finds that:

Moldovan presidents have had extremely weak nationalist backing and as a result have found themselves far more isolated in their power struggles with the legislature. Pro-Romanian nationalists have had little reason to compromise for the sake of national unity because they have wanted to join Romania in any case.<sup>405</sup>

In this context, the higher level of political freedom and civil liberties in Moldova, free press and even free and fair elections in parallel to rapid economic liberalisation that occurred in Moldova in the period of 1991-2000 , were the result not of an elite pact to accept and exercise the rules of the game by the governing elites, but rather the “unintended consequences” of elite fragmentation. As Lucan Way correctly puts it, it was a period of “democracy by default.”

In other words, simultaneous political and economic reforms and lingering state- and nation-building problems exhausted the domestic support for further reform and contributed to further elite fragmentation. With weakened domestic support, a fragmented political elite and insufficient external support and demand from the West, the incumbents were not able to continue consistent reforms. The World Bank’s Country strategy correctly notes:

The political consensus backing the reformers was fragile and the government failed to develop broad pro-reform constituencies. Political infighting among coalition partners, popular discontent at falling living standards, and the slow and unsatisfactory outcomes of the reforms, combined with the growing and pervasive level of poverty, led to the decisive victory by the Communist Party of Moldova (CPM) in the 2001 elections.<sup>406</sup>

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<sup>404</sup> Way, 2002, p. 137.

<sup>405</sup> Way, 2002, p. 137.

<sup>406</sup> World Bank, *Moldova: Country Assistance Strategy, 2005-2008*.



The return of Communists and their ability to consolidate power was not surprising, since they had built their entire campaign on the economic mismanagement and failures of previous governments and had promised to alleviate poverty even at the expense of reversing some of the economic and political/administrative reforms. Their program mobilized critical domestic support.

After coming to power, however, Voronin did not reverse many of the reform policies that had led to the downfall of his predecessors. The key reason for this policy continuity, especially in economic reforms, was not a change in the beliefs of the communist government, but rather the political, economic and security situation that imposed structural constraints on their choice of policies. First of all, with limited political and economic resources, Voronin could not revive the economy or resolve the country's main security challenge, the Transnistria problem, as he had promised, unless he had external support. That is why Voronin tried to reconcile his foreign policy choices and to improve Moldova's relationship with Russia and the West simultaneously. In fact, especially at the beginning, the 2001-2003 period was a period of uneasy relations with the IFIs, when the IMF frequently had to temporarily suspend its financing of Moldova due to its divergence from promised reforms. As some analysts predicted, Voronin's policy choices: "the CPM will seek allies in domestic politics, and will seek to find the external partner, whether Russia or the IFIs, best able to assist in the long term economic revival."<sup>407</sup>

Having the support of both the executive and the legislative branches, President Voronin easily concentrated all powers of government in his hands to pursue further economic reforms. Promoting economic reforms against domestic expectations, however, took its toll. Without sufficient external support to alleviate the social and political costs of those reforms, the government had to curtail political freedoms and civil liberties, impose restrictions on the media and falsify elections in order to compensate for its lost legitimacy and avoid losing its grip on power.

These developments demonstrate that, first, that there is a tangible horizontal interconnectedness among economic, political and security dimensions during the

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<sup>407</sup> *Oxford Analytica*, "Moldova: Communist Victory Leaves Much Undecided", March 2001.

transition process, and often progress in one dimension comes at the expense of another, unless there is effective and well-timed international demand and support. They also show the important role of vertical interaction and interplay, which will be discussed in a detail later in the chapter.

### **Economic Aspect**

Moldova's transition period has been very painful and difficult and has virtually brought the country to economic collapse. Several factors account for Moldova's deeper economic crisis. First, Moldova did not have its own energy resources, and after the collapse of an integrated Soviet economy, it became fully dependent on neighbouring Russia and Ukraine for energy supplies. For instance, Russia's demand from Moldova to pay in hard currency for oil and gas alone contributed to a drastic decrease in GDP of 21 percent in 1992.

Second, Transnistria's secession in 1992 deprived Moldova of its core industrial capacities, and the conflict has been a continued drain on resources. With only 17 percent of the population of Moldova, Transnistria accounted for more than a third of the total industrial output before independence. About 90 percent of electricity was generated in that region as well.<sup>408</sup> Third, the country lacks key natural resources and depends heavily on agriculture, both in production and export. The high dependence on agriculture makes the country vulnerable to changes in the weather, which is very inconsistent in the region.

The collapse of the Soviet Union also meant a disruption of existing trade links and distribution channels for Moldova. According to the data, while in 1989, 95 percent of its "exports" were to other Soviet republics, in 1998, the former Soviet republics comprised only 26.4 percent of its exports.<sup>409</sup>

Despite these inauspicious starting conditions, Moldova initiated radical economic reforms in 1992. As part of those reforms, Moldova embarked on price liberalisation,

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<sup>408</sup> Nina Orlova and Per Ronnas, "The Crippling Cost of an Incomplete Transformation: The Case of Moldova", *Post-Communist Economies*, Vol. 11, no. 3, 1999, pp. 373-397, p. 395.

<sup>409</sup> EU Tacis, *Economic Trends: Moldova 1999*.

opening of internal markets, mass privatisation, developing foreign trade and attracting investments, introducing foreign currency, and the formation of a new banking system. The new Moldovan currency, the leu, was introduced in November 1993 and it has generally been maintained at relatively stable exchange rates against Western currencies. Moldova also shared the experience, common to many of the transition economies, of initial hyperinflation following the liberalisation of prices: annual inflation reached 1,200 percent in 1992. Inflation was brought under control, with the annual rate falling to 105 percent in 1994, 30 percent in 1995, and then down to a manageable 3 percent in subsequent years.<sup>410</sup>

During the decade of Moldova's economic crisis, the country experienced a significant decrease in GDP (table 6.1).

Table 6.1 Growth in Real GDP in Moldova, 1991-2005 (percentage change)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
-1.2	-30.9	-1.4	-5.9	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.3	6.5

Source: EBRD Transition Report 2006.

In 1994, the lowest point of Moldova's economic and social crisis, GDP was only 34 percent, industrial output 32 percent, and agriculture 50 percent of the 1989 level. As a result of this drastically plummeting GDP, mass impoverishment and an increase in unemployment occurred, causing extensive migration of the economically active population.

During this period when the domestic economic situation was worsening, the Moldovan leadership was continuing political and economic reforms.<sup>411</sup> Moldova was, by any standard, ranked among the best achievers among the CIS countries, with regard to macroeconomic policies, institutional and economic reform, and democratisation. The Western media acknowledged that "Moldova has surprisingly emerged as one of the economic success stories of the former Soviet Union."<sup>412</sup>

<sup>410</sup> Ronald J. Hill, "Moldova", in Patrick Heenan and Monique Lamontagne (eds.), *The CIS Handbook*, Fitzroy Dearborn Publishers, London, Chicago, 1999, p. 119.

<sup>411</sup> EBRD, *Transition report*, 2000, p. 21.

Not surprisingly, in these circumstances the level of illegal or semi-legal economic activity was very high. The Moldovan underground economy was believed to amount to about 50 to 70 percent of gross domestic product during the first decade of independence.<sup>413</sup> The official unemployment rate, which was less than 3 percent in 1998, was outweighed several times by the numbers of workers engaged in part-time employment, officially "on leave," or affected by seasonal fluctuations in agricultural work. By the end of 1998, the average income per capita was approximately US\$30 a month. Russia's financial crisis in August 1998 was disastrous for Moldova, and subsequently, the economy deteriorated further. Prices rose rapidly, as did the budget deficit, exports declined swiftly, and the value of the leu against the U.S. dollar fell almost twice before mid-1999. This economic crisis was accompanied by political struggle between the legislative and executive branches for power. The "scapegoat" in between the deepening economic crisis and power struggle became the government of Sturza, a pro-western radical reformer.

After independence, Moldova began to face arbitrary trade policies from its neighbours. For a collapsing economy of such a small and landlocked country such obstacles proved to be extremely devastating. For instance, in early 1997 Ukraine arbitrarily began to require foreign currency deposits for goods in transit. Although Kiev has since lifted the levy, Moldovan exports to its crucial Russian market in the meantime were badly damaged.<sup>414</sup>

Moldova's trade balance has steadily been in deficit. Moldova is an export-oriented country with exports amounting to more than half of GDP in the 2000s. Moldova's trade turnover decreased dramatically throughout the 1990s, and it was additionally hit by the Russian financial crisis in 1998. The country lacked the ability to develop products for sale in Western markets and was unable to sell into the distressed traditional economies of Russia and Ukraine. The reorientation of the economy towards exporting to the West, however desirable and necessary, required massive investment and marketing efforts. The

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<sup>412</sup> *Financial Times*, 15 March 1995, p. 3.

<sup>413</sup> *Nations in Transit* 2002, "Moldova country report."

<sup>414</sup> *Economist Intelligence Unit* 1998, "Moldova Country Profile", p. 17.

opening of new markets in the West, although never at an adequate speed and volume, was an attempt to compensate for the loss of markets in the East.

Another economic concern with serious political implications has been the growing socio-economic discrepancy between the centre and the periphery of Moldova. Regional economies remain backward and capital accumulation has occurred only in the capital city. The regions of Moldova heavily rely on subsidies from the state budget in order to finance current expenditures. Poverty remained an acute problem. The 2002 household survey indicated that in Moldova about 40 percent of population live in absolute poverty. Furthermore, food poverty is 60 percent higher in the rural population than in urban areas.<sup>415</sup> The country's political division complicated its economic recovery and remained a source of potential tension. Efforts to project a distinct image of a reliable and responsible trade and investment partner turned out to be problematic without a credible and stable government that is based on a clear country image or national identity. Perceptions of political instability owing to continuing disputes with Transnistria were not mitigated because of the inability of the political elite to function with responsibility and compromise. Until 2000, the endless struggle for division of power and the country's orientation further tarnished the already poor image of Moldova.

Not surprisingly, Moldova's rapidly deteriorating socio-economic situation was reflected in the political scene, gradually shifting the attention of political forces and the population from the issues of conflict and nationalism to socio-economic concerns and this paved the way for a leftist turn. During the 2001 parliamentary elections, especially, all parties hotly debated the country's economic difficulties. This situation is correctly described by Igor Munteanu:

Due to a general scarcity of resources, multiple social conflicts and instability of the political and economic systems create the perception that the most recent evolutions of the country have ruined the social cohesion of the population and thus deprived the people from their sense of obligation for their destiny. As a result, the key phrase which is commonly used to describe the politics of transition in Moldova is largely defined as a general "attitude of despair and helplessness" among ordinary people and through a cynical arrogance among top-ranked officials of the state. The explanation

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<sup>415</sup> EBRD, 2003, p. 173.

is that the ordinary people feel themselves more insecure today than they felt to be long before the Soviet disintegration...<sup>416</sup>

Public attitudes towards economic reform have changed as well, with many starting to withdraw their support for them. A poll organised by the Institute for Public Policy in August 2000, revealed the depth of public discontent. Some 82 percent of the population felt that the country was headed in a “mistaken” direction. Sixty percent named poverty as their greatest fear, and over a third named hunger. Over half said that they expected “conditions either to remain the same or to worsen over the next year.”<sup>417</sup> The mass impoverishment – in fact, about 80 percent of Moldovans lived on less than one U.S. dollar per day -- and disillusionment with the incumbent government paved the way for the Communists’ takeover in 2001.

