

Susceptibility of Ukrainian and Belarusian domestic actors to external actors' approaches: puzzling patterns of transition

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Abstract

The article examines the domestic orders in the Eastern Partnership (EaP) countries, namely Belarus and Ukraine, and how they interact with external influences. More concretely, we scrutinize key domestic actors making decisions on regime continuity or reforms, and investigate under what conditions they are susceptible to external influences. Although both Belarus and Ukraine can be broadly characterized as Limited Access Orders (LAOs), in which elites restrict political and economic competition for the sake of private gains, the two countries differ in their domestic structures as well as external relations. Compared to Belarus, Ukraine is characterized by more intense political and economic competition, significantly more active opposition groups, including non-governmental organizations (NGOs), and much more developed institutionalized relations with the EU. Notwithstanding, we find that Ukrainian authorities have not always been more susceptible to external actors promoting open access institutions, while Belarusian authorities are more susceptible to external actors promoting economic competition than assumed. Our results are based on in-depth case studies of attempts to reform the business environment and energy sector in Belarus, as well as the energy sector and anti-corruption reforms in Ukraine.

Keywords

Eastern partnership countries, transition reforms, open and limited access, democracy promotion, energy reforms, Belarus, Ukraine

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Introduction

The Eastern Partnership (EaP) countries are often characterized as a playground of external actors. Prior analysis of external actors in the EaP, such as Russia, the European Union (EU), the United States (US), international financial institutions (IFIs) and China has shown that each actor pursues its own particular sets of policies in the region (Vilpišauskas and Lehmkuhl 2018). Some actors like the IFIs and the EU support transition reforms which are broadly in line with transition from a limited access order (LAO) to an open access order (OAO), based on political and economic competition, rule of law and impersonal institutions (North et al. 2007; North et al. 2009). Other actors like Russia or China have a different agenda which prioritizes geopolitical goals rather than particular domestic reforms and the alignment of policies.

At the same time, the EaP countries continue to be ‘stuck in transition’. Moreover, there have been persistent differences among the six EaP countries in terms of their domestic reforms and degree of openness in political and economic spheres. This calls for closer examination of the domestic orders and how they interact with external influences. More concretely, this article asks what the main characteristics of these social orders are, who the key domestic actors making decisions on regime continuity or reforms are, and under what conditions they are more susceptible to external influences that promote transformation into OAOs?

In this article, we focus on two EaP countries – Belarus and Ukraine. They can both be broadly characterized as LAOs, though there are significant differences between them in terms of domestic structures as well as external relations, which allows for a fruitful comparison. Belarus has been characterized by a relatively stable ruling coalition, centred around its president, with very limited access to both political and economic spheres. In its external relations, it is most (inter)dependent on Russia, with growing importance of China and relatively limited relations with the West. Ukraine, on the other hand, has experienced an intensification of political and economic relations with the EU since 2014, formalized by the Association Agreement (AA), and purposefully limited its relationship with Russia following the annexation of Crimea and military conflict. It is also characterized by more intense political and economic competition and significantly more active opposition groups, including non-governmental organizations (NGOs). Despite relative openness it still maintains important characteristics of a LAO, such as prevalence of rent-seeking, close links between political ruling elites and economic actors that cluster around several power centres. The article is structured as follows: In section two we discuss the theoretical insights on LAOs (North et al. 2011; North et al. 2012), which address the logic of social orders and the motives of the dominant coalitions, but provide limited guidance on the role of external factors on the transformation of regimes from LAOs to OAOs. We therefore draw insights from the studies of democracy promotion and external governance, in particular, the interplay of external conditionality with domestic factors, external actors’ strategies and the asymmetries of power relations linked to the nature of interdependencies.

Afterwards, we provide a brief description of the domestic orders in Belarus and Ukraine to show the dominant domestic actors, their motives as well as the differences between ruling coalition and opposition groups, followed by the presentation of the strategies of the EU and other relevant external actors such as Russia, including their goals, objectives, instruments used and target groups in those two countries. Then, we look more closely into particular episodes

of reform attempts. For Belarus, it is the period from 2015 to 2018, when against the background of worsening economic conditions and a changing geopolitical context in the region the country intensified its relations with the EU, while at the same time bargaining with IFIs as well as Russia. For Ukraine, we examine the period after 2014, when in the background of economic, financial and security crises as well as changes in the ruling coalition, the country initiated a series of reforms.

We assess initiatives to reform the business environment and the energy sector in Belarus and anti-corruption and the energy sector reforms in Ukraine by discussing the main characteristics of a particular policy area/sector (existing limits to access, dominant actors, possibilities for rent-seeking), its interdependences with external actors and issue linkages as well as strategies of the EU and other external actors towards this sector. We conclude with comparative observations regarding the differences between the susceptibility of domestic actors in Belarus and Ukraine, provide insights on the factors that increase or decrease their susceptibility to external actors' strategies and discuss the theoretical contributions of our research.

The study is based on the analysis of official documents, analytical studies and interviews conducted in Belarus and Ukraine during study visits organized in February and March 2018. Almost 50 scholars, journalists and practitioners were interviewed in the form of semi-structured individual interviews. Most interviewees were affiliated with the NGO sector, think-tanks, governmental bodies and external actors.

Theoretical Framework

In our analysis, we use the conceptual framework of Douglas North, John Wallis and Barry Weingast who argue that depending on how societies try to limit and control violence, countries could be categorized into two broad types of social orders – open access orders, which are characterized by political and economic competition as well as the rule of law and impersonal institutions, and limited access orders which are characterized by barriers to political and economic competition, close connections between ruling political elites and dominant economic actors, rent-seeking and personal, often informal relations (North et al. 2007, North et al. 2009).

All EaP countries are LAOs, although they are characterized by different internal structures and a varying degree of openness in the political and economic spheres (Ademmer et al. 2018). The particular logic of a LAO has direct implications for their susceptibility to pressures of external actors, which promote the transformation from LAO to OAO (North et al. 2012). LAOs default policies are aimed at maintaining the status quo of the regime (North et al. 2011: 5–6). This leads to the expectation that incentives to risky political and economic reforms are absent in the EaP countries under ordinary circumstances, and suspiciousness towards externally promoted change is a default stance. Thus, the susceptibility of domestic actors to external incentives for transformation is limited because domestic elites are cautious towards any changes that can diminish their (or increase other's) access to power and resources.

