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Government-Business Relations and Catching Up Reforms in the CIS

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Abstract

The paper addresses the problem of similarities and divergence of transition paths at the later stage of transition in the countries of the Commonwealth of Independent States. The main aim is to clarify the influence of specifics of government-business relations on economic reforms carried out at the later stage of transition in countries, which have been relatively less successful during the earlier transition. The paper discusses potential channels of influence of institutional organization of government-business relations on economic reforms and compares government-business relation models and paths of transition in Russia, Kazakhstan and Ukraine.

JEL classification: D72, P26, P30.

Keywords: Post-Soviet economies, catching up reforms, institutional trap, government-business relations

1. Introduction

An evident result of the past fifteen years of economic transition of the former Socialist countries is a strong divergence of paths of institutional development of the Central and Eastern Europe (CEE), including the Baltic countries, and other former Soviet republics, which are currently members of the Commonwealth of Independent States (CIS). While the EU enlargement in 2004 documents significant success of the majority of the first group, the second group generally failed to establish stable market economies. Although most CIS states created the formal framework for markets (including private property, corporate and contract law and similar institutions) and therefore completed the basic tasks of system transformation (Colombatto, 2002), there are still important problems with both completeness and consistence of these formal norms and, more important, with their implementation and enforcement, as well as with corruption, deficit of trust and low quality of governance. As Black et al. (2000, p. 1757) argue, "One of the tragedies of Russian misgovernment in the 1990s is that Russia is a far more corrupt and lower-trust place today than a decade ago, with all that implies for its future prospects".

These negative consequences of the earlier stage of transition heavily influence the governmental policy in the CIS countries at the later stages of reforms. Unlike the second-generation reforms in the CEE, reforms in the CIS (which should be further referred to as "catching up reforms") deal currently not only with disproportions and

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drawbacks inherited from the Socialist economic system, but to a great extend with consequences of institution-building in the early 1990s, i.e. with correction of errors of early transition. The "reform catalogue" (which is discussed in greater detail in the second section of the paper) is relatively similar in all countries and includes improvements of state governance (administrative, tax, and judicial reforms), corporate governance, and accounting and competition policy. However, the forms, speed and success of reforms vary significantly: for example, in Russia corruption even skyrocketed during the 2000s after the start of the catching up reforms. So, the need to resolve institutional problems resulting from the transformation of the early 1990s still exists and, indeed, causes further political discussion and permanent reform attempts.

The aim of this paper is to clarify the influence of government-business relations in the CIS countries on the economic reforms in the later transition stage (generally identified as the period starting in late 1990s–early 2000s). Unlike existing literature on the divergence of the CEE and the CIS, it specifically focuses on the countries with weak performance in the first decade of transition. A longer period of absence of clear and transparent rules of the game in these countries makes the dominance of "winners of partial reforms" (Hellman, 1998) more probable, leading to a significantly different incentives structure of business lobbyists, than in the countries with fast and successful transition. The main problem of economic reforms also differs, since the CIS states often have to break the existing inefficient, but relatively stable systems of institutions, which appeared at the early transition stage (also as a result of interaction between the state and the emerging business actors). The paper claims, that the variation within the government-business relations models in the CIS countries is large enough to partly explain the difference in the "catching up" strategies. To my knowledge, this aspect has not been covered by comparative economic studies so far. The existing contributions to the comparative analysis of government-business relations in the former Soviet Union focus on differences between successful (Baltic states) and unsuccessful transition countries (like Iwasaki, 2003), and not on the variation of catching up policies among the latter, or on similarities between government-business models in the CIS countries (like Aslund, 2005), and not on differences as factors of variation of catching up reforms.

Since this paper studies a relatively small group of countries for a relatively short period of time, it applies the case study approach to empirical data. For this purpose I focus on three countries: Russia, Ukraine and Kazakhstan. There is significantly more information available on economic reforms and government-business models for these largest CIS countries, than for smaller states, especially given the opaque nature of government-business relations in general, which creates serious obstacles for empirical research. Moreover, these three countries provide a good example for both different "catching up" strategies and different business-government relations' models and their dynamics: different actors on the business side, different power distribution between the government and the business actors, as well as consequence of economic and political changes. Finally, Aslund (2005) argues, that only these three countries experienced the appearance of large business groups able to influence political decision-making, while in the smaller CIS states these actors did not emerge.

The main result of the paper suggests that there is indeed a relation between relative power of business and relative success of catching up reforms. In particular, reduction of business' power seems to be a factor fostering reform progress, although after a certain threshold this positive effect can be offset by the changes of cost-benefit relation of reforms for the government. Moreover, strong influence of multinationals seems to have a positive impact on reform progress, while there are still some negative by-products for institutional development, which should be taken into account. On the other hand, reforms are also influenced by indirect and unintended consequences of government-business conflicts, since power relation determines the choice of instruments of the conflict, which is relevant for institutional transformation. However, there can be a negative relation between the political and the economic transition, if powerful businesses indirectly support political changes (through their choice of instruments of conflicts against the government), but use their influence to block economic reforms.

The paper is organised as follows. The next section describes the institutional systems of the CIS countries and the variation of catching up policies. The third section offers the theoretical framework for the analysis of interaction between government-business relations models and institutional reforms, and the fourth section discusses the main channels of business influence on economic policy and formulates main hypotheses. Empirical evidence is presented in the fifth section. The last section concludes.