Not surprisingly, the CPM’s main pledges during the election campaign were to increase salaries and pensions and reduce the price of bread. The electorate was less receptive to the Communists’ competitors, who had more sophisticated messages regarding market reforms that would improve the standard of living over time. As mentioned in the previous section, Communists did not reverse the market economy path of the country and expressed their support for the liberal economic policy that the previous governments had taken. With the Communists in power, Moldova registered its first positive economic growth of around 6 percent in 2001, which continued during subsequent years, allowing the government to maintain relative economic and political stability. In the same way, foreign trade in 2001 grew by 16 percent from the previous year. This pattern maintained substantial continuity in following years. In addition, the national currency, the leu, remained relatively stable. In 2001 alone, the average salary rose by 29 percent to \$37.8, while real earnings rose by 17 percent.<sup>418</sup> The Communist-dominated parliament reduced income taxes for businesses from 28 to 25 percent. The legal system protects and facilitates the acquisition and disposition of property. Moldova has adopted laws on property and on

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<sup>416</sup> Munteanu, 2001, p. 90.

<sup>417</sup> *Nations in Transit*, “Moldova Report”, 2001, p. 281.

<sup>418</sup> *Nations in Transit*, “Moldova Report”, 2002, p. 294.

mortgages. During the 2000s, due to the re-intensification of foreign trade (primarily with Russia), increasing domestic demand facilitated by money inflows from labour migrants, and curbing inflation, Moldova experienced an apparent economic revival and growth. Economic growth accelerated beginning in 2001, reaching 6 to 7 percent annually. Increase in GDP per capita from US\$321 in 1999 to US\$766 in 2004 led to a gradual decline in the segment of society living below the poverty line. Positive employment growth was registered in 2003.

Economic growth and an increase of domestic consumer demand were to a large extent caused by inflows from labour migration abroad. According to the Moldovan official estimates, more than half a million, or 35 to 40 percent, of economically active people have left the country to become labour migrants. In 2004, remittances from abroad reached more than \$700 million and accounted for 27 percent of GDP. The negative side of this development pertains to the tendency of losing increasing numbers of economically active people, with the share of young people prospectively rising.

Thus, since the collapse of the Soviet Union, Moldova has experienced the difficulties of simultaneous nation building, state-building and fundamental socio-economic and political transformation. As elsewhere in transition states -- especially those formerly within the Soviet Union -- Moldova could not escape a massive economic decline during the first phase of transition. This was typical for all post-Soviet economies; however, it was further exacerbated by the administrative and organisational disorder and the inability of the Moldovan government to produce any comprehensive reform policy. Although ethnic conflict overshadowed everything else, the power struggle evolved in an environment of escalating social crisis.

Moldova was viewed as an early and successful reformer. Macroeconomic stabilization was achieved relatively quickly and a number of important first generation reforms were undertaken, such as trade, price, and exchange rate liberalization. The momentum behind these initial reform efforts, nevertheless, was not maintained and Moldova's reform experience has since followed a decidedly stop-and-go pattern.

The reason why Moldova's reform tempo was changed lies in the inability of its successive governments to cope with high social costs of economic reforms alone. They were voted out by the domestic society frequently, however, without making any serious

policy change or success domestically. Unlike in Kyrgyzstan, Moldova's successive governments were not able to centralize and maintain power until 2001, when the Communist Party of Moldova came to power. The substantial growth in the economy after 2001 came at the expense of political freedoms.

### **Security Aspect**

As mentioned earlier, Moldova's state-building efforts were inextricably linked to its search of national identity and nation building. The post-communist Moldovan state has been relatively weak, with little of the experience necessary for effective policymaking and the exercise of state authority and few of the mechanisms needed for administering an effective tax regime. However, the most important internal security challenge that Moldova faced was how to accommodate its two large ethnic minorities and their resistance to Moldovan sovereignty and territorial integrity.

Independence in Moldova was accompanied by ethnic mobilisation of the Romanian speaking population. It was, however, also the beginning of ethnic discrimination in the multinational country. The early period of radical nationalism headed by the Popular Front, created a greater sense of uncertainty and insecurity for ethnic minorities who comprised about one million of the republic's four million population. For the first time in modern history, Moldova's interethnic confrontation became a serious problem. Russian and Ukrainian intellectuals were dismissed from positions they had held for decades. Transnistria came to rely on the protection of the Russian 14<sup>th</sup> Army.<sup>419</sup> The anti-Gorbachev coup in 1991 accelerated this division. In contrast to Chisinau, which immediately denounced the coup and declared independence, Transnistria first supported it and later asserted its independence from Moldova. Thus the newly independent Moldova started its journey with its sovereignty seriously damaged, its state and society actually disintegrating, and its government essentially dominated by pan-Romanian nationalists who, in fact, had serious hesitations about Moldova's independent development path.

This cycle of extreme nationalism came to an end very early. In May 1991 the pro-Romanian Prime Minister, Mircea Druc, was dismissed from his post and was replaced by

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<sup>419</sup> Crowther, 1997, p. 294.



the more moderate Valeriu Muravschi. Druc's dismissal did not provoke any protests. This was the first critical step towards a new, more moderate politics. In this respect, Crowther correctly notes that "probably the most remarkable single aspect of Moldova's post-communist transition is the success of efforts to break the cycle of ethnic mobilization and recast political discourse along cross-communal lines."<sup>420</sup>

A poll conducted in the summer of 1992 revealed how the Moldovan society was divided only a year after getting its independence. There were significant differences among members of different ethnic groups in their attitudes to the country's orientation, whether toward Romania, Russia and the CIS, or in favour of national independence. Russians and Ukrainians were particularly wary of both pro-Romanian moves and national independence. Socio-economic issues, however, were cross-cutting issues for all, even minorities. On issues of everyday economics and politics, however, there was remarkable unity, and personal animosity against members of other ethnic communities was not high.<sup>421</sup> Less than 10 percent of ethnic Moldovan/Romanians supported unification with Romania in the short or long term, and 87 percent of Moldovan/Romanians preferred Moldovan ethnic identity.<sup>422</sup> This attitude was reflected in the referendum on unification with Romania held on March 6, 1994. About 95 percent of voters voted for independent statehood and against unification with Romania.<sup>423</sup> Interestingly, an opinion poll conducted in Romania in May 1992 had indicated that less than one-fifth of Romanians wanted early unification with Moldova anyway.<sup>424</sup>

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<sup>420</sup> Crowther, 1997, pp. 300-301.

<sup>421</sup> Hill, 1999, pp. 112-121, p. 114.

<sup>422</sup> Charles King, "Moldovan Identity and Politics of Pan-Romanianism", *Slavic Review* 53, No. 2, 1994, pp. 345-368, pp. 356-357.

<sup>423</sup> See The Report No. 4/94 of the OSCE Mission in Moldova. The text of the question proposed by the Moldovan government on 6 March 1994 was as follows: "Are you for the Republic of Moldova to develop as an independent and integral undivided state within the borders recognized on the day when the sovereignty of Moldova was proclaimed, to promote a policy of neutrality, maintain mutually advantageous economic relations with all countries of the world and to guarantee all citizens equal rights, according to the norms of international law?"

<sup>424</sup> Hill, 1999, p. 114.

The intolerance towards ethnic minorities in the early years of transition took its toll. Not only Transnistria with its large Russian minority, that had powerful backing from Russia, but also Gagauz, were provoked into defensive actions. In contrast to Transnistria, the conflict with Gagauzi was eventually resolved peacefully. Gagauz-Veri in the South, which had a similar aim of resisting Romanianisation, successfully negotiated the establishment of autonomous status in March 1992. The Gagauzi separatists did not resort to force, and from the outset, their representatives held extensive discussions with Moldovan leaders about the future of the region.

The February 1994 Moldovan elections marked the turning point in relations between Chisinau and the Gagauz capital, Komrat. In addition to abolishing the 1989 language law -- a particularly important issue for the Gagauzi, the majority of whom are not fluent in Romanian/Moldovan -- the Moldovan parliament that year ratified the region's "special status." Under the law, Gagauz remains part of Moldovan territory and Chisinau determines its budget. The major concessions were the designation of Moldovan/Romanian, Gagauz, and Russian as the three official languages and the setting up of a locally elected Popular Assembly, with a governor and executive committee acting as the local government.

A framework similar to that accepted by the Gagauzi negotiators in early 1993 was offered to the Transnistrians, but the authorities in Tiraspol have persistently refused to negotiate an agreement. The justification for the revolt centred initially on Moldova's attitude towards Romania. However, currently the Tiraspol government's position is that the territory has never been part of the Romanian state. Around 48 percent of its population are Ukrainians and Russians; the Moldovans are less than 40 percent. The region's economic, political, and trade orientation has always been toward Ukraine and Russia rather than to Romania.

The Transnistria problem proved to be costly for both Moldovan politics and economy. The region contained a significant part of Moldova's industrial base and losing it has made Moldova even more dependent on agricultural production and imported energy. Another economic consequence of Transnistria's secession was the creation of "fractured

customs space with important implications for smuggling and tax revenue mobilization.”<sup>425</sup> The existence of two separate financial systems, the absence of a single currency, substantial differences in the legislative framework and lack of coordination of economic and social reforms have therefore contributed to the country's deepening economic crisis. It should be noted that the negative consequences on social, economic and political issues have affected the population of Transnistria more than the people living in the rest of Moldova.<sup>426</sup>

Alongside declining economic conditions, the ethnic minority issue and, especially, Transnistria, was an important cause of the frequent political turnover in the country and frequent changes in the foreign policy orientation of the political elite. The unresolved Transnistrian problem is also a major stability concern for foreign investors. Many observers deemed Moldova a failed state, with severe implications for Moldova's economy and international engagement.

### **Vertical Dimension**

Without a doubt, Moldova has more foreign policy choices and alternatives than Kyrgyzstan. And, although it had very similar starting conditions, Moldova's proximity to Western democracies puts the country in a more advantageous position to utilise better its vertical linkages for promoting its transition to democracy and market economy, provided that was the intention of the country's elite. How effective was the engagement of international and regional actors in Moldova's transition and development? To what extent have Moldova's reform policies been demanded, supported, compensated, or complemented by the international community in order to help the domestic society sustain its support for reforms and to prevent the divergence of the government and the society from the democratic path of transition?

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<sup>425</sup> World Bank, Country Assistance Strategy for Moldova:2005-2008.

<sup>426</sup> UNDP, Moldova: *National Human Development Report: State-building and National Integration of Society*, UNDP, 1996.