The lack of tangible progress of transformation from LAOs to OAOs among the EaP countries is demonstrated empirically (Ademmer et al. 2018: 7; Pishchikova 2019: 163). However, variation in the types of LAO among EaP countries, differences in their openness, and the evidence of differential policy change despite high costs, limited transformation capacities and

the lack of appropriate incentives (Ademmer et al. 2018; Langbein and Börzel 2013), raise the question of what factors encourage changes in the reform-unfriendly environment of LAOs.

The aim of this article is to answer this question by combining the theoretical assumptions of LAO theory and insights from the external democracy promotion and Europeanization research (Lavenex and Schimmelfennig 2011). To explain the ineffectiveness of the EaP program, we focus on the limitations and opportunities particular domestic social orders of the EaP countries impose on EU strategies of reform promotion.

This research fills a gap in the academic literature regarding the obstacles that the EU's transformative agenda encounters in LAOs in its neighbourhood and the susceptibility of domestic elites in EaP countries to transformation incentives. We analyse the interactions of the external factors (the EU's approach, goals and instruments towards the EaP states as well as interaction between the EU and other external actors) with the domestic ones (the logic of LAO).

For the purposes of our analysis we define susceptibility as the degree to which external incentives and instruments translate into domestic actors' decisions to reform domestic political and economic institutions and rules which are aimed at reducing barriers to entry (access) and increasing competition for economic resources and power. In other words, we are interested in the susceptibility to pressures which support reforms aimed at increasing political and economic access.

There are several important starting assumptions regarding the analysis of the susceptibility towards external incentives, which come from the LAO theory. First, the logic of LAO under ordinary conditions, i.e. not in crises like war, state collapse, or economic decline, points to the crucial role played by the dominant coalition in maintaining the political and economic closure and restricting access to economic resources and power (North et al. 2011: 5). Such assumption – that the analysis of elites, their structure and preferences is crucial in order to understand the functioning of a LAO – is also supported by other, more regionally focused research (Hale 2014; Tolstrup 2014). Thus, the structure of domestic gatekeeper elites and the nature of their interrelation has a strong effect on the level of susceptibility to external incentives.

Second, the framework of the LAO assumes that under ordinary conditions, i.e. when the economy is growing, ruling elites have few incentives to adopt reform policies promoted by the EU and other external actors because economic growth allows easier maintenance of stability and reduces the need for reforms. Economic decline or crisis, on the contrary, should increase the susceptibility of domestic elites towards demands of external actors, because “all LAOs are vulnerable to internal shocks and to changes in the environment – relative prices, technology, demographics – that affect the relative power of elites” (North et al. 2011: 8). Therefore, we choose periods of crises when economic decline or deterioration of the security situation create an environment of ‘extraordinary politics’ to be able to examine whether such conditions increase the susceptibility of domestic actors towards external influences. Although the adoption of the transformational reforms is supposed to restore economic growth, it often involves short-term structural changes which are socially controversial and, most importantly, threaten established channels of rent-accumulation by ruling domestic elites.

Third, we apply democratization and Europeanization literature to make sense of competing external influences and incentives that domestic actors in LAOs receive. Acknowledging that political, social, security and geostrategic factors shaping the ‘neighbours’ remain ignored we include different and often competing influences of external actors such IFIs promoting OAOs, and Russia, which are undertheorized as relevant factors from the point of view of the EU policies (Pishchikova 2019: 162).

In order to analyse the susceptibility of domestic actors within LAOs towards the strategies of external actors, which promote reforms aimed at the transformation of the regime into an OAO, we examine the structure of the particular regime, the motives of the dominant coalition and opposition groups and the mechanisms of external influences. First, we expect that domestic actors within LAOs with several competing centres of power would be more susceptible to demands of external actors compared to a country with a single ruling centre and strong hierarchical power structure. It has been noted that competition between different centres of power may facilitate the implementation of reforms (Hale 2014: 16). However, it is also possible that in LAOs competition among ruling elite groups may operate in a cyclical way with external incentives for transformation being used as instruments of competition with opponents without translating into a real and lasting opening of the system.

Second, we move to the analysis of our main focus – the constraints and opportunity structures created by the strategies of external actors. We expect domestic actors in a target country to be more susceptible to demands linked to institutional reforms, which allow the ruling elites to maintain their dominant position, rather than geopolitical pressure, which could exert the opposite influence by pressing the ruling elites to look for alternative external sources of support. Following the argument, which “cautions against mistaking geopolitical alignment to the EU with a reform path that smoothly follows the EU model” (Ademmer et al. 2016: 14), we assume that the increase in importance of geopolitical goals has a negative effect on broad and substantial susceptibility towards the EU’s incentives to implement reforms. The compatibility of different external actors’ interests and coordination of their policies towards EaP countries should make domestic ruling elites in those countries more susceptible, while divergence of their interests should provide more opportunities for choosing how to balance relations with external actors in order to preserve the status quo and the stability of the ruling regime.

We also expect that domestic actors would be more susceptible to those external actors, that have a wide ranging toolbox of measures ranging from ‘soft’ to ‘hard’ policy measures such as technical and financial assistance, facilitation of trade or movement of people, to military cooperation, and are engaged in a detailed and codified policy relationship, because this provides more possibilities for issue linkages in different sectors and the interchangeable use of positive and negative conditionality. Conversely, the susceptibility of domestic actors should be weaker if the toolbox of external actors is limited and if relations between the target country and the external actor are shallow.

Finally, a high degree of interdependence of a target country with a particular external actor and high dependence of domestic elites’ rents on the relationship with this actor should lead to stronger susceptibility of domestic actors to the external influence of that particular actor.

These external variables are an adapted form of linkage theory (Levitsky and Way 2006), which analyses the interdependence between a target country and external actors on the basis of the

structure of rents – to what extent the revenues (formal and informal) of the ruling coalition or of the competing power centres depend on relations with external actors. Knowing the structure of rent-related interdependence of the dominant coalition, which can differ from the overall structure of a country's interdependence with external actors, we should be able to assess the susceptibility to EU incentives.

