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The Long Shadow of Transition: The State of Democracy in Eastern Europe

In many parts of Eastern Europe, the transition towards stronger political institutions and democratic deepening has been slow and uneven. Weak political checks and balances, corruption and authoritarianism have threatened economic and social development and adversely impacted peace and stability in Europe at large. This policy brief summarizes the insights from Development Day 2019, a full-day conference organized by SITE at the Stockholm School of Economics on November 12th. The presentations were centred around the current political and business climate in the Eastern European region, throwing light on new developments in the past few years, strides towards and away from democracy, and the challenges as well as possible policy solutions emanating from those.



The State of Democracy in the Region

From a regional perspective, Eastern Europe has seen mixed democratic success over the years with hybrid systems that combine some elements of democracy and autocracy. Based on the V-Dem liberal democracy index, ten transition countries that have joined the EU saw rapid early progress after transition. In comparison, the democratic development in twelve nations of the FSU still outside of the EU has been largely stagnant. In recent years, however, democracy in some of those EU countries, such as Bulgaria, the Czech Republic, Hungary, Poland and Romania have been in decline. Poland, one of the region's top performers in terms of GDP growth and life expectancy, has experienced a sharp decline in democracy since 2015. Backlashes have often occurred after elections in which corruption and economic mismanagement have led to the downfall of incumbent governments and a general distrust of the political system. Together with low voter turnout, this created fertile ground for more autocratic forces to gain power helped by demand for strong leadership.

An example from Ukraine illustrated the role of media, both traditional and social, for policy-making. In some countries of the region, traditional media is strictly state-controlled with obvious concerns for democracy. This is less the case in Ukraine, where also social media plays an important role in forming political opinions. The concern is that, as elsewhere, opinions that gain traction on social media may not be impartial or well informed, affecting public perception about policy-making. A recent case showing the popular reaction to an attack on the former governor of the Central Bank suggests that those implementing important reforms may not get due credit when biased and partial information dominates the political discourse on social media.

Another case is the South Caucasian region: Armenia, Georgia and Azerbaijan. The political

situation there has been characterized as a “government by day, government by night” dichotomy, implying that the real political power largely lies outside the official political institutions. In Georgia, the situation can be described as a competition between autocracy and democracy, with a feudalistic system in which powerful groups replace one another across time. As a result, trust in political institutions is low, as well as citizens' political participation. In the case of Azerbaijan, there is an elected presidency, but in reality, power has been passed on hereditarily, becoming a de facto patrimonial system. Lastly, in Armenia, the new government possesses democratic credentials, but the tensions with neighbouring Azerbaijan and Turkey have given increasing power to the military and important economic powers. Overall, democratisation in these countries has been hindered by a trend for powerful politicians to form parties around themselves and to retain power after the end of their mandates. Also, the historical focus on nation-building in these countries has led to a marked exclusion of minorities and a conflict of national identities.

The last country case in this part of the conference focused on the current political situation in Russia and on the likely outcomes after 2024. The social framework in Russia appears constellated by fears – a fear of a world war, of regime tightening and mass repressions, and of lawlessness - all of them on the rise. Similarly, the economy is suffering, in particular from low business activity, somewhat offset by a boost in social payments. Nonetheless, it was argued that it is not economic concerns, but rather political frustration, that has recently led citizens to take to the street. Despite this, survey data shows that trust in Putin is still over 60%, and that most people would vote for him again. However, survey data also points out that the most likely determinant of this trust is the lack of another reference figure, and that citizens are not averse to the idea of political change in itself. Lastly, Putin will most likely retain some political



power after 2024, transiting “from father to grandfather of the nation”.

Voices from the civil society in the region also emphasized the importance of a free media and an active civil society to prevent the backsliding of democracy. With examples from Georgia and Ukraine, it was argued that maintaining the independence of the judiciary, as well as the public prosecutor’s office, can go a long way in building credibility both among citizens and the international community. The European Union can leverage the high trust and hopeful attitudes it benefits from in the region to push crucial reforms more strongly. For example, more than 70% of Georgians would vote for joining the EU if a referendum was held on the topic and the European Union is widely regarded as Georgia’s most important foreign supporter.