### **Political Aspect**

Moldova's early foreign policy stance was very pro-Romanian. Following the collapse of the Soviet Union and the establishment of the CIS, Moldova declined to become a member of the new organisation until 1993. Customs offices were set up on the border with Ukraine and the demand was made that the Soviet military should leave the republic. Moldova's independence was soon recognised by the international community. The country became a member of a number of international organisations, such as the UN, the OSCE, the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development. Moldova became a full member of the CIS in the autumn of 1993, although the agreement was ratified by its parliament only a year later. In 1994, President Snegur signed NATO's Partnership for Peace agreement and a Cooperation and Partnership Agreement with the EU.

Moldova's relations with the CIS have been uneasy and have caused considerable domestic debate, as well as political and economic instability. In the face of considerable domestic opposition, Moldova signed the Alma-Ata Agreement establishing the wider CIS, in December 1991. Disappointed about the pro-Romanian political forces' failures on the economic and security front, domestic attitudes very quickly became more moderate and pro-CIS. The parliamentary elections in February 1994 were called with a view to resolving once and for all Moldova's relations with the CIS. As expected, pro-CIS parties won a majority, and in April 1994 parliament ratified CIS membership.

President Voronin's statements about joining the Russia-Belarus Union have never been translated into action. However, Moldova became an observer to the Euro-Asian Economic Council.

Moldova joined the Conference on Security and Co-operation in Europe in 1992. Throughout the entire period of transition, the OSCE has promoted its traditional agenda of security, human rights and democratisation. Understandably, the resolution of the Transnistrian conflict has occupied a high place in the OSCE's agenda. The OSCE has tried to assist the activities of Moldova's civil society and the development of civil society in Transnistria, with monitoring of elections. As we have seen in chapter 2, the methods that the OSCE uses to promote democratisation and human rights can be characterised as socialisation based on persuasion and norm promotion rather than on incentives.

The Council of Europe (CoE) has used very similar socialisation method to promote democratisation and human rights in Moldova: teaching and persuading domestic elites to adopt the democratic norms and procedures advocated by the CoE, by providing training, knowledge and expertise. In contrast with the way the CoE treated some other CIS countries, there was no membership conditionality for Moldova. However, especially during Voronin's early years in office, when violation of human rights and media freedom became chronic, the CoE went beyond persuasion and used such instruments as exposing by reporting, providing deadlines for action, threatening negative consequences if action was not taken, etc.

The EU played a very limited role in Moldova throughout the 1990s and Moldova was far down the list of EU priorities. The EU-Moldova relationship in the 1990s focused on establishing bilateral relations, targeted at the negotiation and signing of a Partnership and Co-operation Agreement (PCA) in 1994 similar to those signed with other newly independent countries. The ten year Agreement only entered into force in 1998. It represents the legal framework for the Republic of Moldova-European Union relationship and provides the basis for Moldova's cooperation with the EU in the political, commercial, economic, legal, cultural and scientific areas.

The enlargement of the European Union on 1 May 2004 brought a historical shift for the Union in political, geographic and economic terms, further reinforcing the political and economic interdependence between the EU and Moldova.

President Voronin, especially after his re-election in March 2005, turned towards the West, intensively seeking closer relations with the EU and NATO. It may seem that by turning towards the West and ignoring his pledges to ally with Russia and avoid any cooperation with the West, Voronin deeply disappointed his electorate. However, that is not the case. Virtually all political actors in Moldova publicly support EU integration as the best route to stability and prosperity. In reality, drastic shifts in attitudes occurred not only at the elite but also at the society level after the Communists first came to power in 2001. In 2001 there were mass protests against Voronin's attempt to make Russian a second official language. In this regard, Voronin's foreign policy reorientation was not surprising, and its explanation can be found in Moldovan society. A nationally representative survey conducted in 2000 reveals that although about 91 percent of

Moldovans think that maintaining good relations with Russia is important, compared to neighbouring Ukraine and Belarus, Moldovans have higher expectations from the EU. Interestingly those expectations are not only related to economic prosperity but also to the political stability that EU membership may bring (see table 6.2). Disappointed with Russia's position on the issue of Transnistria as well as Russia's arbitrary trade policies, Moldova's public has turned to the West and the previously pro-Russian government started seeking closer ties with the EU and NATO.

This drastic shift in public attitudes and in Voronin's foreign policy supports my key argument about the essential link between a country's foreign and domestic policies. A shift towards the West took place as a result of unfulfilled expectations from the previous eastward-looking policy. The pro-Russia policy was perceived neither to contribute to the stability and national integration of Moldova, nor to address their economic concerns.

Table 6.2 Perceived benefits of EU Membership (percentage)<sup>427</sup>

Perceived effect on...	
Economic development	69
Political stability	64
Consumer prices	49
Personal Incomes	47
Unemployment	47

The European integration policy of the Republic of Moldova is based on two main pillars: (i) implementation of the Moldova – EU Action Plan and (ii) using the possibilities of the Republic of Moldova deriving from participation in all the regional initiatives for South Eastern Europe, such as the Stability Pact for South Eastern Europe, South Eastern European Cooperation Process (SEECPP) and Central European Free Trade Agreement (CEFTA). These two directions towards the European integration of the Republic of Moldova often overlap and complement each other.

The European Neighbourhood Policy (ENP) of the European Union sets ambitious objectives based on commitments to shared values and effective implementation of political, economic and institutional reforms. Moldova is invited to enter into intensified political, security, economic and cultural relations with the EU, enhanced cross border co-

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<sup>427</sup> The table is from *Stephen White, Margot Light, and John Lowenhardt*, p. 295.

operation and shared responsibility in conflict prevention and conflict resolution. One of the key objectives of this action plan is to further support a viable solution to the Transnistria conflict. The EU-Moldova Action Plan is a first step in this process.<sup>428</sup> However, the ENP falls short of offering Moldova even a remote prospect for European Union membership. Instead, the European Union acknowledges Moldova's European aspirations. The asymmetric interdependence in power between the EU and Moldova, as noted in chapter 4, means that the Commission is the one setting the terms of partnership. As Michael Smith and Mark Webber point out, however, "EU leverage in setting these terms is diluted somewhat by the lack of membership perspective within ENP"<sup>429</sup>. Smith and Webber also find that "The EU's political dialogue arrangements, whether in ENP or elsewhere, are largely a case of missed opportunities and unrealized potential."<sup>430</sup> Maier and Schimmelfenning are of the same opinion, arguing that "a credible membership perspective has been a necessary condition for an effective EU impact on domestic change". They conclude, therefore, that "ENP will not have a significant impact on democracy and human rights in the ENP participants."<sup>431</sup>

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<sup>428</sup> The EU Moldova Action Plan is a political document laying out the strategic objectives of the cooperation between Moldova and the EU. Its implementation will help fulfill the provisions in the Partnership and Cooperation Agreement (PCA) and will encourage and support Moldova's objective of further integration into European economic and social structures. Implementation of the Action Plan will significantly advance the approximation of Moldovan legislation, norms and standards to those of the European Union. In this context, it will build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. It will furthermore help to devise and implement policies and measures to promote democratic reforms, economic growth and social cohesion, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development.

See [http://ec.europa.eu/world/enp/pdf/action\\_plans/moldova](http://ec.europa.eu/world/enp/pdf/action_plans/moldova) for details.

<sup>429</sup> Smith and Webber, in Weber, Smith and Baun, 2008.

<sup>430</sup> Smith and Webber, in Weber, Smith and Baun, 2008.

<sup>431</sup> Sylvia Maier and Frank Schimmelfenning, "Shared Values: Democracy and Human rights", in Weber, Smith and Baun, 2008.

On the other hand, McDonagh is optimistic about the EU's role as a potential promoter of democratization in Moldova, even without membership perspective. She finds that since Moldova is a recipient country, the EU is a major donor (the EU is in the third place in providing official development assistance (ODA) to Moldova), and democratic progress and respect for human rights are preconditions for any EU assistance, the EU has some leverage<sup>432</sup>. March and Herd go further, arguing that although "the Action Plan significantly lacks the incentive of guaranteed accession, Moldova's dependence on outside assistance might be enough to provide the EU with active leverage".<sup>433</sup>

It is hard to agree with these optimistic views for a number of reasons. First, no matter how desperately Moldova needs external assistance, the EU is not the only nor the major donor. Second, foreign assistance is important, but foreign markets are even more vital for Moldova's transition. In that sense, Anders Aslund's observation is to the point:

Clearly, Moldova and Ukraine have fallen victim to EU protectionism. Worst off is Moldova, whose wine and fruit the EU has all but prohibited. As a result, the country has tumbled below Albania to become the poorest in Europe.<sup>434</sup>

Although the involvement of these organisations was far from being full fledged, their role was still important. There were instances when regional organisations' interventions prevented further deterioration of the political situation. For instance, according to some experts, the political and economic crises that emerged in 2002 were successfully resolved by the mediation of regional and international organisations. On the one hand, there were mass protests in response to Voronin's decision to make Russian a second language. On the other hand, the country faced a peak in debt repayment "at a time

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<sup>432</sup> Ecaterina McDonagh, "Is Democracy Promotion Effective in Moldova? The Impact of European Institutions on Development of Civil and Political Rights in Moldova", *Democratization* Vol. 15, No. 1, 143-161, p. 150.

<sup>433</sup> Luke March and Graeme Herd, "Moldova between Moldova and Russia: Inoculating Against the Colored Contagion?", *Post-Soviet Affairs* Vol. 22, No.4, 2006, pp. 349-379, p. 369.

<sup>434</sup> Anders Aslund, "Looking Eastwards to Bridge the Trade Divide", *Financial Times*, January 17, 2003.



when there was a growing popular pressure for the CPM to deliver on its campaign promise to raise living standards”:<sup>435</sup>

The efforts of the Council of Europe on the political front, and the IMF and World Bank on the economic front helped to resolve the crisis. Multi-party talks in Strasburg ended the protests, and the government was able to concentrate on the debt issue.<sup>436</sup>

In sum, with all the shortcomings in their democratisation instruments, these regional and international organisations have been successful in some cases, if not in advancing democracy, in keeping Moldova on the democratic path. According to the 2006 Nations in Transit report:

The most obvious attempts to centralise power have been traditionally reversed under pressure from the EU, United States, OSCE, and Council of Europe. Moldovan government’s commitment to democracy stems not from convictions but from a quest for international legitimacy, mainly with the EU and the United States, whose support Moldova badly needs.<sup>437</sup>

### **Economic Aspect**

The involvement of the International Financial Institutions (IFIs) in Moldova has not been even and can be divided into two periods. In the first period, 1992-1998, the IFI’s support was substantial but not well monitored and not accompanied with necessary conditionality. In the second period, 1998-2006, after the Communists came to power, international economic assistance was more conditional on the country’s progress in economic reforms, which at this time demonstrated, as the World Bank pointed out, “a decidedly stop-and-go pattern.” In the latter period, the IMF suspended and resumed its program several times, trying to bring the country back on track to continue its market reforms.