The choice of external actors is focused on those, which intentionally promote the transition from LAO to OAO, in particular, the European Union with its EaP program. The analysis would be incomplete without the consideration of other external actors with interests in promoting an OAO in Belarus and Ukraine as the EU is not the only actor that shapes policy change in the region (Langbein and Börzel 2013: 577). A considerable number of studies have been done on the effect of competing external actors' influence on the promotion of the EU *acquis* in EaP countries (Benkova et al. 2018; Jaroszewicz et al. 2018). Most often, Russia is discussed (Jonavičius et al. 2019, although other players such as China are also considered to have significant interests (Popescu and Secieru 2018). By including the interrelation between the policies of the EU and sometimes underestimated or even ignored counteractions by “black knights” (Yakouchyk 2018), we try to avoid the problem of bracketing out Russia while studying the reception of the EU's conditionality because this overlooks the critical factor to the effectiveness of the conditionality (Tulmets et al. 2018: 2).

The case study method chosen for this analysis allows for the comparison of the reactions of domestic actors towards external influences within two different types of LAOs as well as for the assessment of how different types of interdependencies and strategies used by external actors translate into different degrees of susceptibility of domestic actors to external influences and the resulting policy and institutional reforms or lack of them.

Belarus

The distribution of power in Belarus resembles the single-pyramid patrimonial system (Hale 2014) and the “balanced closure” system (Ademmer et al. 2018). Ruling elites in Belarus are participants in patron-client networks that are common under neo-patrimonialism, where patrons use state resources to secure the loyalty of the country's population. In the Belarusian context this has taken a bureaucratic form (Frear 2019). The centralization and consolidation of political and economic power in Belarus has been achieved both formally and informally.

Formally, the presidential system was established in the country after the 1996 referendum which adopted the change in Constitution and led to a substantial increase in the presidential powers. After another referendum in 2004, presidential powers became virtually unconstrained, the term limit was abolished and Lukashenko became a *de facto* president for life. The law-making process in Belarus is controlled by the Presidential Administration, and virtually all bills are initiated by the executive. Presidential decrees are frequently used as policy initiatives and policy programs. All appointments to significant positions are *de facto* political (Rohava and Burkhardt 2018). The President can appoint or fire any public official, including judges and heads of local administrations (Dimitrova et al. 2018).

On the informal level, existing institutions are ignored, bypassed, or denigrated as well as commandeered by ensuring that people in significant positions are loyal to the presidency (Frear 2019: 31). Regime stability relies on security forces and prosecution institutions. There is virtually no threat to the state's monopoly on the use of force either horizontally or vertically in state power structures (BTI 2018:6). There is also an informal contract among ruling elites

regarding the dominant role of a single patron – President Lukashenko, who has the role of an arbiter and referee preventing the rivalries between various factions of power becoming too destructive and harming all their common interests.

Belarus's dominant coalition is one of the most consolidated and centralized coalitions in the region. According to many experts and interviewees, the regime remains united around the President, who tightly controls security services, economic players and the society (Shraibman 2018; expert interviews)². There are no independent economic actors in Belarus (Bohdan 2012). People who are allowed to do business serve mainly as economic agents of and for the authorities (Smok 2017). The President keeps the access to the establishment of organizations fully under his personal scrutiny.³

The relationship between Belarus and the EU is restrained and underdeveloped, common interests and objectives are few and mutual mistrust persists. The EU, Western countries and institutions until recently have followed a policy of incremental engagement and used mainly negative incentives (sanctions, constraints on political dialogue, support for civil society) due to Belarus's violations of democratic principles and human rights.

Since 2015, two changes happened. First, the susceptibility of Belarus to the EU incentives regarding the transformation of its economy have been increasing (Alachnovič 2019). Second, in 2016, the EU adopted the EU Global Strategy which formulated a more pragmatic and complex approach towards global challenges and it is less eager to emphasize norm-based rhetoric and instead focuses on security and stability (Cadier 2019; Crombois 2019; Juncos 2017). In the context of these two changes we analyse the level of susceptibility of Belarus and its effects towards the external influences in two sectors: business environment and energy.

Business environment: opening or adapting

After 2015, Belarus witnessed some opening of the economy, adopted and implemented by the Government. Belarus's social and economic development program for 2016 to 2020 enacted reform proposals, such as the gradual liberalization of certain types of economic activity, the abolition of the existing restrictions on the possibility of setting up accounts in foreign commercial banks, the removal of the provisions on the priority of executive committees in the purchase of the shares of economic entities (Smogorzewski 2017). Business registration procedures were simplified, even promises to develop crypto-currencies were made (PwC 2017; PwC 2018). The new prime minister, appointed in October 2018, promised to improve business conditions, develop the IT sector, digitalize the economy and more efficiently manage state enterprises (Kłysiński 2019). The transformations were noticed by the World Bank which improved Belarus's rankings of economic freedom and ease of doing business (World Bank 2018). These steps provided some optimism regarding the possible transformation of the Belarusian economic structure.

Is it possible to argue that the above-mentioned changes were a consequence of successful EU policies? Have they contributed to the transformation of Belarus's LAO?

² Authors' interview with a political analyst and economic expert on Belarus, Minsk, 30 January 2018.

³ Authors' interview with a political analyst on Belarus, Minsk, 29 January 2018.

First, indeed, some liberalization of the economic environment was initiated by the state authorities. However, the most interesting is the reasoning of such decisions. The EU has intensified its cooperation with Belarus after several political prisoners were released in 2015, and economic liberalization was always among the EU requests, but the changes could hardly be perceived as sustainable efforts to open the economy. Reforms in Belarus coincided with other domestic and international developments. Domestically, Belarus has been struggling with economic decline for several years in a row (2015-2016). Economic difficulties also translated into increasing unemployment and unsustainability of the “social contract”⁴ between ruling elites and the population.

Thus, the country’s authorities needed to find a way to mitigate the pressure, and managed the opening of the economy as one of the solutions. However, it was a well calculated risk. On paper the decision might look like a trigger for change – increased economic opportunities could have spilled over into political demands for openness. This was not the case in Belarus. First, the reforms were implemented in only several selected economic areas (opportunities for SMEs or the IT sector) and did not lead to substantial structural changes, such as reforms of state-owned enterprises, or reforms of the public sector of the economy (Belarus In Focus 2018; International Monetary Fund 2019). Second, economic liberalization took place along with the growing influence of security services, increased restrictions on opposition activities, civil society, trade unions and independent media. In such an environment, business was not allowed to become a partner in transforming Belarus’s social order into the more open ‘unbalanced closer’ version.