2. Results of the early stage of transition and catching up reforms

The economic institutions that emerged by the end of the 1990s in Russia, Ukraine and Kazakhstan (as in the majority of CIS countries) are characterised by several features. First of all, governments abandoned their attempts to intervene permanently in all economic decisions through hierarchic relations like in the Soviet economy, and therefore the autonomy of economic agents increased (and the partial de-facto autonomy of economic decision-making of the Soviet informal administrative market was legalised (Tambovtsev, 1999)). Governments not only stopped their attempts to determine all economic decisions, but also reduced their (already limited) protection of contract enforcement and property rights. An inevitable result of this development has been the *deficit of law* in the CIS societies as the second characteristic feature of their institutions. Deficit of law includes (1) an insufficient and often poorly defined legal framework for economic activity; (2) enforcement problems leading to a gap between formal law and its implementation (Oleinik, 2002) and (3) deficit in the rule of law and abuse of power by officials, practically unrestricted by the legal regulations. The deficit of law makes rent-seeking activities more profitable and increases corruption and transaction costs.

Although the deficit of law is typical for a wide variety of developing societies, informal relations based on mutual trust often compensate for it. However, the third characteristic feature of the CIS economies is that they suffer under an extremely high *deficit of trust*, both vertical (i.e. trust between governments and economic actors) and horizontal (i.e. trust within economic system) (World Bank, 1997; Leipold, 1997; Oleinik, 2005). Hence, economies are split in separated systems of exchange with low level of interaction between each other. Deficit of trust is one of the most important factors of *disorganisation* (Blanchard and Kremer, 1997) as a factor of economic decline in the CIS in the 1990s. Moreover, deficit of law and deficit of trust lead to increasing shadow economy, or even more, to the emergence of an economy, where all actors are engaged in legal, illegal and semi-legal transactions (Kapelyushnikov, 2001).

This institutional system, although evidently inefficient from the transaction costs point of view, proved to be relatively stable during the last decades. There is already a large literature on "multiple equilibria" with stable inefficient institutions (Hoff and Stiglitz, 2004b) or on "institutional traps" (Polterovich, 2001) in the CIS. Nevertheless, the notion of "institutional stability" or "institutional equilibrium" is not unambiguous. First, its definition is obviously unclear. Stability could be defined in terms of "stability of fundamental institutions" (Filippov, Ordershook and Shvetsova, 2004), but in this case the notion of "fundamentality" of institutions remains open. If the three features of the CIS economies described above can be considered as these "fundamental institutions", then the institutional systems are stable. But does the list of characteristics above really account for institutions as social norms or rather for *properties of economic systems*, characterised by certain underlying institutions? Kapelyushnikov (2001) offers an alternative approach and defines the results of the early transition stage as a "steady state transition", which could be interpreted as a probably highly unstable sequence of institutions changing over time; each of them, however, maintains the fundamental inefficiency properties. The distinction between these two approaches (although theoretically very important) does not influence the further logic of the investigation: the aim of the catching up reforms is to overcome the disadvantages of the existing institutions.

Kazakhstan started the catching-up reforms already in the late 1990s, Russia in the early 2000s and Ukraine in the second half of the 2000s. As mentioned above, models and strategies of these catching up differ substantially. In Russia and Kazakhstan, the transformation took place in presence of preservation of the existing political system and increasing concentration of political power of the president. In Russia Vladmir Putin during his first term "abandoned many precepts once deemed inviolable" (Sutela, 2005, p.10): the list of reforms includes approval of private land ownership, fundamental revision of tax system, reform of bankruptcy law and significant advancements in the reforms of courts. During the second term the main institutional changes were less successful and included attempts of administrative reform, pension reform, introduction of the International Financial Reporting Standards (IFRS)[2] in the banking sector and abolition of currency restrictions (see Grigoriev (2006) for extensive discussion). In a similar way, Kazakhstan has since late 1990s implemented a series of liberal economic reforms, including the transformation of power utilities sector, housing and communal sector, pension reform, banking reform and amnesty of capital, and managed to establish its position as the leader of liberalisation of economic policy and progress towards market economy in the CIS; in several areas its advances exceed that of Russia (Libman, 2003).

However, since 2004-2005 both countries experienced a period of a consistent policy of re-nationalisation and of increasing governmental control over the economy, partly destroying the previously achieved results of reforms. In Russia the government established (formal and informal) control over a variety of attractive assets in machine building, automotive, oil and gas and banking industries (Pappe and Galukhina, 2006). Kazakhstan significantly worsened the conditions offered to foreign investors and consequently also increased the presence of the state-owned KazMunaiGaz in the main oil and gas projects (Egnyan, 2005, Wall Street Journal, 2 June 2005). In both countries presidents (Putin and Nazarbaev respectively) publicly stated their desire to reduce "oligarchic" influence on political decisions.