However, the relative generosity of the assistance to economic reforms was only one side of the coin. The assistance was not well planned, well targeted or well-timed. The

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<sup>435</sup> *Oxford Analytica*, “Moldova: Default and Political Crisis Loom Large”, March 2002.

<sup>436</sup> *Oxford Analytica*, “Moldova: IMF and World Bank Resume Funding, December 2002.

<sup>437</sup> *Nations in Transit, 2006*, p. 4.

collapse of the government of Sturza, discussed in detail in previous sections of this chapter, is the best case to illustrate the point.

### *External debt*

Throughout the 1990s, in order to compensate for budget deficits, Moldova's government relied substantially on external borrowing. Moldova's primary creditors have been the World Bank, IMF, EBRD, as well as Russia.

Until 1997 Moldova was not eligible for soft loans and development assistance in general. According to some experts, it was the international financial institutions rigid policy that should be blamed for that.<sup>438</sup> Until 1997 the credits that were given were short term and with high commercial interest rates because Moldova did not qualify for concessionary loans until then. The reason was the refusal of the World Bank to scale down its GDP estimates for Moldova to a realistic level, despite ample evidence that its estimates were absurdly high. In 1993 the World Bank estimated Moldova's GDP per capita as \$1060, while the domestic estimate was three times lower, at \$323.<sup>439</sup> This state of affairs was not corrected until 1997. However, the change of Moldova's status had little impact on the country's fiscal situation because the country already had accumulated a large amount of external debt. The IMF suspended all lending to Moldova as a sign of dissatisfaction with the pace of reform and the growing budget deficit, thus forcing the country to borrow expensive commercial credits "to maintain basic public functions and services in the face of the near-collapse of domestic revenue base and, increasingly, to service the expensive loans received earlier, amongst others, from the IMF and the World bank."<sup>440</sup> The country's foreign debt in 2000 reached \$1.721 billion, or about 134 percent of gross domestic product, making it difficult to service the debt, let alone accumulate the necessary capital for domestic investments, including in the social sector and the

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<sup>438</sup> *Moldova's Transition to Destitution*, by Per Ronnas and Nina Orlova, Sida Studies, No.1 Stockholm, Sida, 2000, p. 48.

<sup>439</sup> Ronnas and Orlova, 2000, p. 48.

<sup>440</sup> Ronnas and Orlova, 2001, p. 395.

development of economy. To service the foreign debt, Moldova had to pay \$180 million in 2002 or else reschedule a portion of the debt. In the absence of an IMF programme, no progress has been achieved on restructuring the Paris Club debt until 2006. In addition to this, the government was also in constant negotiation with Russia's Gazprom over Moldova's energy arrears.<sup>441</sup> The only other way for Moldova to be able to relieve its heavy debt burden is through rapid and sustained economic growth. On the other hand, the heavy debt-serving burden drains the economy and serves as an effective obstacle to economic recovery. It is obvious that Moldova is caught in a vicious cycle which it cannot come out from by itself. As Joseph Stiglitz noted in 2002, "This year Moldova, already desperately poor, will spend about 75 percent of its government income on debt repayments."<sup>442</sup> The external debt stock continues to be high and stood at US\$1.92 billion (74 percent of GDP) at the end of 2004 (see table 6.3).

Table 6.3 External Debt of Moldova as a percentage of GDP, 1994-2005

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
35	39.7	42.5	60.9	75.9	127.6	133.6	113.1	109.2	97.2	74.2	NA

Source: EBRD Transition Report 2006.

Moldova's external debt in 2006 stood at US\$2.5 billion. The country is primarily indebted to IFIs, but Russia and other Paris Club members are also important creditors. In 2006, after signing an arrangement of US\$118.2 million with the IMF under the Poverty Reduction and Growth Facility, the Republic of Moldova was able to negotiate a US\$150 million debt rescheduling with the Paris Club creditors. Although debt rescheduling has eased fiscal pressures, the Republic of Moldova's huge debt continues to loom over the national economy.

The statement by Ronnas and Orlova best describes the level and quality of the international support and demand to Moldova:

Moldova is currently paying a heavy price for what could be argued was a prevalence of prestige over reason and fairness. Lending was not

<sup>441</sup> EBRD, Transition report, 2003, p. 172.

<sup>442</sup> Joseph Stiglitz, *Financial Times*, 23 September 2002, p. 23.

accompanied for a long time by any meaningful technical assistance... Nor was lending for several years accompanied by much control or conditions with regard to its use. Excessive attention was paid to successful macro-economic stabilisation, mainly inflation control, while little attention was paid to the poor record of reform of the real economy. Most of the credits were extended to the Sangheli Government, which had little interest in genuine reform and which was rife with corruption. By contrast, the election of a more reform-minded Parliament and Government in 1997 coincided with a sharp curtailment in lending... The detrimental impact of this policy on Moldova can hardly be overstated... The blame for the heavy burden lies as much with the lenders as with the borrowers.<sup>443</sup>

In sum, the bilateral and multilateral support that Moldova has received since 1994 in the form of direct foreign financial assistance and loans has been substantial, yet ineffective, and there have been serious flaws in policy design and implementation from both sides. It seems that most of the pro-reformist governments received international support to various degrees in pursuing economic reforms, while the communists faced far stricter demand-support from the international economic community. However, the failure of correct designing and timing of international support and demand no doubt contributed to the de-legitimation and eventual downfall of pro-reformist forces. The International Monetary Fund and the World Bank suspended their programmes in Moldova when Sturza's government was obviously already in danger. We have already discussed why Sturza's government failed and what its failure meant for the country. What is obvious is that the steps taken by the international community, rather than supporting reforms and the reformers, further undermined the reformist government's legitimacy

### *Trade access*

Moldova still maintains some of its traditional trade links, mostly with Ukraine and Russia, which can be explained both by the similarity in consumer tastes with those countries as well as Moldova's restricted access to the EU marketplace. In 2005, for instance, only 7 percent of food and beverage exports went to the EU, compared with almost 90 percent to the CIS.

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<sup>443</sup> Ronnas and Orlova, 2000, p. 49.

Agricultural products constitute almost two-thirds of all exports, and wine alone accounts for one-third of total exports. This reveals the heavy reliance of Moldova's export trade on agricultural products and also points to the agrarian structure of the economy and trade, which may become a constraint for Moldova's speedy and effective economic transformation and growth.

The industrial sector's reliance on agricultural inputs, combined with a lack of production and export diversification, has left the Moldovan economy very vulnerable to external shocks. The heavy and increasing dependence on a single country for exports made Moldovan trade highly vulnerable, as subsequent events have shown. The regional financial crisis in the late 1990s that hit Russia and the rest of the Commonwealth of Independent States proved highly destabilizing for Moldova, causing a sharp decline in industrial production. The crisis forced Moldovan exporters to look for new markets, which reduced Russia's share in Moldova's export trade from more than 50 percent in the mid-1990s to around 35 percent in 2004. Increasingly, the EU is also becoming a major trading partner of Moldova.

However, there still is a high export dependency on Russia, and Russia reportedly tends to use that for political ends. In 2005 and 2006, Russia imposed bans on imports of meat and vegetable products and alcoholic drinks on sanitary grounds. These actions had a devastating effect on Moldova's export revenue, since more than 70 percent of wine export went to Russia.

Domestic growth and an improvement in the external trading environment gradually contributed to an intensification of Moldova's foreign trade. Moldova has been a WTO member since 2001. However, as leading experts note, the experience of Moldova, as well as of Georgia and Kyrgyzstan, shows that "WTO membership on its own does not guarantee unhindered access to international and regional markets, or the removal of key trade barriers."<sup>444</sup> Rather the opposite, WTO membership puts additional pressures on the country's vulnerable economy, in this case without the adequate reward of facilitating foreign trade. As the EBRD *Transition Report* suggests, "At the same time, international

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<sup>444</sup> EBRD *Transition Report* 2003, p. 21.

integration places significant demands on a country's economic, political, and social institutions."<sup>445</sup>

Losing its traditional trade partners, Moldova has struggled to penetrate EU markets. However, the country's access to those markets remains very limited. The EU's share of Moldovan exports has increased over the years, to 30 percent in 2004 and 2005, compared with just over 20 percent in the late 1990s. Imports from the EU constitute 28 percent of Moldova's total imports. Moldova's comparatively low wages enable it to retain a competitive advantage against other central European countries. The few exceptions include dried fruits and vegetables.

The EU included Moldova in its new Generalised System of Preferences (GSP) Plus scheme as of 2006, but the extended list of exports eligible for duty-free status still excludes essential items such as wine, tobacco, and sugar.<sup>446</sup>

### ***Foreign Direct Investment***

During the first decade of transition, accumulation of fixed capital and capital investment in general was low. Investment has been predominantly concentrated in only a few sectors of the economy, such as agricultural products processing, energy, gas, and water supply, and communication. Foreign direct investment (FDI) into Moldova has been relatively low by regional standards. In addition, two international rating agencies, Fitch IBCA and Moody's, lowered Moldova's credit ratings in 2001, thus damaging further Moldova's fragile standing. Moldova has considerably lagged behind in per capita terms (\$220 annually from 1989 to 2004) in comparison to the Eastern and Central- European countries (\$2235) and countries of South-East Europe (\$821).<sup>447</sup> However, from 2000 on this indicator has started growing and even provides the bulk of the financing required for covering the current-account deficit. Moreover, as a result of the growing economy and increased interest from investors, particularly Russian companies, net FDI rose sharply in

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<sup>445</sup> *EBRD Transition Report 2003*, p. 73.

<sup>446</sup> Special GSP + Trade preferences offered to fifteen vulnerable nations, *European Report*, 23 December, 2005.

<sup>447</sup> *EBRD Transition Report 2006*, p. 55.

2005, to US\$120 million or 7.7 percent of GDP (see table 6.4). FDI inflows in 2005 alone covered almost 80 percent of the current-account deficit. Although FDI had risen significantly after 2001, cumulative FDI still only amounted to around US\$862 million at the end of 2005, according to the same source. Russia is the single largest investor, accounting for 21 percent of FDI capital as of the end of 2005, followed by Spain with 15 percent and the Netherlands and the United States with 8 percent each.<sup>448</sup>

The unresolved Transnistrian problem continued taking its serious economic and investment toll of course. However, as a result of its consistent economic policies and the resulting incremental economic growth, Voronin's government has managed to improve Moldova's image as a politically and economically stable, investor friendly country to some extent. However, as predicted, growth in investments and gross domestic product have come at some expense of democratic freedoms in Moldova.

Table 6.4 Foreign Direct Investment in Moldova, 1993-2005 (net/in US \$ million)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
14	12	25	23	78	75	38	127	102	132	71	148	120

Source: EBRD Transition Report 2006

Thus, Moldova has achieved partial stabilization and economic growth which provides impetus for further socio-economic development. In the economic sphere, Moldova has achieved significant results in terms of establishing the basic institutions of a capitalist economy, adopting laws and regulations to ensure economic liberalisation and open the country for integration into the world economy. These achievements are reflected in the Index of Economic Freedom (see table 6.5).