All in all, the managed liberalization of some economic activities did not cause any substantial opening. So, it cannot be attributed to increased susceptibility of Belarus to EU pressures or incentives. Crucially, the changes in Belarus’s economic order were mostly affected by external factors other than the EU’s influence, in particular, the Russian aggression in Ukraine, which started in 2014, and growing tensions in Belarus’s economic and energy relations with Russia threatening rent-accumulation by ruling elites in Belarus served as important impetus for reforms. The EU’s increased concern with security and stability in the neighbourhood and growing tensions with Russia allowed Lukashenko to manipulate European hesitation (Kascian 2018: 93) by imitating reforms and benefiting from improved relations with the EU. The improved relations could not be seen as increasing susceptibility towards EU incentives but were rather a strategy of manipulating external influences to stabilize the domestic situation.

Importantly, China’s Belt and Road Initiative (BRI), its geo-economic goals in the region, and particularly in Belarus, serves as another external factor, which indirectly encourages limited economic liberalization (Kaczmarek et al. 2019). China does not pursue transformational goals in Belarus and does not intend to challenge Russia’s interests, but Beijing’s policies facilitate increased economic openness and contribute to the evolution of Belarus’ LAO towards unbalanced closure (Ibid.). This is a result of Beijing’s attempts to promote its own interest of stronger economic presence in the region and establish Belarus as a transit country within the BRI. However, China’s policies do not correspond to EU’s strategic interests, because Beijing is strongly opposed to any political opening and prefers to deal with President Lukashenko rather than supporting opening of the political space in Belarus.

⁴ “Social contract” is an informal agreement between the dominant elite and the population regarding regime stability in exchange for employment and a sufficient standard of living.

Thus, we can conclude that the susceptibility to reforms, which may trigger transformation from a LAO to an OAO in Belarus have to be perceived not only in the context of Belarus-EU relations, but include a broader understanding of domestic conditions and other external factors. The changed security situation in the region, the deteriorating internal economic situation, growing pressure from Russia and emerging interest of China in combination have created favourable conditions for the economic opening in Belarus. However, the centralization of power and resources, inconsistent and vague policies by the EU with its focus on security rather than democracy resulted in a very limited growth of susceptibility towards the EU's incentives in Belarus.

Energy sector: fixing a tank with a screwdriver

Belarus is a strongly energy-dependent country (Heinrich 2017; Manenok 2014), a 'rentier-state', which "has been extracting rents externally (from Moscow) and redistributed them internally to support a certain form of inclusive social contract" (Pikulik 2017: 14). Russia supplies 100 % of Belarus's natural gas and over 90 % of its crude oil imports (Bornukova 2016). Energy dependence is crucial for the ruling elite, which is addicted to the subsidies and prepared to fight vehemently for these rents. According to various calculations, the total energy subsidy to Belarus from Russia between 2000 and 2017 constituted circa 80 billion USD (IPM 2018). It included a cheap(er) supply of oil and gas as well as the possibility to produce oil products, which generated almost 25 % of all export revenues in Belarus in 2015 (Heinrich 2017).

In combination with the political goal of securing the control of the state and maintaining the centralized system in which the state is the most important employer and warrant of stability, it becomes very difficult to transform the system due to the inevitability of social tensions if reforms are adopted. Consequently, Belarus is not capable of "successfully developing and competing in the modern world without Russia's support" (Nikoliuk 2012: 234).

Belarus's energy dependence hinders its political and economic transformation in two ways. First, the export of refined oil products to the Western market is the most important source of hard currency revenue for the regime, constituting more than 10 % of the country's GDP (Pikulik 2017). As long as Russia provides cheaper oil, Belarus is able to maintain centralized control of economy. The presence and control of the rent is the instrument to keep society under control by providing it with all basic economic needs. Second, more than 90 % of Belarus's electricity and heat is produced by gas-fired power plants using Russian gas. Therefore, the cheap Russian gas is a necessity in order to maintain the ineffective and loss-generating state-owned enterprises (SOEs). SOEs produce around 70 % of the country's GDP and employ more than 50 % of the labour force (Pikulik 2017).

Besides, SOE's have an important political role: their employees constitute the main electoral base of Lukashenka (they ensure the electoral turnout) and are much easier to control than people working in the private sector. Disruption of this system might mean the collapse of the current Belarusian social order, which is heavily dependent on the external rents.

The EU has very limited energy relations with Belarus and little influence there. The only semi-formalized form of cooperation is the Energy Charter Treaty, which Belarus signed in 1994

and which encourages cooperation in the energy sphere to promote energy security through the operation of more open and competitive energy markets. Belarus applies the treaty only provisionally and has not ratified it. Belarus joined the Eastern Europe Energy Efficiency and Environment Partnership (E5P) in 2017, but it hardly can be seen as a significant tool to push for comprehensive reforms and transformation of the energy sector due to its technical and environmentally oriented focus.

In 2018, energy questions in Belarus became vital for the regime's survival when Russia linked the energy subsidies with political requirements to deepen bilateral integration under the aegis of the Russia-Belarus Union state (Kłysiński et al. 2018). The possible loss of the rents, according to calculations by the Belarusian government, could reach up to \$11 billion by 2025 (Hansbury 2019). The IMF evaluates the possible negative effects on Belarus's economy up to 4 % of the GDP (International Monetary Fund 2019). These circumstances point to a possibility to increase the EU's leverage in Belarus by offering alternative solutions and making them conditional on political and/or economic reforms.

Formally, Belarus would be interested in such cooperation as its energy security strategy states the need to reduce the energy dependence on Russia (Soviet Ministierstva Respubliki Belarus 2015). However, the absence of pipeline connections, the EU's status as an energy-importer together with the absence of political consensus within the EU, different attitudes of the EU members regarding energy cooperation with Russia, and the reluctance to help the 'last European dictator' due to normative considerations reduce the possibility of increased EU impact to naught.

Similarly, negative instruments would also have zero impact on the susceptibility to reforms among the Belarusian elites. The EU could use its status as an important market for the exports of refined oil products from Belarus by imposing sanctions on exports from Belarus. However, the majority of oil products are sold to Europe through open tenders, and due to the relatively high quality and attractive price of those products, it would be difficult to achieve a unified European position in that regard. In addition, the ineffectiveness of previous sanctions against Belarus (Giumelli and Ivan 2013) may increase the risk of even stronger isolation of the country's citizens, higher political and economic dependence on Russia, and weakened hopes for improving democratic practices in the country.