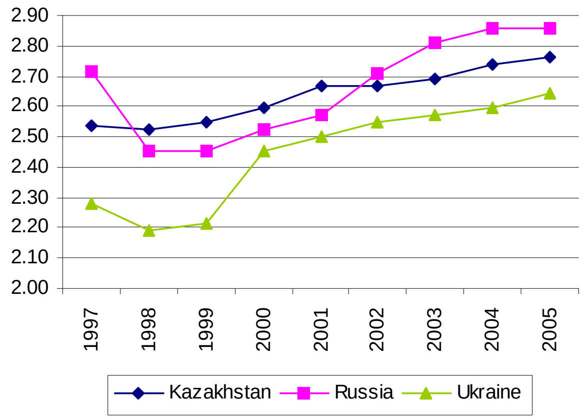
In Ukraine the need for catching up reforms and changes of "clan capitalism" was considered as one of the main goals of the "orange revolution" in 2004. Indeed, the

[2] http://en.wikipedia.org/wiki/International_Financial_Reporting_Standards

Ukrainian government and president carried out several reforms, mostly in the field of state governance: radical restructuring of the administration and a fight against corruption. The new government attempted to implement a quick restructuring of the old bureaucracy to increase it efficiency. In several cases the government decided to establish completely new agencies instead of reforming the old ones (like the traffic police DAI). An even more important aspect of reforms was the change of informal practices (also associated with changes of staff of public agencies at all levels). For example, Ukraine managed to establish very high standards of transparency (as compared with the rest of the CIS) for new privatisation rounds, especially the reprivatisation of the large metallurgical plant Kryvorozhstal', which was purchased by Mittal Steel in autumn 2005 (Inozemtsev, 2005). The second group of reforms, which were announced (but mostly not implemented), should have focused on governance of markets (e.g. antitrust policy, decartelisation) and re-allocation of property rights to more efficient private owners. However, the aims and the instruments of these reforms seem to be very questionable: even their introduction into political discussion and partial implementation attempts in 2005 resulted into strong reduction of economic growth and FDI and increased uncertainty (Aslund, 2005a). The success of the Party of Regions in parliamentary election in 2006 and the new governmental coalition under Viktor Yanukovich makes further reform progress even more questionable, although clear judgements would be premature.

The overall reform strategies could be approximated to a certain extend by the dynamics of the EBRD structural reforms indicators. Figure 1 represents the average of fourteen EBRD indices for individual reforms since 1997. The list of reform indices includes privatisation and price liberalisation, but, since the countries have already achieved significant progress in this respect in the early 1990s, these indicators do not influence significantly the change in the mean (except partly for Ukraine, which started large-scale privatisation only in the late 1990s).

Figure 1: EBRD average structural reforms index

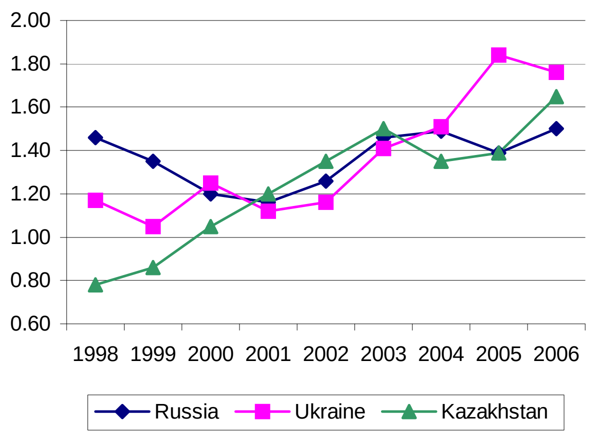


Source: EBRD (2006)

The shape of graphs for three countries is relatively similar (which is to be expected, since they represent reform variations within one particular model of post-Socialist economies), but there are still interesting differences. Russia experienced a decline in progress of reform (as measured by the growth rate of the index) and even an absolute decline of the level of achieved progress of reforms in the crisis year of 1998, but slowly recovered and achieved the highest growth rates of reform index in 2002 (at the top of Putin's reforms). Ukraine's growth rates were significant in 1999-2000, but later remained relatively stable. The EBRD assessments do not include changes of informal practices, which followed after the "orange revolution". Finally, Kazakhstan experienced a significantly more stable development path, than Russia and Ukraine.

Growth rates of the Heritage Foundation index of economic freedom (which also gives a good proxy for institutional progress, where changes of government practices play a more important role) demonstrate a stronger variance, than for the EBRD index (figure 2).

Figure 2: Heritage Foundation index of economic freedom



Source: Heritage Foundation (2006)

The time series for Russia follows a similar trend as the EBRD indicator (with maximal growth rates in 2003), but Kazakhstan experienced a decline of growth rates during the early 2000s, which was partly reversed in 2005. Finally, Ukraine remained very unstable. The Heritage Foundation estimates find three peaks of the reform progress measured by the increase of the index: in the early 2000s (consistent with EBRD), but also in 2003 and after the revolution in 2005. How did the business-government relations influence these differences, and did they influence them at all? The next two sections discuss some theoretical arguments of relevance to the analysis.

3. Political institutions, bargaining power and economic policies

La Porta et al. (1999) distinguish among three alternative groups of theories of institutions: (1) institutions appear when their social benefits exceed costs, (2) they are shaped by incumbents for rent- and power-seeking purposes and (3) they depend on cultural specifics of societies. The second and the third approaches seem to be especially helpful to explain the reasons for persistence of economically inefficient institutional systems, as in the CIS countries. Since the cultural approach does not focus on the interaction between different influence groups, which constitutes the core of the differences in government-business relations models, this paper focuses on a second approach, applying the theoretical framework developed by Acemoglu et al. (2005). This framework assumes, that differences in political institutions and resource endowment generate different de facto and de jure political power of various social groups involved in institution-building process. These power differences cause the changes in economic and political institutions, which, in turn, determine the changes in resource redistribution and economic performance. The crucial elements of the system are therefore political institutions, resource endowment and relative power as their expression. The stability of institutions is partly explained by the distribution of de facto power: more successful actors under the current institutional framework are also more influential in terms of design of economic institutions and therefore are able to reproduce their position. However, the approach does not exclude political changes in society.