<sup>448</sup> Economist Intelligence Unit, *Moldova Country Report*, 2006.

Table 6.5 Index of Economic Freedom in Moldova, 1995-2006<sup>449</sup>

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
4.10	3.45	3.60	3.43	3.44	3.30	3.70	3.25	3.13	3.09	3.11	3.10

To conclude, the international support and demand in the economic sphere was not adequate. The bilateral and multilateral support that Moldova has received since 1994 in the form of direct foreign financial assistance and loans has been substantial, yet not effective, and there have been serious flaws in policy design and implementation from both sides. As a result, the country's fiscal situation remains complicated, with external debt exceeding the country's GDP.

### **Security Aspect**

Moldova's relations with Russia have centred on the extent of Russian support for Transnistria's recalcitrance and the related presence of Russian troops on its soil. Officially Russia does not recognise Transnistria's independence, but this has not stopped nationalist and Communist deputies from the Russian Duma paying quasi-official visits to the region or inviting President Smirnov to address the Duma. Towards the end of 1995, Yeltsin's stance shifted in deference to the strong showing by Communists and nationalists in the December 1995 parliamentary election. In December 1995, Moscow announced that it wanted to open a consulate in Tiraspol, ostensibly to assist local residents wanting to become Russian citizens. Russia's attitude towards the presence of its troops on Moldovan soil has been unclear. The withdrawal treaty signed in July 1995 became effective only three years after ratification by both parliaments.

Reunification with Romania was never an attractive option. Nevertheless, it became a goal made widely moot among the pro-Romanian intelligentsia after the Romanian revolution in 1989 and Moldova's independence in 1991. However, the negative implications that it has had for Moldova's security and territorial integrity is difficult to

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<sup>449</sup> Source: *Economic Freedom of the World 2006 Annual Report* in [www.freetheworld.com](http://www.freetheworld.com). Lower score means higher degree of economic freedom.



exaggerate. Later, the poor showing by the pro-Romanian parties in the February 1994 elections effectively pushed reunification off the agenda.

Unlike Romania and Russia, Ukraine maintained a low profile throughout the Transnistria crisis, although Ukrainians constitute the second largest ethnic group in the Transnistria region after Moldovans, and its troops are part of the peacekeeping contingent. After the election of Leonid Kuchma as president in July 1994, Ukraine adopted a more confident foreign policy. Ukraine and Moldova share common concerns with regard to Russia. They are both members of GUUAM, an alternative organisation to the CIS.<sup>450</sup>

NATO's relations with the Republic of Moldova date back to 1992, when the country joined the North Atlantic Cooperation Council (renamed the Euro-Atlantic Partnership Council in 1997). Relations expanded when Moldova joined the Partnership for Peace program in 1994. There have been positive developments in the relationship between Moldova and the NATO since 2006, when Moldova's first Individual Partnership Action Plan was agreed with NATO. The implementation of the Individual Plan of Action for Partnership (IPAP) is aimed to strengthen the political dialogue and deepen the cooperation between Moldova and the allied- and partner-states. Key areas of cooperation include the consolidation of full democratic control of the armed forces, defence reform, planning, and budgeting. Another key objective of NATO's cooperation is to develop compatible Moldovan forces to work together with forces from NATO countries, especially in crisis management and peacekeeping operations.

On security issues, Moldova has maintained a strictly neutral stance. Because of its neutral status, Moldova does not pursue NATO membership through its IPAP implementation. However, although the president and the government have regularly stated that Moldova will not apply to join NATO, when signing the IPAP in June 2005, high-level Moldovan officials did not exclude the possibility that Moldova might seek even closer ties with the alliance.<sup>451</sup> It should be noted that Moldova's benefits from cooperation

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<sup>450</sup> GUUAM stands for Georgia, Uzbekistan, Ukraine, Azerbaijan, Moldova.

<sup>451</sup> *ITAR-TASS News Agency*, "Moldova lists European integration, ties with NATO as priorities", 23 June, 2005.

with NATO remain largely political, since this cooperation does not provide security for Moldova, and nor does it help to restore the country's territorial integrity.

As we have seen, one of the main commitments of the EU under the ENP was "Continuing strong EU commitment to support the settlement of the Transnistria conflict, drawing on the instruments at the EU's disposal, and in close consultation with the OSCE"<sup>452</sup>. In 2005, the EU appointed a special representative on Moldova whose main mandate has been to contribute to a settlement of the conflict. The EU has also launched a Border Assistance Mission to Moldova and Ukraine with the mandate of strengthening the border management between the two states and reducing smuggling through Transnistria. The EU and the United States have also become involved as observers in the international effort to negotiate a solution to the Transnistria conflict.

One can see how intense the rapprochement has been with the West, especially in EU-Moldova relations. However, how long this foreign policy direction will be maintained depends largely on progress in resolving security issues, particularly, the Transnistrian problem. And this is not only because Moldova's prime interest in foreign policy has been the resolution of the conflict, but also because the EU may see the resolution of the conflict as a precondition for Moldova's further integration into European structures.

Since its adherence, the Republic of Moldova has benefited from the permanent support of the Organisation for Security and Cooperation in Europe (OSCE), which is the principal international collective actor fully involved in the Transnistrian conflict settlement process. Apart from assisting with Moldova's democratization agenda, the OSCE plays the mediator role in the Transnistrian conflict settlement process. It offers a broad framework for discussions of the Transnistrian conflict issue with international partners. It also informs the international community regarding developments in the process. So far, the OSCE has not been successful in finding a political solution to the problem. "The history of Moldova's relations with the Organisation for Security and Cooperation in Europe is a history of failed initiatives. Originally looked upon with hope,

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<sup>452</sup> EU-Moldova Action Plan, February 2005, [http://ec.europa.eu/world/enp/pdf/action\\_plans/moldova](http://ec.europa.eu/world/enp/pdf/action_plans/moldova).

the OSCE has come to be regarded as incapable of meeting the expectations placed upon it.”<sup>453</sup> As Freire observes:

Chisinau has criticised the OSCE mission for its unsuccessful action in regard to withdrawal of Russian troops and has demanded that it take a harder line on separatism. Transnistria, for its part, sees the mission as a vehicle for internationalising its cause and for creating a link between the parties, for encouraging dialogue and for putting forward proposals.<sup>454</sup>

Meanwhile, Transnistrians have complained about what they describe as the pro-Moldovan stance of the OSCE, as the OSCE mission has criticized Transnistria’s lack of cooperation. Under these circumstances, and with diverging interests of its powerful members, the OSCE hasn’t been able to accomplish the task.

The conflict settlement efforts have gradually been moving into an EU-Moldova-Ukraine framework, in which Russia no longer plays the main role in negotiations on the status of Transnistria. On various occasions, Russia has stopped Moldovan exports of meat, vegetables, and wine to Russia and announced its intention to raise gas prices in 2006. Transnistria was excluded from these measures. Reportedly, Russia had tried to support Transnistria while increasing pressure on Moldova. In this context, President Voronin declared in an interview with the BBC in October 2005 that

Moldova can survive without exporting wine to Russia. It will be difficult but we are ready to live in cold, to freeze without Russian gas, but we will not cede. Moldova will not sacrifice its territorial integrity, sovereignty, and freedom, irrespective of the price we will have to pay.<sup>455</sup>

Today Moldova continues to remain divided, with its secessionist region of Transnistria maintaining its de facto independence.

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<sup>453</sup> Adrian Severin, “Moldova and the OSCE: a History of Failed Initiatives”, in *The EU & Moldova: On a Fault-line of Europe* Ann Lewis (ed.), The Federal Trust, 2004, p.161.

<sup>454</sup> Maria Raquel Sousa Freire, *Crisis Management: The OSCE in the Republic of Moldova, Conflict, Security & Development*, 2:2, 2002, pp. 70-89, p. 81.

<sup>455</sup> *Nation in Transit*, 2003.

## **Conclusion: Interaction**

In this chapter I have demonstrated first, how the interplay among the government's economic, political and security policies affected Moldova's transition and what structural factors constrained its progress. Second, I have demonstrated how crucial international support and demand were for the successes and failures not only in each of the policy dimensions, but for the overall transition path. I have also tried to demonstrate the essential linkages between domestic and foreign policy dynamics in the process of transition. I have tried to show that the major policy shifts that Moldova experienced during about fifteen years of independence are not merely subjective elite preferences. Those policies and subsequent changes also reflect the structural constraints inherent to the country, and the changing demands and supports of the domestic society and the international community. And it is within the framework of that demand and support that the government pursued its key domestic and foreign policies, meanwhile striving to increase, or at least preserve, its legitimacy.

In Moldova, as in many countries of the same region, due to unfavourable starting conditions, the specific structure of the economy, and the existence of a secessionist conflict, successfully implemented radical reforms did not lead to quick economic recovery. On the contrary, they led to a sharp decline in socio-economic conditions and they undermined domestic political support. Public discontent from mass impoverishment was also fuelled by the leadership's failure first to prevent and then to resolve severe state-building and security problems.

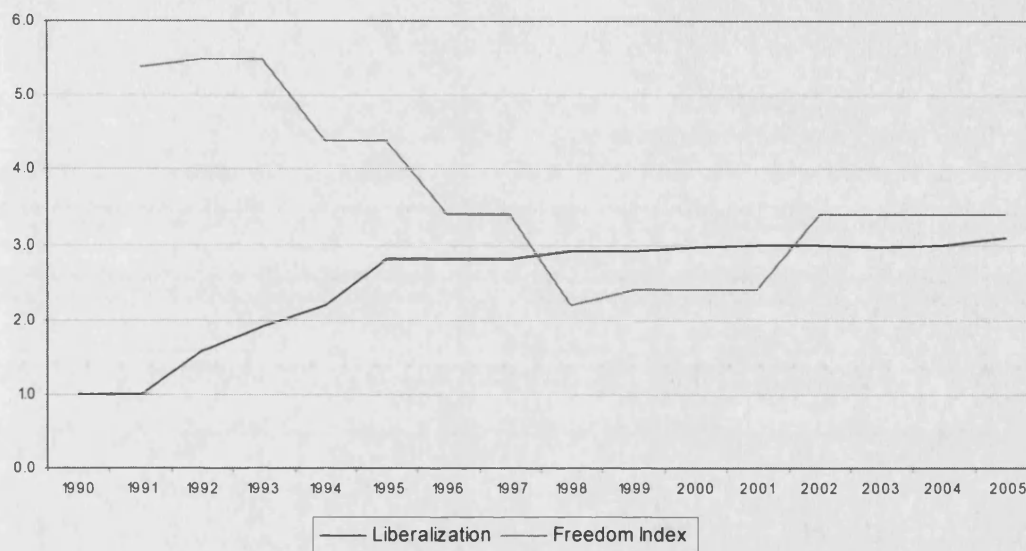
In the security dimension, early years of radical nationalism and pro-Romanian orientation led to the marginalisation of major ethnic minorities in the country, thus threatening Moldova's independent statehood and territorial integrity. Ethnic politics became an indispensable part of Moldovan politics, contributing to the severe fragmentation of the political elite. The political and economic costs of the Transnistrian conflict were high, turning the conflict into a serious obstacle to the country's transition.