Therefore, the susceptibility of Belarus to both positive and negative incentives by the EU is minimal due to a relatively symmetric Belarus-EU interdependence in the energy sphere and, most importantly, due to a strongly asymmetrical interdependence in the energy sphere between Belarus and Russia. As illustrated by the regular energy wars between Belarus and Russia (Kardaś and Kłysiński 2017; Manenok 2016), the pressure under conditions of asymmetric interdependence has allowed Russia to achieve its goals (consolidating Belarusian energy dependence on Moscow, promotion of the Eurasian integration project), and prevented the promotion of OAO in Belarus. In other words, the rent-related interdependence with Russia minimized the susceptibility of Belarusian elites to the (modest) EU incentives.

Theoretically, there are some opportunities to increase the EU's impact in the current situation. The logic of limited access inevitably encourages Belarusian elites to resist deeper political association with Russia because it would be a question of time when powerful Russian players would destroy Lukashenka's pyramid of power and incorporate the country if the idea of the

Union State is fully realized. Driven by the idea of sovereignty and threatened by Russian behaviour in Ukraine, Lukashenka is looking for exit strategies. Attempts to increase the freedom of manoeuvre are illustrated by the adoption of the ‘30-30-30’ strategy of trade relations⁵, measures to decrease the dependence of the economy on state enterprises, the search for independent economic activities (promotion of the IT sector) and others. Increasing energy efficiency and the development of alternative sources of energy are also a part of planned changes in Belarus (Soviet Ministrov Respubliki Belarus 2015).

The described situation seems to be favourable for the increasing influence of external actors other than Russia in the Belarusian energy sector. However, limitations and restrictions to change remain. First, the energy sector is state-owned and there are no plans of its privatization. Second, the reform of the energy sector in Belarus would mean the reform of all the economy and especially restructuring of the SOEs. Privatization of oil refineries in ‘Mozyr’ and ‘Naftan’ or selling of their stocks to foreign investors would mean diminishing control over the distribution of rents. Consequently, very big compensation or very strong influence is needed to force the president to take such a step. As negotiations with the IMF in 2016 demonstrated, restructuring of SOEs remain the taboo for Belarusian authorities (Chubrik 2017).

The only remaining possibility remains cooperation in the field of energy efficiency and alternative energy. And the EU is already present in those sectors: in June 2017, Belarus joined the E5P, it is a member of the Eastern Partnership Platform on Energy Security (III platform), EU4Energy initiative, and EU-funded infrastructure development projects. Although the existing cooperation remains marginal in terms of transformational effects, it remains one of the areas in which the interests of Belarus and the EU coincide. Energy cooperation allows the EU to retain its presence in Belarus with the possibility of expansion if relations with Russia continue to deteriorate. However, the effect on susceptibility of this form of cooperation remains a function of Belarus’s relations with Russia rather than EU-Belarus relations.

In summary, the case of Belarus confirms our assumptions regarding the relationship between the type of domestic dominant coalition, the existing dependence on external actors, the tool-box available to them and the susceptibility of a LAO to the external transformational pressure. The strongly centralized control by President Lukashenko, in combination with high rent-dependence on Russia, underdeveloped security and economic linkages with the EU and the lack of a formalized framework of cooperation makes Belarus only formally susceptible to external policies, which aim at political and economic opening. Having said that, the case of Belarus has also revealed that a strictly controlled economic opening is possible as a consequence of geopolitical tensions and attempts by domestic ruling elites to balance external influences.

Ukraine

Ukraine can be considered a balanced limited access social order, leaning towards openness, where substantial political and economic access is allowed (Ademmer et al. 2018). Ukraine’s political system is a competitive multi-party system, although most parties lack a clearly

⁵ The ‘30-30-30’ strategy means that Belarusian exports should be diversified according to the logic that one third of it goes to the EAEU, another third to the EU, and the last third to ‘far abroad’.

defined ideology. Economically, Ukraine is also relatively open: prices and trade are largely liberalized, the private sector is well developed with SMEs and private entrepreneurs officially accounting for over 99 % of Ukraine's private sector enterprises, 76 % of jobs and 60 % of total sales in 2013 (Całus et al. 2018). The biggest problems, according to the majority of observers, remain corruption and the prevalence of oligarchic groups in the economy.

At the time of research in 2019, there were three main power centres: the president, the government and the parliament. The president has the greatest influence on policy making and reforms. The political party controlled by the president, Petro Poroshenko Bloc (BPP), had a majority in the parliamentary coalition with the People's Front (PF), and a considerable amount of politicians recommended by them in the government. The parliamentary ruling coalition has no real majority in the parliament. The coalition's discipline during the voting is low, and some of the pro-reform *de jure* MPP members, e.g. Euro-optimist group, often vote against the president's plans.

On the other hand, a number of opposition fractions and groups (e.g. the Radical party, Renaissance, Will of People) can be considered as *de facto* members of the coalition, and this indicates the prevalence of informal connections among decision-makers. The division between pro- and anti-reforming deputies under BPP and PF is superimposed by other divisions: deputies elected from the national party list and those elected from single-mandate constituencies; parliamentarians who are obedient to political leaders and execute their orders, and those, who were included into electoral lists as a result of an agreement between political leaders and the main oligarchs in the country (Ihor Kolomoyskyy, Rinat Akhmetov, Dmitry Firtash). Another important division of deputies is based on the informal groups that are formed and controlled by other influential actors, e.g. the prime minister, minister of interior, mayor of Kyiv or Poroshenko's business associates.

Ukraine remains a limited access order. First, during election campaigns, political parties and presidential candidates rely not only on officially available public funds for the election campaign, but first of all on the sources granted to them by oligarchs, including access to the media. Second, the Ukrainian political system lacks continuity of the policies undertaken by the previous governments. A change in a dominant ruling coalition also means change in the political-economic ties, patronage linkages and rent-seeking patterns. Earlier reform initiatives might be abandoned, since elites that manage those sectors and derive profits, may not be willing to keep the previous patterns.

