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Title:

Navigating Neutrality: Ukraine's Foreign Policy and Its Impact on Democratization and Marketization

Extended Abstract:

The dissolution of the Union of Soviet Socialist Republics (USSR) in 1991 meant that Ukraine, among other post-Soviet states, were confronted with deciding the trajectory of their foreign policy. Ultimately, Ukraine chose a foreign policy of neutrality. In this case, neutrality can be understood as an absence of hard decision-making by a state with regard to its geopolitical positioning and current circumstances. Ukraine in 1991 recognized the existing pressures that stemmed from the Cold War era. The Ukrainian state attempted to balance the pro-democratic ideals held by Western states and the socio-economic and political pressures coming from the elites of the newly-formed Russian Federation. Other states formerly tied to the USSR, such as the Baltic states, provide a contrasting case against neutrality through their respective endeavours of pursuing an overtly anti-neutrality, pro-democratic foreign policy agenda.

The theoretical framework used is based on two existing frameworks and corresponding authors in the field: Joel Hellman's partial reform equilibrium theory and Douglas North's classification of states as Limited Access Orders (LAOs) and Open Access Orders (OAOs) & double balance theory. Hellman introduces the distinction of post communist states from others because they experience a double transition of democratizing and liberalizing simultaneously. Marketization (applied to liberalization) is going to create winners and losers regardless; however, Hellman found that states who liberalized at a gradual rate were more at risk for reforms being undermined and slowing down/halting marketization efforts completely.

A partial reform equilibrium means that states, including Ukraine, were able to marketize a bit but reforms were halted. The J curve used by Hellman looks at the winners of marketization who were able to enrich themselves quickly and halt the reforms to stop marketization to get to the point where the state plan is no longer there and only the market exists. Ukraine is an example of partial reform equilibrium, in contrast to the Baltic states who were able to undergo the process of marketization quickly. The incentive of a dual track system (democratization and marketization) is to create a substantial pool of rent-seekers going after monopoly rents. Therefore, ushering in an era of rent-seeking in which monopoly rents are paramount. The creation of new insiders are connected and overcome the collective action problem, resulting in the new insiders capturing the state. Ukraine is such an example

in which Hellman's framework fits; however, it doesn't explain why Ukraine is stuck in this Nash Equilibrium of partial reform equilibrium and has been unable to join NATO or the EU.

Douglas North and his colleague's framework utilized in this paper is twofold as highlighted and continues the theoretical framework applied to Ukraine. In an LAO state, the state does not have a secure monopoly on violence and society organizes itself to control violence among the elite factions. The classification of states as LAO levels are threefold: fragile LAOs, basic LAOs, and mature LAOs. North asserts that the natural state for societies is existing as LAOs in agrarian/division of labour construction, and most of the world lives in this system. LAOs are able to produce political, economic, social, religious, etc., elites that have a stake or incentive to prevent violence by choosing cooperation over defection as it results in gains for them. Elites can likewise be thought of as winners, or insiders. It is only as a mature LAO that states or societies have the capacity to work together to meet North's doorstep conditions: extend property rights; extend and create institutions with a degree of autonomy and gradually undermine the monopoly position of elites; and the military comes under civilian control. A key differentiation between LAOs and OAOs is enforcement, OAOs are able to enforce the rule of law.

Double balance theory argues that the quality of state regulation is what conditions the success of the market. Openness in the state spills over into openness in the market. If the state is not well structured, then it could eventually lead to state capture. The actors involved who make the rules and change them condition the success of the market. North believes that the state is part of development whereas the revisionists (Leff and Nye) say that the state is an impediment to the market. In OAOs there is competition in both economic markets and political markets. This competition has the potential to create uncertainty, also known as creative destruction from Schumpeter. It is an ongoing process and rents are temporary but it has the benefits of lower transaction costs.

Applying these frameworks to Ukraine is in the form of the state's foreign policy of neutrality in which neutrality can be viewed as closing the political sphere. Furthermore, following double balance theory, the foreign policy of neutrality meant that elites chose to close the political sphere, which in turn closes the economic sphere. This means that Ukraine was caught in a partial reform equilibrium because the Ukrainian state and its decision-makers prioritized short-term stability that did not require immediate action. Meaning, the Ukrainian state gained independence and slowly transitioned away from the communist system. However, this gradual reform is precisely what allowed the new winners of the reforming Ukrainian state to organize themselves in hopes of perpetuating the system that allowed them to become winners in the first place. These new winners, according to Hellman's partial reform equilibrium, had no incentive to continue marketization efforts because they were deriving monopoly rents with minimal effort. Therefore, partial reform equilibrium meant that Ukraine is stuck in this kind of Nash Equilibrium (NE), needing institutional incentive in hopes to move out of a NE.

In order for Ukraine to meet North's doorstep conditions in hopes of transitioning into an OAO, an institutional incentive is needed because transitioning into an OAO likewise means moving out of a NE. Membership into the North Atlantic Treaty Organization and the European Union are a couple of incentive structures to look into for further research, partly because the Baltic states have membership to both institutions. In summary this paper argues that neutrality is the cause for Ukraine's lack of NATO/EU membership. Via double balance theory, neutrality closes the political sphere which in turn closes the economic sphere. Resulting in a partial reform equilibrium, and likewise conceptualized as a NE.