These tremendous economic and security challenges were reflected on the political front. The high social and political costs of reforms and state-building rapidly delegitimised the incumbents. The relatively high degree of political liberalisation that was present in that period allowed a frequent turnover of governments, often changing the country's foreign policy direction, however, leaving domestic economic policies more or less the same. Regardless of their political orientation and foreign policy attitudes, these political forces continued the radical liberalisation of the economy until 2000. As a result, the economy went on deteriorating, security declined, while unprecedentedly, economic and political liberalisation continued. This irrational situation endured for almost a decade until, frustrated with the reforms and sunk into dire poverty, domestic society brought the CPM to power through democratic elections.

As I argued in Chapter 3, it is unlikely that any government would be able to conduct such a complex, systemic and simultaneous transformation as the transition with a limited political resource alone, unless it has a sufficient level of external demand and support. The explanation of Moldova's seemingly different pattern in this regard, when political and economic reforms continued to proceed equally successfully (according to the table 4.2. in Chapter 4) for a number of years, is not that Moldova had adapted to the new rules of the game, nor is it the socialisation effect of Western values, nor the adequacy of international support and demand, or the skilful timing and sequencing of reform policies. The weakness of the Moldovan state and the existence of strong but ideologically very polarized and fragmented elites were the two intermediate structural and contingent factors that did not permit a concentration of power for almost a decade and allowed considerable political liberalisation.

The return of the Communists marked a drastic change in the existing situation. With limited resources and insufficient external demand and support, the Communist government was not able to conduct equally profound reforms in all directions. They had to make critical choices based on structural necessities and within the framework of the demands and supports of domestic society and international community as well as its own legitimacy needs. That choice was to prioritise the economic reform (although more gradual) in order to achieve a more sustainable economic growth and to improve the economic situation in the country.

Chart 6.1 Dynamics of Political Rights and Civil liberties and Economic Liberalisation in Moldova, 1991-2005<sup>1</sup>



<sup>1</sup>Economic liberalisation: higher score means increase in economic liberalisation;  
Political Rights and Civil liberties: higher score means decline in human rights.

According to the EBRD *Transition Report 2006*, the EBRD index of small-scale privatisation improved to 3.7 in 2005 from 3.3 in 1999. The index for large-scale privatisation and the index for enterprise reform in general have remained at the same level. The EBRD indices of price liberalisation and competition policy have remained at the same level, while the index of foreign export and trade liberalisation has improved from 4.00 in 2000 to 4.3 in 2005. The EBRD index of banking sector reform in the same period grew from 2.3 to 2.7. One can conclude that Voronin's government appeared to be more reformist than previous governments: in some areas it has managed to register unprecedented economic reform scores, while in others, it has kept the pre-existing level of reform tempo.

These successes however, have been accompanied by a concentration of power and a decline in the level of democratisation in Moldova. Beginning in 2001, Moldova's democratic performance started worsening in all parameters put forward by the *Nations in*

*Transit* Report produced by Freedom House. The indicator for Electoral Process worsened by 0.75, from 3.25 in 2001 to 4.00 in 2005. The indicator for Civil Society went from 3.75 in 2001 to 4.00 in 2005. The Democratic Governance indicator changed from 4.50 to 5.75 in 2006. The Independent Media score has decreased from 4.25 in 2001 to 5.00 in 2006. The Judicial Framework and Independence score during the same period changed from 4.25 to 4.50. Thus, overall, the Democracy score has declined noticeably, to 5.07 in 2005 from 4.29 in 2001.<sup>456</sup> As one can see, political rights and civil liberties started to decline in Moldova in 2001(see Chart 6.1). Voronin's tenure has generated serious criticism from the international community for its undemocratic practices. In sum, all these simultaneous developments in domestic politics in Moldova demonstrate the interconnectedness and horizontal interaction among the government's economic, political and security policies during the transition.

How effective was the engagement of international and regional actors in Moldova's transition and development? To what extent were Moldova's reform policies demanded, supported, compensated, or complemented by the international community in order to help the domestic society sustain its support for reforms and to prevent the government and the society from diverging from the democratic path of transition?

As in Kyrgyzstan, the costs of conducting radical reforms in Moldova were higher than many expected. At the same time, as in Kyrgyzstan, the external support and demand for democratisation in Moldova was neither sufficient nor consistent enough to ameliorate the accumulating social and political costs.

Although close to the West, Moldova could not generate sufficient external support to alleviate the social and economic costs of transition and state-building. In the economic dimension, the bilateral and multilateral support that Moldova has received since 1994 in the form of direct foreign financial assistance and loans has been substantial, yet not effective, and there have been serious flaws in policy design and implementation on both sides. The accumulated external debt was extremely high and exceeded the country's GDP. Especially in the early years of economic reform, the allocation of foreign assistance was not well targeted and well monitored by the IFIs, and the government mismanaged those funds.

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<sup>456</sup> *Nations in Transit*, "Moldova Country Report", 2005, 2006.

Despite high domestic expectations, WTO membership, while putting additional pressures on the country's vulnerable economy, did not guarantee access to international and regional markets. Neither did proximity to the EU help, because of the EU's protectionist trade policies. Foreign direct investment has been relatively low by regional standards due to chronic political instability, continuing economic decline and the unresolved Transnistrian problem. The involvement of international and regional political organisations, such as OSCE and the Council of Europe, has not been effective in Moldova. Their role and their resources were limited, and they were not able to extend substantial support and demand to the country's political leadership.

EU-Moldova relations improved after 2005, after Moldova turned to the West, intensively seeking closer relations with the EU and NATO. The ENP offered Moldova new opportunities of political, economic and security cooperation. However, the lack of membership perspective does not provide the EU with active leverage and its socialisation impact has not been significant.

The involvement of international and regional organisations in the resolution of Moldova's security problems has also not been fruitful and has not met domestic expectations. In other words, these organisations have not alleviated the burden of security related political, social and economic costs by helping the country to settle its security issues. As a result, the government was forced to revert to its internal resources to bear the costs of state- building.

According to my second hypothesis, such an uneven distribution of international demand and support leads to a scenario when, in a democratic environment, unsatisfied domestic demand may lead to policy change, or to a change in the government, with the new government trying or not trying to continue the same reform policies. The lack of resources necessary for restructuring the national economy, reviving trade and attracting foreign investments, in other words, for making the economy viable, made Moldova seek cooperation with the Western financing institutions, in other words, meet the international demands and to continue painful reforms. There was no other real alternative to those institutions. In other words, Moldova's transition experience before the return of the Communists supports the validity of the scenario envisaged by my second hypothesis. After 2001, one can see other dynamics in the horizontal and vertical dimensions. The



Communist government continued painful economic reforms without sufficient external support and against the will of the voters, thus giving up or compromising its democratization agenda. These dynamics demonstrate how the interplay between the domestic, state and the international levels occurred in Moldova, and the way the allocation of transition costs across levels affected the transition process in Moldova, thus supporting my second assumption.

The interaction of the horizontal and vertical dimensions in Moldova, was reflected in the domestic and foreign policy relationship. As demonstrated in the previous chapter, Kyrgyzstan did not have many foreign policy choices and those that they had proved to be ineffective in helping to bear the transition costs, leading to democratic limitations and setbacks in domestic reform policies. In Moldova throughout the first decade of transition, we witnessed rather different dynamics in domestic and foreign policy relationship. While the economy and security were deteriorating, political liberties were still in place, thus leading to government change, or a change in the government's policy (either foreign or domestic). Since Moldova had more foreign policy choices than Kyrgyzstan, the continuing decline in the domestic economic and security situation was reflected immediately in the country's foreign policy. The availability of more foreign policy choices, however, did not provide the necessary resources for achieving its transition goals and overcoming its transition and state-building difficulties. Of course, in the same way, changes in foreign policy direction led to changes in international support and demand, which subsequently affected the transition process within the country. While domestic policies remained almost unchanged until 2001 (except for the adoption of a more conciliatory policy towards ethnic minorities after the pro-Romanians were ousted), foreign policies changed rather often. Those foreign policy changes were aimed at seeking support for resolving the country's urgent political, economic and security issues that surfaced during the democratisation process. Not surprisingly, in the first fifteen years of its transition Moldova had more than ten governments, ranging from radical nationalists and right-wing liberals to left-wing socialists. One leader's policy goals could vary from membership of the Russia-Belarus Union to membership of the EU. Starting from a pro-Romanian orientation, then balancing to a more independent, complementary one, they moved to a more pro-Russian or pro-CIS orientation, before, very recently, turning to pro-

European, pro-EU foreign policies. These developments in domestic and foreign policies support my argument that there is a critical and direct link and interplay between domestic and foreign policy dynamics in Moldova during transition.

Of course, the historical, cultural, security and economic factors inherent to Moldova, which I identified at the beginning of this chapter, played an essential role in Moldova's transition. However, as demonstrated in this chapter, the process of complex interaction and interplay of different issue policies within the transition state (horizontal) and among three different levels – domestic, state and international (vertical) – and the interaction between the horizontal and the vertical dimensions, played an important role in shaping the dynamics of transition and its outcomes in Moldova.

The evidence in this chapter also demonstrates that Moldova's transition path does not diverge from the second group of countries and its transition does not present a unique case.

## CONCLUSION

In my thesis I have argued that transition can be better understood if it is viewed as a political process of complex interaction and interplay of different issue policies within the transition state (horizontal) and among three different levels – domestic, state and international (vertical). Such an approach can better explain the dynamics and various outcomes we currently witness in the countries of post-communist transition.

To construct my main hypotheses and to set out the theoretical framework that can help to test them, I first explored what accounts for successful democratisation and what the key domestic factors are that are crucial for the survival and sustainability of democracy, according to democratisation theories. In this respect, the theories of democratisation identify a number of different factors, ranging from social and economic prerequisites and political culture, elite choices and institutions.

The analysis of transition showed that structural and other domestic factors vary significantly across the transition space and, understandably, transition countries had different starting points. Yet domestic factors are not sufficient for explaining the overall transition dynamics. Each of the schools in democratic transition theory has an important role in explaining the post-communist transition. However, neither of them provides an exhaustive explanation as to why, for example, post-communist countries took different transition paths and achieved different results.

The review of IR theories showed that their applicability to post-communist transition is limited. The lack of attention paid to the concept of linkage, the role of domestic actors and the learning process, which are extremely important for analysing and explaining the complex process of the domestic transformation and international integration of transition countries, limits the applicability of the theory of complex interdependence to post-communist transition studies. International regime theories also, because of their weakness in covering domestic processes, can have only limited applicability for the study of post-communist transition. Studies of the international dimension in post-communist transition focus on the role of conditionality as a foreign policy instrument to promote democracy and liberal market reforms. However, they do not go further to explore how conditionality works at the domestic level, and why some types of international conditionality are more effective than others.