Politics in Ukraine is closely linked with business (Matuszak 2012). The motivation of the majority of deputies is rent-seeking or rent-preservation, access to new resources for themselves or their political patrons, therefore finding a majority for transition reforms is difficult. Large private businesses belong most often to oligarchs with very strong political connections (Konończuk 2015; Matuszak 2012). Because of their financial strength and possession of the most important mass media, they are important stake-holders for making domestic policies, and desirable partners for politicians. As a rule, the oligarchs are an anti-reformist force, resisting the opening of the market and competition. However, oligarchs are not the major power brokers in Ukrainian politics who have determined who wins; instead they have always sought accommodation with those in power by giving additional support to the winning side (Pleines 2016).

After the Dignity Revolution, the political system of Ukraine partially opened up, allowing people from the outside to the parliament and governmental positions (Olszański 2014, Olszański 2016). Civil society and NGOs are key partners and allies of Western donors in their efforts to reform Ukraine as their modernization goals for Ukraine coincide. NGOs such as the Reanimation Reform Package, the Anti-Corruption Centre or Dixie Group are currently the strongest group of internal actors supporting reforms to increase transparency and strengthen the rule of law. Close cooperation between NGOs and the West is beneficial for both parties as it increases the impact, credibility and legitimacy of external actors inside the country and strengthens the operative capacities of NGOs (Jarábik and de Waal 2018).

The EU, the US and IFIs (mainly the IMF and the World Bank) are the main external actors actively involved in the reform processes in Ukraine and supporting its possible change towards OAO. Since 2014, the strategic priorities of these actors towards Ukraine have been similar, although each actor pursues slightly different priorities when it comes to desirable changes in specific spheres.

One of the key tests for the EU's external policy was its ability to promote change in the EaP countries. In the absence of its hitherto most effective mechanism, the promise of future membership, the EU offered the EaP countries the prospect of 'association' as the vehicle for political cooperation, economic integration and domestic modernization (Dragneva 2019). Moreover, as emphasized by Wolczuk (2017), in order to address formidable sacrifices and challenges facing Ukraine after the signature of the AA and the Russian aggression, the EU came up with unprecedented technical and financial assistance. An innovative strand of support was provided by the EU Commission which set up a dedicated group of EU officials in the Support Group for Ukraine (SGU). Nevertheless, according to Wolczuk (2017), assistance projects are rarely based on an analysis of what reform measures could actually be most effective within a local context ('best fit').

The other important external actors which promote transition to an OAO include the IFIs and the US. The US stress the creation of democratic institutions, open and transparent governance and the fight against corruption. The IFIs have been mostly focusing on macro-economic stabilization, opening of the economy and creating transparent and impersonal institutions as a way to constrain rent-seeking behaviour. The IFIs tend to practice a coordinated approach not only among themselves but also with other OAO promoting donors aiming to strengthen conditionality and sustainability of reforms. They also interact with the domestic opposition and societal activists trying to broaden the ownership of reform programs (Vilpišauskas 2019).

We argue that in the case of Ukraine, the EU conditionality has appeared to be working in the first two years after the Dignity Revolution in 2014 when the security and economic crises pressured new elected ruling elites to be more susceptible to the influence of the EU and other external actors such as the US and the IFIs. However, as the economic pressure on Ukrainian authorities eased and the dominant actors were increasingly faced with the risk of losing their rents and power due to potential systemic reforms, the susceptibility of those domestic actors declined.

Further, we proceed by analysing the reforms and their performance undertaken in fighting the corruption and reforming the energy sector which took place in Ukraine in 2014-2018.

Anti-corruption reforms: slow movement

The anti-corruption reforms are strongly prioritized by all analysed external actors as they are considered the main pathway towards the creation of an OAO in Ukraine.⁶ They all pursue a long-term policy of supporting the fight against corruption and consolidating the rule of law. But the anti-corruption reforms have been slow and incremental due to the vested interests of different political and business groups inside the dominant elite and also due to the prevalence of corrupt practices in almost each sphere of public life.

First, corruption in Ukraine is institutional. It is a system of informal relations between the authorities and the citizens and between the subordinates and the superiors occurring from the highest level of government down to the local level. Second, politicians continue to be dependent on the oligarchs who sponsor them or, in fact, are oligarchs themselves who get involved in politics in order to pursue their business objectives. Third, the outbreak of the armed conflict in the east of Ukraine and the emergence of the uncontrolled territories has facilitated the emergence of new corruption schemes (Jaroszewicz and Żochowski 2015).

Western external actors usually apply two types of instruments: conditionality and institutional capacity building. The anti-corruption requirements are among the most important conditions of loans and macroeconomic assistance offered to Ukraine. The adoption of the visa liberalization plan Ukraine implemented in late 2015 was another instrument to facilitate the changes. The analysis of three years of anti-corruption support demonstrates that several changes in the strategies and policies of these actors occurred.

In 2014, the EU was reluctant to install capacity building programmes for newly created anti-corruption institutions. The main tool was conditionality based on the assessment of benchmarks attached to the macro-financial assistance, visa liberalization plans and the direct budget support. Besides, it was applying different forms of a political dialogue, from high-level discussions and adoption of common documents, through political statements to informal negotiations.⁷ In those first two years it was mainly the US, Canada and selected EU member states that were providing often ad-hoc grants and technical assistance to help establishing new anti-corruption institutions. The US, in addition, got involved into the process of reforming patrol police, which later on was supported through more comprehensive assistance of the EU Advisory Mission to Ukraine (EUAM).

Starting from 2016, both the EU and the US established special measures to more comprehensively address the widespread corruption in Ukraine. In February 2017, the EU launched a special assistance initiative which included support to all key anti-corruption institutions from prevention to investigation, prosecution and recovery. The US launched the *Support to Anti-Corruption Champion Institutions*. Anti-corruption reforms are also supported by cross-cutting anti-corruption efforts provided for different sectors of public life including: public procurement, local government, energy, health, etc. Finally, the EU has engaged into assisting in building of the anti-corruption court as a new independent judiciary body which

⁶ Authors' interviews with EU officials and Ukrainian governmental officials, Kiev, March 2018.

⁷ Ibid.

could have the capacity and ability to bring to justice corrupted officials prosecuted by the law enforcement agencies (Lough and Dubrovsky 2018).