This paper studies the development of economic policies as result of interaction between two groups: political actors and business actors. Political actors are mostly associated with governmental agencies and presidential administrations. Business is represented by large private financial and industrial groups, which (as I show bellow) dominate the economies of the post-Soviet countries. Naturally, the interactions take place not between organisations, but between high-ranking officials in both groups, e.g. ministers, heads of presidential administrations and CEOs as their counterparts. In the CIS the border between business and politics is not well defined and transitions between corporate directorates and high positions in public administration are common. The definition of business and political actors in terms of organisations and related formal positions is therefore helpful for the analysis: the transfer of a person from one structure to another implies changes of her de jure political power, but does not necessarily change the power relations between organisations. On the other hand, the transfer of individuals with high personalised influence from business to politics or vice versa also shifts the balance between these two groups of organisations, which is probably especially important in weakly institutionalised political systems of the post-Soviet countries. This approach does not describe the whole variety of relations between different actors in political and business systems, but is helpful to find out general features of government-business relations models.

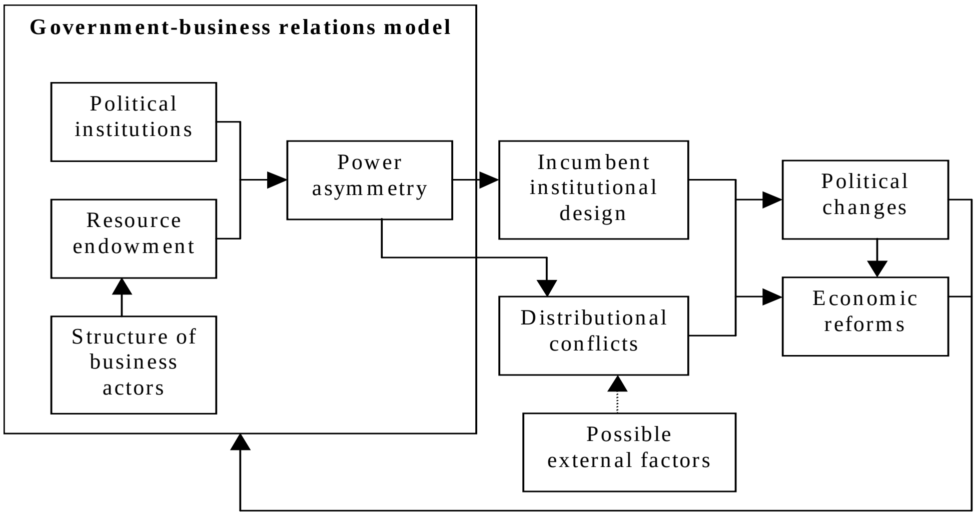
Different models of government-business relations are defined in line with Acemoglu et al. in terms of different de facto power of business or governmental actors, determined by political institutions and resource endowments. In order to assess different endowments, it is helpful to directly address the structure of the business side of the model. The general structure of political actors and their resource endowment is relatively similar in all three countries (given the very nature of the state and the common origins of the political systems) and to a certain extend explains even the evolution of political regimes (Levitsky and Way, 2002; Hale, 2005), but the main actors on the business side vary significantly and therefore possess different endowments. The variation of institutions and endowments is interesting if it is able to explain the differences in bargaining power. Since I deal with weakly formalised relations between governments and businesses, I focus primarily on de facto power (indeed, de jure power of businesses to influence governmental decisions does not exist or is at least very rare in all three countries). In order to formulate empirical hypotheses and distinguish between different government-business relations models I apply directly the differences in power asymmetry, because it makes the reduction of (potentially) high variety of political institutions and structures of actors to one single variable possible. For the case study approach it suffices to formulate variation of power asymmetries in qualitative terms.

The idea of power asymmetry between business and political actors also requires clarification. It always applies not to the multitude of firms and political actors, but to small privileged groups (e.g. the largest corporations and banks and the presidential administration). Thus the general idea of "business actors" and "political actors" used in this paper simplifies the reality (although it can probably also be helpful to understand the dynamics of institutional changes). The difference between business power and political power could be negligible in terms of economic outcomes if there exist no costs of corruption and subsidies (Shleifer and Vishny, 1994). The aim of "catching up" reforms, however, is exactly to make corruption relations less attractive for officials, citizens and corporations (hence, increase the alternative cost of corruption as opposed to legal problem-solving procedures) and to harden budget constraints of owners of privileged firms (either through stronger market discipline or control over public household), at the same time increasing corporate profits (through transaction cost reduction). Thus, in a world of non-zero costs of corruption and subsidies (even more: where costs of corruption and subsidies are endogenous) the allocation of power between political and business actors becomes important and can influence the results of institutional transformation.

Unlike the original approach of Acemoglu et al., I focus on two channels of influence of power asymmetries on formation of economic policies. The first is the ability of powerful actors to shift policies (and also, given the still unstable legal order of post-Soviet countries, formal norms) in their favour, like in the definition of the approach by La Porte et al. However, institutions and policies often originate not only from intended design by the government, but also as a by-product of power struggles. This problem is discussed by Knight (1992): he considers societies, where shifts in technology or resources lead to conflicts of social actors over power, and shows, that the institutions appear unintentionally as a consequence of these distributional conflicts. In the post-Soviet world significant power shifts come from international expansion of corporations, international political competition between states or elections, which can initiate a wave of conflicts between political and business actors. However, the paper implies a plausible assumption, that initial power structures influence the structure of state-business conflicts.