Socialisation theories do, to some extent, fill the gap that exists in explaining how international regimes and international organisations transfer international norms to domestic societies and domestic actors. However, overall they still tend to be about top-down processes of the internalisation of international norms, rather than about the dynamic interaction among domestic, state and international levels. I concluded that socialisation based on a *rational choice* approach, or *socialisation by reinforcement*, is more applicable for post-communist transition studies than other types of socialisation because it leaves more room for taking domestic actors' strategic calculations and consequent actions into account.

To test my hypotheses, I also reviewed the IR theories that analyse various aspects of domestic and foreign policy relationships and tried to identify the concepts that can be useful in analysing the multi-issue and multilevel dynamics of post-communist transition. The numerous theories and concepts on domestic-foreign policy relationship (such as Putnam's two-level game concept, Clark's brokerage state, theories of adaptation, integration, intervention and adjustment, etc.) that I discussed are either discrete, static or largely remain theories of a state's, or rather of a statesman's, behaviour under given circumstances. As such, they do not provide a unified approach that can incorporate domestic level variables in a systematic and consistent manner. Therefore, their applicability to analysing the multi-issue and multilevel dynamics of post-communist transition is very limited. Certainly, there is a need for a new model.

In sum, the theories and approaches mentioned above have a legitimate place in explaining transition dynamics. However, they do not account for the process of political interaction and interplay during the transition, both internal and external, within which each government is moving towards its transition goals – domestic transformation and international integration. My approach aimed to fill that gap by suggesting a more dynamic framework for analysing transition. My framework views transition as a political process of complex interaction and interplay of different issue policies within the transition state (horizontal) and among three different levels—domestic, state and international (vertical).

While incorporating some aspects of those theories, my approach differs in the following aspects:

- None of those theories treats the transition as a dynamic process of interaction across domestic, state, and international levels on the one hand, and a trade-off between values and policy goals, priorities within the transition states, on the other. This is what my thesis aimed to do, and it is this that takes my argument beyond the framework of existing democratisation theories and makes the task of analysis an interdisciplinary one.
- I adopted a holistic and integrative approach. In my suggested framework, I do not oppose structural (i.e. modernization theory) theories to the genetic approach. While accepting the role of elites and leaders in making choices, I understand that those choices are limited to the ones made possible by structures. On the other hand, one should not underestimate the role of leaders and elites in shaping different policy responses in similar structural circumstances. In addition, elite choices may have a bigger impact during the transition process on shaping the same structures than after democratic consolidation. In other words, I assume that the role of agents is important in democratic transition; however, their choices are structurally constrained by economic development and the economic situation. The latter is important but not sufficient for the existence and consolidation of a democratic regime.
- I suggested that not only the economic situation, but also political and security conditions matter if democratisation and marketisation are to make progress.
- I suggested the category of legitimacy, the political resource, for exploring the linkages existing among different policies and different levels. In addition, the degree of a government's legitimacy is an important resource for each stage of transition reforms. With regard to the importance of timing, sequencing and pace in post-communist transition, my approach differs as well. I viewed them as an important way of making the politics of reforms more effective, which means making the reform process socially less costly and saving the political resource of the government. At the same time, the pace, timing and sequencing of each new

cycle of reforms in the economic, political, and security spheres will, to a large extent, depend upon the amount of the political resource that the reformist government acquires after the preceding cycle of reforms.

- I emphasized not the technicalities and the tactical side of timing and sequencing, but rather the political side of the issue, focusing on relations among different policies: economic, political and security.
- I stressed the importance of the timing and sequencing of not only horizontal but also vertical policy interactions and interplay.
- I also concluded that the timing, sequencing and pace of reforms did not make a decisive difference to the transition outcomes. Hungary has pursued slow but consistent and fundamental reforms (gradual reforms) throughout the entire transition process. On the other hand, Kyrgyzstan, which started with very radical and ambitious political and economic reforms, and was deemed to be a success in the early years of transition, ended up by continuously reproducing itself as a semi-authoritarian and semi-market system.
- I suggested concrete meanings and criteria, defined concrete indicators for the international, state, and domestic mutual demand and support during the transition process.
- The model that I suggested in this thesis takes into account 1) the initial socio-economic, political and security conditions and changes in those conditions resulting from government policies and their interaction, 2) based on those conditions, elite choices and government policies and their interaction, and 3) initial domestic and external demands and supports, their interplay and change, resulting from government policies. As one can see, there are complex interactions between these components of the transition, which could be analysed in a dynamic framework.

My model allows one to follow the developments while they are taking place, to trace the direction and dynamics of the change within each policy area and at each level in the early stages, and their impact on the overall transition process, to predict and explain the subsequent foreign and domestic policy changes.

In contrast with the concepts of conflict, compatibility, and reconciliation among policy goals described by Huntington, which define the relationship among policy goals as either that of merely conflict, or compatibility, or reconciliation, we witness all scenarios developing in parallel during the first decade of post-communist transition. My model does not exclude but rather explains the existence of all scenarios.

Based on this framework, I investigated the validity of my three assumptions on the comparative analysis of twenty-five post-communist countries. Kyrgyzstan and Moldova seemed to deviate from the overall pattern and to contradict my key assumptions and I therefore subjected them to more analysis.

My assumptions aimed to capture the nuances of horizontal linkages, vertical linkages and their interplay in the overall transition process. In particular, I demonstrated that:

1) There is a strong interconnectedness among economic, political and security policies during transition, and success in one dimension often comes at the expense of success in another. It is difficult to achieve progress in all dimensions, unless there is sufficient external support.

2) Besides the link between economic, political and security policies, there is also an essential link and interplay among different levels – domestic, state and international – within the overall transition process. In order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is reasonably, distributed in a timely manner among those levels.

3) The interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus, creating an essential and direct link and interplay between domestic and foreign policy dynamics during the transition.

The comparative analysis of the liberalisation and democratisation scores for the twenty-five post-communist transition countries predominantly supported my first assumption that there is strong interconnectedness among reform policies, and that the governments of the transition countries have had a limited resource for pursuing these policies. As a result, most often they ended up pursuing one goal at the expense of the

other. The analysis also showed that the transition countries could not deal with such a systemic multi-issue transformation as transition by themselves, without sufficient external support and demand.

To discuss the horizontal interaction between different reform policies in these countries, I focused on the two main pillars of transition, economic and political. The comparative survey showed that after about 15 years of transition, three distinct groups of countries could be distinguished: The first group contains the countries that successfully managed to pursue all transition goals in parallel.<sup>457</sup> These countries, mostly in Central and Eastern Europe, drastically liberalised their economies and still managed to keep their democratic records more or less clean for the same period, in the sense that they conducted better, free and fair elections, promoted the rule of law, etc. What distinguished the first, successful group of countries from the second group was the presence of the consistent and adequate external support that they received in the framework of their accession to European Union.

Countries in the second group progressed in one sphere but lagged behind in the other. Geographically, they coincide roughly with the Western CIS and the Caucasus. This pattern supports my assumption that progress in one policy comes at the expense of the other, unless there is sufficient external support and demand. The governments in this group of countries initially embarked on full-fledged democratisation, yet they were unable to continue reform policies in both areas with the same depth and tempo since insufficient external support and demand were available to reinvigorate their reform efforts.

In the third group are the countries in which the tempo and depth of reforms was not sufficient in either the political or the economic sphere. These countries failed to reform and chose a path that was not democratic. These are countries in which there was neither significant and persistent domestic and international support/demand for reforms, nor a reformist government.

Even with an untrained eye, one can observe a striking difference in the security/state-building challenges that different regional groups of countries faced. A comparison of available security indicators shows that countries of the same regional group had similar security/state-building levels, suggesting that the link of security issues

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<sup>457</sup> The full list of these countries is given in Chapter 4 of this thesis.



to political and economic reforms has also been strong.<sup>458</sup> The less pressing security and state-building problems are, the more likely it is that incumbents will be able devote more resources to other critical spheres, and the more likely it is that the country will progress in the economic and political spheres.

The examination of vertical interaction and the analysis of aggregate data revealed a large variation in how the resources and respective costs of transition have been distributed in these three groups of countries. The overview of lending by the international financial institutions showed an imbalance in the support extended by these organisations to the states in transition. A simple comparison already indicated that there has been little correlation between the amount of IFI funding, foreign economic assistance and foreign direct investment and a given country's liberalisation achievements.

In the first group of countries, domestic societies retained substantial support for EU membership throughout the entire pre-accession phase. Through its conditionality, the EU extended the necessary demand and support to the governments in aspirant countries to build genuine democracy and a market economy. The EU and NATO also embarked on an intensive international socialization effort in the societies of aspirant countries. By giving access to its trade and investment market, the EU enhanced the position of pro-reform economic groups. The EU provided sizable financial assistance and foreign investment to the governments for meeting its requirements. It is evident that the EU provided all the necessary political resource in a timely manner for successful and comprehensive reforms to the governments and societies of the first group of countries.

While the second group of countries, which coincides with the Western CIS and the Caucasus, obtained considerable financial assistance from the international financial institutions, there was little real effort to facilitate trade and investment. There was also little significant international socialisation effort with the societies of these countries, which might have helped to shape strong market and democratic convictions and encourage continual support and demand for the market and democracy within these societies. International actors did not adopt consistent policies towards illiberal governments and policies in this region, of the type that they adopted in the CEECs. As for conditionality, for the second group of countries and for the case studies in my thesis, the

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<sup>458</sup> See table 4.3 in Chapter 4.

only type of international conditionality that has been available is the democratic conditionality, which has had limited impact.

The comparative overview of the dynamics and divergence in the evolution of security problems in the post-communist space demonstrated that the international demand and support for dealing with serious security issues varied across the different country groups. The EU's tremendous efforts in the CEECs were complemented by those of NATO. Any attempt to violate these norms came into open conflict with those countries' goal of attaining EU and NATO membership. The major international support/demand for the resolution of some of the open and violent conflicts in the CIS has come from the OSCE. However, due to the nature of the organisation, its role has been limited to facilitating peace talks.

In sum, one can see that the resources and costs of transition are not equally and effectively distributed among the levels, especially if it is assumed that the interest in integration is equal at all levels. The evidence shows that there is indeed an imbalance between the supports and demands for reform in the transition countries of the CIS. In my opinion, this largely explains the poor performance of the countries of the second group during the transition process. It also supports my second hypothesis, which suggested that there is an essential link and interplay not only among different policy areas – economic, political, security – but also an essential link and trade-off among different levels – domestic, state and international – within the overall transition process. In order for transition to succeed, it is important that the resources and respective costs of transition have been effectively, that is, reasonably and in a timely manner, allocated among different levels.