The biggest challenge for the Western influence on anti-corruption reforms lies in the complexity of the problem they have been trying to solve. As was mentioned, corruption in Ukraine is an inherent part in the whole political, economic and social system. Thus, the institutional and judicial reforms advocated by the majority of donors are only a small part of the transformation that needs to take place. A huge challenge lies in the nature of the reforms that are promoted: the creation of new institutions and the adoption of necessary laws, not losing focus on the implementation of the laws and the functioning of newly established institutions. All external actors understand that the most powerful tool for promoting reforms in this area is conditionality. However, this tends to create situations when the only reforms and necessary moves are being made based on the external requirements without making domestically owned initiatives and self-deliberated decisions. Therefore, although many formal changes have been introduced in Ukraine since 2014, they have not transformed the system in a sense that corrupt practices would become too risky and stop being used by the power centres to maintain their rents and power position.

Energy sector: reform of Naftogaz

The reform of the gas sector, in particular the reform of Naftogaz, on a number of occasions has been noted as one of the most successful reforms in Ukraine (Kharcherenko 2017; expert interviews⁸). Why are the results of the energy sector reform in Ukraine different from the other reforms in the country and what was the role of external actors, particularly the EU?

After the dissolution of the Soviet Union, despite possessing vast natural resources and having a potential to be self-sufficient (Antonenko et al. 2018), Ukraine remained highly dependent on Russian energy resources. The most important game changer was the crisis of 2014. Since then Ukraine has fundamentally changed its foreign policy towards Russia and the Russian presence in the energy sector became perceived as a threat to the national security. Second, in June 2014, when no compromise was reached regarding the gas price for Ukraine and the value of the Ukrainian debt, Gazprom cut off gas supplies to Ukraine and has submitted a claim against Naftogaz to the Arbitral Tribunal in Stockholm to recover the debt (Kardaś and Iwański 2018). Third, many of the influential figures in the Ukrainian energy sector that were closely connected with Russia fled Ukraine in 2014, therefore quite a few ties with the Russian side were broken.

Finally, there was strong political support, economic and financial assistance from the EU and the IFIs towards helping Ukraine break ties with Russia. Slovakia has ensured the reverse flow, the EU has provided political support in negotiating the so-called ‘winter packages’, the EBRD and the World Bank have offered financial assistance to gas imports (Iwański 2016). This increased dependency on the EU in the energy sector. In 2015, about 60 % of imported gas was transported from the EU, up from only 25 % in 2014 (Kardaś and Iwański 2018). This created favourable conditions for the reform. Dynamics in the energy sector have significantly changed: the susceptibility of the domestic ruling coalition towards Russian actors diminished and dependency on the international institutions increased.

⁸ Authors' interview with representatives of the EU Delegation, Kiev, 20 February 2018.

An important factor contributing to the success of the Naftogaz reform was positive conditionality proposed by the EU and the IMF. Reconstruction of Naftogaz has become a requirement under the Energy Community and Ukraine's AA with the EU, and a condition built into the country's programs with IFIs including the IMF, the World Bank, and the EBRD (Antonenko et al. 2018). The reform was initiated in April 2015 when Rada passed a law on the gas sector. The law ensured the ownership unbundling of Naftogaz into companies dealing with gas extraction, distribution and storage. This had to contribute to the creation of a liberalized gas market in line with the Third Energy Package.

Moreover, the reforms aimed to modernize Naftogaz could be yet another important factor influencing the incentives of the ruling elite to modernize the company. New management and a new supervisory board were appointed (Konończuk and Matuszak 2017). The reforms were also aimed at abolishing subsidies for the energy resources, which meant an increase in price for the individual customers (Konończuk 2015). Modernization of Naftogaz and increased prices for the customers turned Naftogaz into one of the most profitable companies in Ukraine in just one year (a profit in 2016 of around 1 bln. USD). In July 2016, the government approved a plan to restructure Naftogaz, which provided for the removal from its structure of transit gas pipelines and gas storage facilities, and for transforming them into two independent companies: Main Gas Pipelines of Ukraine (MGU) and Underground Gas Storage Facilities of Ukraine (Konończuk and Matuszak 2017).

Despite the important steps that were taken in gas sector reform, disagreements over the reforms began already in 2016. One group consisted of the president and the prime minister who wanted to increase political control over the sector, the opposing group was made of the Naftogaz management and board that were backed by Western institutions. The Ministry of Economic Development and Trade in September 2016 decided to take the control over Ukrtransgaz, which previously belonged to Naftogaz. This step was negatively assessed by the EU, the IMF, and the Energy Community as contradicting implementation of the Third Energy Package and forced the government to step back (Konończuk and Matuszak 2017).

Another attempt to grant more powers to the government to control Naftogaz was the decision to expand the supervisory board of Naftogaz with two new members from the government. This step has resulted in the resignation of the advisory board. These disputes have demonstrated that the dominant coalition was interested to reform Naftogaz for the company to become profitable. However, the political elite still wanted to maintain the control over Naftogaz most likely for rent-seeking purposes. Strong pressure from international institutions and the incentive of receiving financial instalments from Western donors have, however, reversed the actions of the government.

The management of Naftogaz is quite transparent and under the scrutiny of international institutions, thereby leaving little space for rent seeking at the state level, but the susceptibility of the company to the influence of external actors other than the EU and the IMF is still limited at the lower regional level as most of the regional distribution companies (over 70 %) are controlled by the oligarch Dmytro Firtash, who has been under house arrest in Vienna since 2014. Moreover, the EU, Energy Community and the World Bank clashed with the government over the decision in March 2017 ordering Naftogaz to supply gas to 44 regional distribution companies "at a preferential price set by the government and for the amount they would

request” (Konończuk and Matuszak 2017). While the pressure of international institutions in this particular case constrained the government, the situation at the regional level remains unchanged. Besides, Naftogaz remains a national monopoly despite the recommendations of external actors to liberalize the gas sector and create a more attractive environment for the entry of foreign competitors.

It might be observed that the most important factors that contributed to the relative success of the Naftogaz reform included a positive conditionality introduced by the international institutions in the background of a crisis which disrupted the ties between the Ukrainian government and oligarchs, on the one side, and Russia, on the other. However, the reform has been incomplete and is not irreversible. The impact of the EU and other external actors promoting the implementation of reforms was of the utmost importance, but might be compromised if the Ukrainian economy grows and opportunities to borrow on the financial market improve, thereby reducing the need to follow the conditionality of the IMF and other Western donors.