Since Acemoglu et al. discuss long-term trends, they assume political institutions as relatively stable. It is definitively not the case in the post-Soviet countries: Ukraine's politics was completely re-organised after 2004, and Russia's political system also changed significantly after Putin's accession to power. From this point of view it is necessary to incorporate the influence of government-business relations models on political and on economic changes in the analysis, while the latter are important for this paper because of their influence on economic policy design. The general logic of the paper is to explain policy choices by specifics of government-business relations; however, the reverse logic is also possible and therefore government-business relations and political-economic development co-evolve, influencing each other. Indeed, changes in government-business relations belong to proclaimed aims of reforms in all three countries. Since the paper discusses the late stage of transition, one could assume a certain model of government-business relations as present at the initial point of the catching up reforms (for the early stage of transition we could probably describe only a proto-model in form of relations between different groups of nomenklatura controlling different assets), which, however, in turn also affects economic and political transformation. In Russia there is a clear relation between shifts in government-business relations models and progress of reforms. Hence, the paper considers both cross-sectional differences of power between countries and changes of power of different groups over time. Figure 3 summarises the logic of interaction between government-business models and economic reforms.

Figure 3: Influence of government-business relations model on economic reforms



4. Business interest: channels of influence

4.1 Institutional design by incumbents

As already mentioned, there are two main channels of influence of business interests on economic policies: direct institutional design and indirect consequences of redistributional conflicts. It is clear, that in the first case the ability of business to influence governmental decision-making depends upon its relative power. The direction of influence is determined by the motivation of the actors. Generally, it is possible to distinguish between two lines of argumentation in this field. Naturally, both approaches reflect certain aspects of reality, but their relative importance is the crucial issue.

The first approach argues, that in the CIS private actors generally prefer less efficient institutions and therefore support the existing "institutional trap". The use of inefficient rules can be relatively profitable for groups benefiting from redistribution, if the rents are higher than the losses from transaction costs. Since normally these groups possess a lot of political power, they can effectively block any improvements of the quality of institutions. Even if political reforms are mutually beneficial, social groups can still fail to achieve consensus to support them because of conflicts over the distribution of potential benefits (Fernandez, Rodrik, 1991). If the concentration of market power and property is high, business groups often prefer a lower level of public protection of property rights, because they can purchase private protection (in the form of security agencies, corrupt law enforcing structures etc.) and receive specific competitive advantages over other actors (Sonin, 2003; Polishchuk and Savvateev, 2004). High redistribution rents also create what could be described as "political adverse selection". This concept refers to a market setting, where influential firms opt for lobbying instead of investments in productive activity, and thus force other firms to seek political support in order to remain competitive. Given the (plausible) assumption that firms have to shift between political and productive investments but are unable to increase both simultaneously, this leads to the diffusion of rent-seeking strategies. Table 1 compares this concept and the standard notion of adverse selection on markets with asymmetric information (Akerlof, 1970).

Table 1: Political Adverse Selection and Adverse Selection on Markets with Asymmetric Information

Feature	Adverse selection on markets with asymmetric information	Political adverse selection
Nature of "adverse selection"	Firms with high quality of goods are forced either to lower it or to leave the market	Firms with main investments in productive activity are forced either to shift their activity towards the search of political support or to leave the market
Basic problem	Consumers are unable to assess the quality of goods before purchase and pay average price	Political support can be used to obtain extraordinary high profits and, anyway, is vital for firm's survival
Market selection process	Firms with initially low quality of goods are able to sell the good at a price above expected one, while firms with initially high quality of goods are unable to obtain expected price for their goods	Firms with initially high investments in political support are able to get extraordinary rents, while firms with initially low level of political support are unable to function properly
Dynamics of markets	The more firms lower the quality of goods, the lower are the average prices accepted by the consumers and the higher the pressure to further lower the quality of goods	The more firms invest in political support, the higher is the threat for the rest (given the absence of the rule of law) and the higher the pressure to move from productive strategy to political investments
Economic result	Low quality of goods	Low quality of institutions

Numerous empirical studies show, that firms investing in state support rather than in production or marketing perform better than other companies in economies with high level of corruption and "state capture" (Radaev, 1998; Hellman, Jones, Kaufmann, 2000a; Hellman, Jones, Kaufmann, 2000b; Slinko, Yakovlev, Zhuravskaya, 2005; see also Kuzentsov and Kuznetsova (2003) for a similar discussion in a more general setting).

The second factor of demand for bad institutions is the deficit of vertical trust, which could lead to rejection of any institutional innovations of the government. "It is better not to play games of chance with the government" is a well-known proverb in most post-Soviet states (with "games of chance" including any initiatives of the public authority). The vertical mistrust (like trust) can be institutional, i.e. independent of actual incumbents. If individuals have always suspected their government, any change of institutional environment is considered to be for the worse than the existing state, and the actors support present, and not better institutions. Another point is, that in case of low vertical trust economic activity is consciously organised through informal channels (to avoid the government's attention); the governmental attempts to limit the expansion of the shadow economy by softening the restrictive regulations do not improve the situation because people do not believe in reforms; coercive measures against the informal sector make the formal institutions even less appropriate for the private actors and only support the expansion of the shadow economy. Hoff and Stiglitz (2003, 2004a, 2004b) discuss a similar example of demand for "bad" institutions as economic results of privatisation in transition economies. If individuals do not believe in the establishment of the rule of law, because they prefer an asset stripping strategy, then the demand for "good" institutions remains weak. The inefficient equilibrium not only has a short-term nature, but also persists in a long run.