In the third hypothesis, I argued that the interaction of horizontal and vertical dimensions is reflected in the domestic and foreign policy relationship, thus, creating an essential and direct link and interplay between domestic and foreign policy dynamics during transition.

I suggested and demonstrated on the case studies that a variety of scenarios of interplay is possible. For example, in a given country where the economy and security are deteriorating but political liberties are in place, one should expect the government's policy (either foreign or domestic) to change. If the country's foreign policy is not able to secure

the necessary international support for domestic reform policies, the foreign policy will be changed to do so. If that is not possible, we may see a government's domestic policy change or a government change. However, government change by itself does not resolve this dilemma. Conversely, if the economy deteriorates, security threats grow, and there is no change in the government's domestic or foreign policy, then one should look at the status of political liberties. Most probably, in that country the society will be deprived of the means of democratic self-expression. The interconnection is more obvious between the economy and security. To increase security, the government primarily needs finances, which only a well functioning economy can provide. Therefore, in the face of deteriorating security, if a government does not have the economic resources to improve its defence capabilities, it will be forced to change its domestic or foreign policy either to improve the financial situation or to eliminate the security threat. Alternatively, if the state uses existing scarce resources to arm itself, it will have no choice but to suppress democracy domestically. In that case, the state propaganda machine may be activated to try to compensate the society, for example, by feeding it with nationalistic ideology and increased propaganda.

The democratisation process may lead to a rise of ethnic or religious problems and conflicts, thus creating real security concerns. The country's foreign policy direction may not be able to secure the necessary international support to prevent deepening internal division or even the breakup of the country. This may lead to a change in foreign policy direction (i.e. a change in geostrategic orientation: joining new international/regional security regimes, organisations; seeking new ties or reinforcing or halting existing bilateral ties). Alternatively, it may slow down or suspend the democratisation process.

In a transition country where market reforms have led to economic decline, the foreign policy will aim to seek international support in the form of economic assistance, investments, trade access, etc. If this does not succeed, under democratic conditions the foreign policy direction will be changed. Otherwise, the democratic reforms may be abandoned or the government may be changed.

In the first group of countries, foreign policy did not change because there was sufficient international support in the form of EU-membership. Therefore, domestic reforms continued. Because of inconsistent international support and demand, the countries

in the second group faced the dilemmas described above. As for the third group, as we have seen, there have been no real democratisation and liberalisation efforts in those countries.

Despite appearing as outliers, the analysis of the transition process in Moldova and Kyrgyzstan also confirmed my hypotheses. In Kyrgyzstan, in the economic dimension, market reforms failed to bring economic prosperity. Radical reforms engendered a high level of unemployment and mass impoverishment. This extreme poverty increased the social as well as the regional disparities and the north-south divide in the country. It brought about public discontent with the economic situation, threatening political stability in the country. Domestic society essentially withdrew its support for the government's reform policy. Continuing vital economic measures was no longer possible without going against the will of people. The eroding economic situation had a negative impact not only on the political but also on the security sphere.

Economic hardship and the weakness of the central state made it difficult for the government to protect its borders and this instigated numerous security problems. Addressing some of these security concerns has, however, meant violating the basic "rules of the game" of democracy. All the problems stemming from the deteriorating economic situation and numerous security challenges resulted in a deep legitimacy crisis in the country. In order to compensate for his lost domestic support and to maintain the stability and integrity of the state and his regime, Akaev began curbing civil liberties and political freedoms, while continuing economic liberalisation. Not surprisingly, these developments created a vicious cycle. Partial and arbitrary reforms in the political sphere and repressions against political opponents had further direct and indirect consequences for the economy, the security and the government's overall legitimacy. Consequently, it shattered the government's credibility in the eyes of the international community.

The analysis of the political, economic, and security dimensions and their interrelation in post-communist Kyrgyzstan showed that the growing authoritarianism of Akaev was a reaction to compensate for his declining legitimacy and maintain the stability which had been eroding as a result of intermingled political, economic, and security cleavages. The explanation for such an "evolutionary" or gradual shift to authoritarianism lies not only in those domestic political, economic, and security cleavages and Akaev's

attempts to address them with the least possible damage to his legitimacy, but also in the interaction among domestic, state and international levels. Due to its poor starting conditions, geographical isolation, scarce resources, tremendous security concerns, and societal divisions, the political and social costs of democratisation in Kyrgyzstan were extremely high. The country's leadership was unable to cope alone with the costs in a satisfactory manner. Although Kyrgyzstan did get foreign economic aid, whether for objective or subjective reasons there has not been an adequate volume of foreign investment and risk insurance, debt restructuring, or trade access, on the one hand, and strict political conditionality on the other. Nor did Kyrgyzstan benefit from the international socialization available to transition countries closer to the European Union.

Without sufficient economic and political support-demand from the international community, the relatively liberal government of Akaev quickly exhausted its legitimacy resource and started moving towards authoritarianism, and there was insufficient international engagement to stop him from doing that. The involvement of regional and international political organisations in Kyrgyzstan has been limited and rather formal and has not led to an alleviation of the country's immense economic and security problems. In other words, with respect to the resources and respective costs of transition, it was obvious that the resources and respective costs of transition have not been distributed reasonably and in a timely manner and that contributed significantly to the slow down and even reversal in Kyrgyzstan's transition trajectory. Kyrgyzstan did not have many foreign policy choices. Despite some failed attempts, Kyrgyzstan was not able to resolve its political, economic and security problems within the foreign policy it initially adopted. There were some unsuccessful attempts to combine different foreign policy directions. However, overall there has not been any foreign policy shift. Its limited foreign policy choices made the government address its problems mostly by revising and adjusting its domestic policy choices, as my model predicted. In sum, the analysis of the transition process in Kyrgyzstan demonstrated the validity of my assumptions..

Moldova's starting conditions were almost as adverse as those of Kyrgyzstan. Due to unfavourable starting conditions, the specific structure of the economy, and the existence of a secessionist conflict, economic reforms were successfully started but they did not lead to quick economic recovery. On the contrary, they led to a sharp decline in

socio-economic conditions, rapidly de-legitimised the incumbent government and undermined domestic political support. Public discontent was also fuelled by the leadership's failure first to prevent and then to resolve severe state-building and security problems. In contrast to Kyrgyzstan, where the first reaction to the withdrawal of public support was the tightening of power by Akaev, in Moldova the withdrawal of public support resulted in frequent government changes by free and fair elections and frequent foreign policy changes. The endurance of political liberties in Moldova and the failure of almost all successive presidents to tighten their grip on power was due to two intermediate structural and contingent factors: the weakness of the Moldovan state and the presence of ideologically very polarized and fragmented elites. With vast disappointment from the liberal governments' economic policies and failures on the security and political fronts, and with the Communists' return to power and their ability to concentrate power, Moldova's transition process started to follow the transition pattern typical for the second group of countries.

With limited resource and insufficient external demand and support, the Communist government had to make critical choices based on structural necessities and within the framework of the demands and supports of domestic society and international community, as well as its own legitimacy needs. That choice was to prioritise the economic reform in order to improve the country's economic situation. The improvement of the economic situation was the primary domestic expectation and therefore the best way to increase the government's legitimacy. However, as suggested in my first hypothesis, that was possible only at the expense of political freedoms, since domestic society had withdrawn its support for economic reforms. While the economy started recovering, the recovery came at the expense of democratic freedoms.

Although close to the West, Moldova could not generate sufficient and consistent external support to alleviate the social and economic costs of transition and state-building. There were failures in the design and timing of international support and demand in the economic sphere. Political conditionality, although present, was not sufficient to socialize the elites. The involvement of international and regional organisations in the resolution of Moldova's security problems has also not been fruitful and has not met domestic expectations. To conclude, the demand and support from the international community to

Moldova's transition was limited in the spheres of political reform and state-building, and were inadequate in the sphere of economic reform. These developments support my second hypothesis.

In contrast to Kyrgyzstan, where the government changed its domestic policies to adjust to the new realities resulting from its initial reform policies and in the framework of changed domestic and international support, in Moldova those changes were reflected first of all in foreign policy. As demonstrated in chapter 6, such frequent foreign policy changes were not just subjective choices but were made under certain structural constraints and changing domestic and international support and demand, and were aimed at seeking support for resolving the country's urgent political, economic, and security problems. In sum, Moldova's transition path also does not diverge from the second group of countries and its transition does not present a unique case.

The comparative analysis of the transition process in the post-communist countries, and particularly in Moldova and Kyrgyzstan, demonstrates that the interaction and interplay between a country's key issue policies within the state and among three different levels – domestic, state and international – can help further explain the current state of affairs, variations in the dynamics and the differing outcomes in post-communist transition.

Transition as a dynamic process can be advanced if there is consistent and adequate international demand and support, which takes into account domestic political realities. The existing practice of international support, reviewed in Chapter 2 suggests that aid – or in my terminology, support – from the international community is channelled to those countries where it appears to get the maximum reward. However, countries that objectively have more difficulties domestically and a slow pace of transition need more support internationally, and naturally, are not in the list of successful transitions. This analysis has led me to the conclusion that a different approach can and should be applied both in theory and in practice for understanding and promoting post-communist transition processes. The new approach should not only pay equal attention to the impact of domestic and international factors on a state in transition, but it should also study these two domains in their interaction. The new approach should refrain from imposing unilateral single-issue conditionality, bearing in mind that transition is a political process and there is an essential interdependence among different issue policies. In addition, it should treat transition as a

political process, which puts the state in the domestic-state-international continuum. This would mean balancing demands and supports for a particular policy process during the transition. In countries of the second and third groups (depending on starting conditions, historical and cultural differences, and political processes), the costs of transition are objectively higher than they are in the countries of the first group. Therefore, there must be greater international demand-support for these countries' transition.

To summarise, the policy recommendation that stems from this thesis is that since a government's economic, security, and political policies are interrelated and interdependent, the support and demand from the international community should address all spheres equally and take into consideration the mutual impact of, and consequences for, policies on each other. Another conclusion is that there should be greater international support and demand for those countries where the costs of transition are objectively high. Finally, it is not quick results but the country's long-term commitment to reform that should be the criterion for continuing international engagement.



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## **ELECTORNIC RESOURCES**

Amnesty International, <http://web.amnesty.org>

BBC, <http://www.bbc.co.uk>

Heritage Foundation, <http://www.heritage.org/index>

Jamestown Foundation, <http://www.jamestown.org>

International Crisis Group, [http:// www.crisisgroup.org](http://www.crisisgroup.org)

Ministry of Finance of Kyrgyzstan, <http://www.minfin.kg/eng>

OSCE/ODIHR, <http://osce.org/odihr>

[http://ec.europa.eu/world/enp/pdf/action\\_plans/moldova](http://ec.europa.eu/world/enp/pdf/action_plans/moldova).

<http://www.fundforpeace.org>.

<http://www.cidcm.umd.edu/pc/>

[http://www.worldbank.org/data/countrydata/aag/kgz\\_aag.pdf](http://www.worldbank.org/data/countrydata/aag/kgz_aag.pdf).