To sum up, the susceptibility of dominant elites which came to power in Ukraine in the background of severe security and economic crises has been stronger due to a combination of factors – break down of interdependencies with Russia, coordinated policies of Western actors and the relatively wide ranging tool box used by the EU. However, even under such conditions transformation has been limited and confined to the preservation of the existing structures of the LAO, in particular, rent-accumulation and informal decision making.

Conclusions

The case of Belarus demonstrated that its susceptibility to EU influence is limited in terms of depth and sustainability. The analysis of the changes undertaken in the business environment demonstrated that even few formal changes can be treated as favourable for opening. However, it would be premature to qualify them as irreversible or as a result of the EU’s policies. The combination of a neo-patrimonial single-pyramid system of limited access and its interaction with external factors other than the EU served as a trigger for these changes. The formal steps towards the liberalization of conditions for SMEs in Belarus happened because they were seen as contributing to the stabilization of the existing system. Besides, peculiarities of the EU policy towards Belarus made the regime’s manoeuvring successful. Having no formalized relationship and without internal consensus on the importance of Belarus, the EU unintentionally facilitated the implementation and legitimization of the regime's strategy.

The role of Russia helps to understand why the EU was so quick since 2015 to change its tone on sanctions and human rights requirements to cooperative rhetoric towards a more security oriented talk. The EU reset its relations with Belarus as soon as Minsk took advantage of the situation and declared itself a peacekeeper and a warrant of stability in the region. Since the EU is the main geopolitical alternative to Russia, it was not very costly for Belarus to announce some reforms that matched the EU's ambitions. However, it was Russia’s policies as well as the growing economic presence of China, not the EU’s strategy, which increased Belarus’s formal susceptibility to the EU.

In the energy area, the EU has few tools to promote its interests in Belarus because Russia is the main source of rents. Energy relations with Russia limit the regime’s freedom of actions.

Despite all rhetoric regarding the need to diversify the country's energy dependence, Belarus cannot reform the energy sector unilaterally without a risk to its stability. Being unable to provide a serious alternative without challenging the status quo, the EU is left to continue the marginal cooperation in the areas of renewable energy and energy efficiency. Although Belarus is to some extent susceptible to such cooperation, its short-term and medium-term impact on the opening of the regime is minimal.

In the case of Ukraine, after 2014 the susceptibility of domestic actors to external pressure generally increased, but varied depending on the external actor and its strategies. The state was in an economic crisis and forced to conduct costly military operations in the East. The military conflict with Russia led to a breakdown of interdependencies with this country in many spheres. This has reduced the effectiveness of Russia's issue linkage strategies towards Ukraine, at the same time increasing the dependence on the West.

The actors supporting Ukraine's transition towards an OAO aim at the financial stabilization, modernization and democratization of Ukraine. Although the instruments employed to enforce reforms in Ukraine differ, they do not contradict the basic goal of increasing economic and political access. The strong coordination among various donor organizations regarding which projects to support and under what conditions, tends to limit the space for the Ukrainian authorities to manipulate differences in external actors' priorities.

When comparing the susceptibility of the Ukrainian dominant coalition towards the reforms promoted by the EU and other external actors, in case of the reform of Naftogaz, the relative success of these efforts was related to the fact that it was a demand-driven reform that coincided with the actual needs of the gas sector reform (preferential fit). An important role was played by the Naftogaz management which has pushed for the reform internally, although not being part of the dominant coalition, but maintaining a good relationship with the ruling elite. In the case of the anti-corruption reform, the minority group represented by the group of civil activists, law enforcement officers and other 'enlightened' bureaucrats heavily supported by the EU and the IFIs did not manage to push forward those elements of the reform that would make corrupt practices too risky and unacceptable due to the very strong opposition from the dominant coalitions. According to the widely shared belief of many Ukrainian politicians and officials, the values the West seeks to promote in the country are merely empty rhetoric. Thus, when pressured by external actors, policy makers tend to take the formalistic attitude: i.e. they tend to imitate reforms and their implementation when in reality the new laws lack the implementing acts and the new institutions meet systemic resistance.

Thus, our research demonstrated that because of the specific logic of limited access which is the key defining feature of the social orders in EaP countries, the effect of external actors on the opening of social orders is much more complex and requires deeper empirical inquiry into specific sectors. The focus on the EU support to so-called "developmental democratisation" (Carothers 2009: 16) instead of a "political approach", contributes to a distorted understanding of the EU's external impact on LAOs in EaP countries. The ignorance of the LAO principles during the evaluation of the effectiveness of EU policies towards EaP countries is a significant gap, which needs to be eliminated.

First, employing the theoretical assumptions of the LAO theory allowed us to see already known insights in a new light, such as preferential fit (Ademmer and Börzel 2013: 584). It

means that due to the intrinsic motivation by members of a dominant coalition to maintain or gain political power by improving their position *vis-à-vis* other players or by advancing their own political agenda, some externally required reforms can be accepted by domestic actors without any systemic effect on the LAO's institutional system, as illustrated by the improvement of the business climate in Belarus or implementing certain anti-corruption provisions in Ukraine.

Second, the research demonstrated the importance of the intersecting external incentives. The susceptibility to EU efforts can be understood in an appropriate way only by including into analysis the consequences of the behaviour of other external actors, whether that behaviour is autonomous or in reaction to the EU's policies. The policies of Russia, China, and others towards the EaP countries form an inseparable part of a causal mechanism to explain the domestic susceptibility.

The analysis of the changing nature of the EU external policies in recent years (Dandashly and Noutcheva 2019; Juncos 2017) has demonstrated that the EU has been increasingly concerned not with traditional normative democratization challenges but a growing importance of guaranteeing security and stability across its borders. Partly, it is an inevitable consequence of insecurity in neighbouring regions (Russian aggression, Arab Spring, migration crisis). But understanding how those changes affect the achievement of institutional transformation goals is lacking. The research showed how growing importance of the security and stability issues complicates the susceptibility of EaP countries towards EU efforts to promote the opening of the social orders domestically. If gatekeeper elites in EaP countries have the possibility to get support to or concessions by 'taking the right side' and presenting that as a sign of loyalty and input to European security, susceptibility to OAO related (institutional) reforms decreases significantly.

Finally, our model of analysing susceptibility of domestic actors towards the EU's incentives can serve as an input to explain other challenges, which are increasingly raised in academic research. For example, how the EU's democracy promotion creates unintended effects in strengthening illiberal reforms and coalitions (Dandashly and Noutcheva 2019: 106).

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