The third factor to be mentioned is path dependence and learning costs. Any actor compares her costs in learning the structure and the functioning of the old institutions and the costs of adaptation to the old "rules of the game" (e.g. bribes, licenses etc) with the advantages of the new rules (the basic idea of path-dependent development of institutions is discussed in North (1990)). It is possible, that the sunk cost (i.e., learning costs, which can pay off only under a specific institutional environment) are higher, than the gains, and individuals decide not to change the status quo, or, at least, not to invest in political activity to improve the situation. In that way the path dependence strengthens the effects of other factors inducing demand for "bad" institutions. Moreover, business behaviour can be influenced by "soft factors" like perception of social reality, mental models etc. (see Libman, 2005, for an overview).

An alternative approach focuses on the demand for good institutions by private businesses. It accepts the existence of demand for bad institutions at an early stage of transition, but agues, that economic development leads to a rise in demand for rules of the game that are transaction-cost-efficient. This argument is very much in line with the basic idea of the early new institutional economics of endogenous changes of property right regime in the process of economic evolution (North and Thomas, 1973). Polishchuk (2002) and Runov (2003) distinguish among several factors of change of business actors' attitude: the counterproductivity of redistribution struggles in cases where there is "nothing is left to steal", the need for investments in order to replace the amortisation of assets created in Soviet times, demand for transparent standards for corporate governance and concern over reputation on global markets. The last point seems to be especially important and accepted by the majority of studies. Internationalisation increases the legitimacy of business, its independence from the government and its bargaining power in government-business relations, and makes transparency, better protection of property rights and clear rules of the game more attractive for business groups (Heinrich, 2003; Yakovlev, 2005). Finally, CIS countries start experiencing a "change of generations" in business management, when "founders" of corporations move to the pure shareholder position and delegate their authorities to managers, and are therefore interested in the protection of their property rights (Vedomosti, 4 April 2003). Hence, private businesses are no longer interested in the preservation of inefficient equilibrium and support economic changes.

Thus there are two main differences between these approaches. The first is, that the demand for good institutions assumes *important changes in business' preferences towards good institutions* at later stages of transition as opposed to the early asset-stripping period: private corporations become interested in improvements of institutional environment. The second is, that two theories focus on different groups of actors as "triggers" of catching up reforms. Evidently both approaches are associated not only with assumptions with respect to the behaviour of businesses, but also with respect to the actions of public officials. For the "demand for bad institutions" approach the main source of institutional innovations is the state (i.e., political actors), which forces private businesses to accept new rules (if it is able to do so). Therefore it assumes, that the (empirically observable) catching up reforms result from relatively low bargaining power of private businesses (otherwise they would be able to block reforms) and from higher alternative benefits of efficient "good" institutions, than of the existing inefficient rules for the government. The last assumption is not unambiguous from the point of view of the political economics. Generally, it is supported by the "stationary bandit" argument in the sense of McGuire and Olson (1996), i.e. the existence of higher benefits from economic growth, than from more intensive redistribution. Another argument is based on the need to establish better institutions because of political competition between countries (Oleinik (2006) applies it specifically for the post-Soviet world). On the other hand, a broad class of models argues, that governments are more likely to support inefficient institutions as part of rent- and power-seeking process (see e.g. Acemoglu (2006)). However, given that both governments and businesses have no incentives to support efficient institutions, there is no reason to expect the catching up reforms to be carried out in general, while one can observe at least reform attempts in reality (or one has to assume alternative social forces like labour unions or NGOs, which, however, would imply, that the government-business relations models per se do not play any role for catching-up reforms). For the "demand for good institutions" approach, on the contrary, either institutional innovations are forced by private businesses, which have to confront the rent-seeking state, or both businesses and political actors are equally interested in good institutions. In the last case, once again, one should not find any significant relation between the specifics of government-business models and the progress of catching up reforms. Hence the empirical hypothesis H1 can be formulated in the following way:

H1: The relation between weaker bargaining power of the business and the progress of catching up reforms is ceteris paribus significant and positive, if and only if the preferences of private businesses do not change significantly at the later stage of transition and the relative benefits of economic reforms for the government exceed those of existing institutions.

Therefore the hypothesis assumes that, first, government-business relations matter (and different models characterized by different distribution of power lead to different outcomes) and, second, the specific relation (increasing probability of reform progress by decreasing power of private businesses) exists only if the assumptions of the underlying theory are true. Since, as noticed above, the success of the catching up reforms has been limited so far, it is probably helpful to formulate two extensions to H1, which directly explain the potential reasons of decline of reforms:

E1: Stronger bargaining power of the business leads to weaker reform progress, if the preferences of the businesses do not change significantly, regardless of the cost-benefit relations for the government.

E2: Weaker bargaining power of the business leads to weaker reform progress, regardless of changes of preferences of private business, if the benefits of reforms to the government are lower, than those of existing institutions.

An empirical problem is that interests of both private and public actors can be observed only indirectly; both groups of actors are likely to hide their purposes in public statements; so, one is forced to make conclusions from observations of behaviour of businesses and political actors in particular situations (e.g. during the discussions and implementations of reform projects).

The second hypothesis deals with the influence of the relative power of *multinationals* in government-business relations. It is evident that most of the arguments presented above cover the behaviour of domestic companies. However, the theoretical and empirical assessments of the role of multinationals for economic reforms and quality of institutions are not unambiguous (see Hellman, Jones and Kaufmann, 2000; Larrain and Tavares, 2004; Hyun, 2006). Most papers focus on relations between FDI inflow or stock and economic reforms. Within the framework of this paper it could be helpful to discuss the relation between bargaining power of multinationals and reforms (larger investments can, but need not indicate higher bargaining power). For the aims of simplicity, I formulate H2 based on one line of the literature; hence, the rejection of H2 automatically confirms the alternative point of view:

H2: Higher bargaining power of multinationals leads ceteris paribus to stronger progress in catching up reforms.