Weak Institutions and Business Development

The quality of political and legal institutions strongly affects the business environment, in particular with regards to the protection of property rights, rule of law, regulation and corruption. Research from the European Bank for Reconstruction and Development (EBRD) highlights that the governance gap between Eastern Europe and Central Asia and most advanced economies is still large, even though progress in this area has actually been faster than for other emerging economies since the mid-’90s. This is measured through enterprise surveys as well as individual surveys. In Albania, for instance, a perception of lower corruption was linked to a decrease in the intention to emigrate equivalent to earning 400\$ more per month. Another point concerned the complexity of measuring the business environment and the benefits of firm-level surveys asking firms directly about their own actual experience of regular enforcement. For example, in countries such as Poland, Latvia and Romania the actual experience of business regulation measured via the EBRD’s

Business Environment Enterprise Performance Survey, is far worse than one would expect from the World Bank’s well known *Doing Business* rating.

From the perspective of Swedish firms, trade between Sweden and the region has remained rather flat in the past years, as the complexity and risks of these markets especially discourage SMEs. Business Sweden explained that Swedish firms considering an expansion in these markets are concerned with issues of exchange rate stability, and the institutional-driven presence of unfair competition and of excessive bureaucracy. Moreover, inadequate infrastructure and the presence of bribery and corruption make everyday business operations risky and costly. It was generally emphasized that countries have to create a safe investment environment by reducing corruption, establishing a clear and well enacted regulatory environment, having dependable courts and strengthening domestic resource mobilization. Swedish aid can play a part, but there is a need to develop new ways of delivering aid to make it more effective.

An interesting example is Belarus, that has seen more economic and political stability than most neighbours, but at the same time a lack of both economic and political reforms towards market economy and democracy. Gradually the preference towards private ownership, as opposed to public, has increased in recent years and the country has seen a rising share of the private sector, even without specific privatization reforms. Nonetheless, international businesses are still reluctant to invest due to high taxes, a lack of access to finance as well as to a qualified workforce, but most importantly due to the weak legal system. An exception has been China, and Belarus has looked at the *One Belt One Road* Initiative as a promising bridge to the EU. Scandals connected with the two main Chinese-invested projects have damped the enthusiasm recently, though.

The economic and political risks of extensively relying on badly diversified energy sources, as is



the case with natural gas imports from Russia in many transition states were also discussed. It was shown how some countries such as Ukraine, Poland and Lithuania have improved their energy security by either benefitting from reverse-flow technology and the EU's bargaining power or building their own LNG terminals to diversify supply sources. However, either of these, as well as other energy security improving solutions are likely to come with an economic cost, though, that not all countries in the region can afford.

A Government Perspective

The main focus of this section was the Swedish government's new inspiring foreign policy initiative, "Drive for Democracy". Drawing from a definition of democracy by Kerstin Hesselgren, an early Swedish female parliamentarian, democracy enables countries to realize and utilize the forces of the individual and draw them into a life-giving, value-creating society. It was emphasized that the values of democracy are objectives by themselves (e.g. freedom of expression, respect for human rights) but also that democracy has important positive effects in other areas of human welfare. The Swedish government views democracy as the best foundation for a sustainable society, equality of opportunity and absence of gender or racial bias.

The "Drive for Democracy" specifically identifies Eastern Europe as one of the main frontiers between democracy and autocracy, and the Swedish government promotes human rights and stability through various bilateral programmes through the Swedish International Development Cooperation Agency, Sida, and multilateral initiatives within the EU, such as the Eastern Partnership. It was also emphasized that democracy is a continuous process that can always be improved, as indeed experienced by Sweden. Political rights were granted to women only in 1919 followed by convicts and prisoners in 1933

and to the Roma people only in 1950. Political and democratic rights are thus never once and for all given, and it is crucial that the dividends from democracy are carried forward to the younger generation.

Conclusion

In sum, the day illustrated clearly how democracy engages all segments of society, from the business sector to civil society, and the potential for but also challenges involved for democratic deepening in Eastern Europe. To get more information about the presentations during the day, please visit [our website](#).

Participants at the Conference

PER OLSSON FRIDH, State Secretary, Ministry for Foreign Affairs.

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MARIA BISTER, Senior Policy Specialist, Sida.

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Olofsgård's primary research areas are political economy, development and applied microeconomics, and he has published widely in both economics and political science journals. He has also been a visiting scholar at the research department of the IMF and done work for among others the World Bank, USAID and the Swedish Parliament.

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