4.2. By-products of power struggles

In order to explain institutional changes as by-products of power and distributional conflicts there is no need to introduce strong assumptions on the motivation of actors, like in the discussion above. In fact, one can assume, that both political and business actors are unwilling to support economic reforms, which, however, still take place as an "unintended result of intended action". Nevertheless, some conclusions can be made regarding the potential structure of government-business relations models.

The most evident factor able to influence the outcomes of state-business conflicts is the instruments of conflict used by different actors. Instruments used in state-business conflicts can be divided into two groups. First, actors apply "traditional" problem-solving instruments like internal negotiations, administrative measures and bargaining, borrowing them from the old Soviet "administrative market". Second, "alternative" instruments include support of political parties and open electoral competition, as well as the use of courts and legal procedures. The first group of instruments supports inefficient institutions, even if actors are trying to change it. The alternative instruments also provide no guarantee of changes, but at least open a window of opportunity for transition. The two major positive by-products of alternative instruments include: (1) actors get used to "new" instruments (thus their application reduces learning costs for better institutions and "demand for bad institutions", and therefore creates new behavioural routines) and (2) permanent application increases the quality of "new" instruments through knowledge accumulation (e.g. legal procedures or parliamentary elections). "Alternative" instruments are risky (or, at least, are perceived as risky), and that is why it seems reasonable to assume, that only a powerful actor is ready to use alternative methods instead of traditional "hidden bargaining" instruments. On the other hand, Schattenschneider (1960) argues, that the weaker party in political conflicts is more interested in attracting additional participants (or socialising the conflict), which is exactly the case when alternative instruments are applied. Hence, the discussion yields hypothesis H3:

H3: Given strong power asymmetries, business is more likely to indirectly support economic reforms (through the choice of instruments of conflicts), if it is more powerful. On the contrary, if business is less powerful, "alternative" instruments of conflicts are more likely to be chosen by political actors.

A similar approach could be used to explain political changes and democratisation as a consequence of application of alternative instruments (especially support of opposition parties). Therefore it is possible to formulate a political counterpart of H3. However, this statement does not allow any conclusions with respect to economic reforms. The literature on economic policy and democratisation is huge, and its results are to a great extend inconclusive both theoretically and empirically (see e.g. Przewoski and Limongi, 1994; Barro, 1996; Mulligan et al., 2004; Rodrik and Wacziarg, 2005). A more interesting point for this paper is that in the post-Socialist world economic and political reforms were at least strongly correlated (Dabrowski, Gortat, 2002; Fidrmuc, 2003; Staehr, 2006). However, the relation between relative business power, political transition and subsequent economic transition could be more complicated, especially if "incumbent design" and "unintended results" views are combined. For example, even if strong businesses supported political transition, they can become an important threat to economic reforms, given dominant demand for bad institutions. On the contrary, weak businesses could be able to "socialise" their conflict with the government, but fail to establish sufficient influence on subsequent economic reforms to prevent rent seeking of the new political elite. From this point of view, it is possible to formulate hypothesis H4 on the basis of interaction between H1 and H3:

H4: Given strong power asymmetries, political shifts caused by government-business conflicts do not lead to more successful economic catching up reforms, if H1 and H3 hold simultaneously.

Since our sample includes only one case of combination of political and economic transition (Ukraine), the empirical discussion of these interrelations becomes limited. Nevertheless, I address them in the subsequent sections.

5. Government-business relations models in the CIS countries

5.1. Russia

The Russian case is especially interesting from the point of view of the dynamics of government-business relations. Economic transition during the 1990s created a highly concentrated economy dominated by a small group of ten to twenty largest owners (Pappe, 2000, Guriev, Rachinsky, 2005) with the main focus on extracting industries (oil and gas, metals and mining) and interregional spans of activity: although Russian business groups often possessed specific interests in certain regions, their headquarters and financial flows were concentrated in Moscow (Orttung, 2004, pp.52-54). Foreign entrepreneurs played subordinate role in the ownership system (Gryaznov, 2000). The main assets were obtained during the privatisation with direct support of the government, which offered special benefits to privileged business groups (Black et al., 2000). Starting from the presidential elections in 1996, a small group of the largest business structures also managed to concentrate substantial political power through media control, economic influence and corruption networks (Menshikov, 2004). The influence of business elite was crucial for the Duma election in 1999, as different business groups backed different cliques of political elite.

However, the initial point of the catching up reforms in Russia, which are clearly associated with the new president, was characterised by both consolidation of political power of the president (who managed to limit the ability of other actors like regional governors and competing groups of bureaucrats to intervene in the political decision-making) and the decline of business' political influence. Within several years the government regained control over most of the media and reduced public political activity of large corporations to the minimum. At the same time the presidential administration supported the "consolidation" of the business community within a system of formal business associations in order to manage government-business relations (Yakovlev, 2005a, Peregudov, 2003). This process was associated with increasing activity in the field of economic reforms, and business indeed participated in design of several crucial changes of economic institutions. For example, the development of the new Tax Code was the result of joint activity of corporations and public officials (Jones Luong and Weinthal, 2004). Empirical research shows, that Russian business associations are generally supportive of economic restructuring (Pyle, 2006); so, the transition to organised bargaining with the Russian Union of Industrialist and Entrepreneurs per se supported the progress of economic transformation.

However, after 2003-2004 the situation changed. On the one hand, the increase of the relative power of the political actors continued. Moreover, the government increased its pressure on private business after the Yukos conflict and subsequent deprivatisation campaign. While in 2003-2004 public acquisitions of private assets were associated with specific situations (like Yukos deal or banking crisis with subsequent bankruptcy of the Guta-bank in 2004), since 2005 the policy of increasing governmental control of economic activity becomes systematic (Pappe and Galukhina, 2006). However, the speed of economic reforms declined. Three factors could explain these changes. First, the activities associated with the increase of political influence on the business community were per se harmful for economic reforms and institution building. The Yukos affair reduced confidence in governmental policy and the security of property rights (and therefore strengthened the deficit of trust, which, as noticed above, was characteristic of dismal outcomes of the first phase of reforms) (Orlova, 2003). Deprivatisation increases governmental interventions in economic activity and limits free competition on markets. Moreover, several areas of business activity (like FDI) are often considered as a "field of public interests" and therefore heavily influenced by external political conflicts of the Russian state (see e.g. Libman and Kheifets, 2006). Government reduced its communications with the organised business community, probably moving back to the traditional unorganised hidden bargaining (Klyamkin, 2006). Second, politicians and bureaucrats naturally abused the further strengthening of political power for rent seeking purposes. Corruption skyrocketed: from 2001 to 2005 the "market for business corruption" increased from 33.5 to 316 bln. US$ (INDEM, 2005).

Finally, there exists a certain link between power of the political actors and weak economic institutions. The property rights of the largest business groups have suffered under a kind of "double lack of legitimacy": from the point of view of law (because of criminal or at least dubious sources of their formation during privatisation, which are once again the result of an imperfect law system) and from the view of society (because of a lack of confidence and respect for private property, and the great income differences resulting from unequal distribution of property at privatisation stage). It means that political actors can always destroy any business group with legal instruments, and the business can hardly use societal support in conflicts with government. Radaev (1998a) argues that the existence of bureaucratic barriers is not a "mistake" of reformers, but a way to reproduce the dependence of business on the government. Strict regulation and weak enforcement of property rights push private companies into the "grey zone" of illegal or semi-legal activities what can be abused by political actors. From this point of view economic reforms could advance only to a certain point, while afterwards the improvements of governance structure and the reduction of business' dependence on the state could make the positions of political actors and their rents vulnerable. The Yukos case is the most prominent example, since Yukos achieved substantial advances in corporate governance (Goriaev and Sonin, 2006, p.7). However, there are multiple similar examples on the regional level (Barsukova, 2006).

From this point of view, the development of Russia during the later stage of transition generally supports the claim of H1 combined with E2. On the one hand, during the early 2000s the reduction of influence of private businesses and their ability to change economic policy in order to benefit from redistribution together with increase in the power of political actors supported a relative reform progress. However, after the mid 2000s rent and power-seeking activities of the government offset the benefits from the reforms, and, despite a further decline of power of private businesses (and even potential changes of business preferences, which are, however, highly speculative and hardly observable), reform activity declined. After 2000 Russia experienced three main business-state conflicts (associated with the names of Berezovski, Gusinski and Khodorkovski), which provide some empirical material for the discussion of unintended results of government-business relations. Generally speaking, the decline of power did not increase the willingness of Russian business to use "alternative" instruments. The Yukos trial showed that the business groups are still unable to act in a co-ordinated manner and the government is also unwilling to cooperate with entrepreneurial organisations (Yakovlev, 2005). Indeed, several observers argue that the process of decline of "evident" business public power could be interpreted as a shift from personalised public influence of well-known business leaders ("oligarchs") to anonymous representatives of privileged large corporations with main focus on (and still significant power in) concrete fields of economic policy (Kryshtanovskaya, White, 2005), which is associated with "traditional" hidden bargaining to a greater extent than earlier. Empirical investigations in the field of demand for law in Russia (Yakovlev, 2003) show, that (more powerful) governmental agencies were more active in using law as an instrument of enforcement than (less powerful) business actors and in fact "initiated" the more active use of legal instruments by all actors. Increasing activities in this field were mostly associated with stronger capture of courts by the executive. Hence, business reacted to this change with consolidation of property in order to "offset" the influence of political actors. Recent observations indicate an increasing property concentration in the private sector of Russian industry during the 2000s (Dolgopyatova and Iwasaki, 2006). Thus, Russia gives clear evidence in favour of H3.

5.2. Ukraine

During the early 2000s Ukraine was characterised by a stronger concentration of relative power on the side of business actors, than Russia. Like in Russia, large domestic business groups dominated most of its economy. However, the Ukrainian economy is decentralised, and Kiev does not play a role compatible to that of Moscow. Therefore the largest business groups formed in the regions. The three main regional clans usually mentioned by different studies include Kiev, Dnipropetrovsk and Donezk (Kowall, Zimmer, 2002; Piel, Schulze, Timmermann, 2005, p.363). Since the regional differences (for example between the Russian-speaking East and the West) played a significant role in political controversies and public opinion differences during the last two decades (see O'Loughlin, 2001, for more detailed empirical discussion), regional business groups could use these struggles to obtain additional power. Naturally, the executive still remained an important source of economic influence (important enough to make Kuchma's son-in-law Viktor Pinchuk one of the leading businessmen in Ukraine and one of the richest persons in the Eastern Europe (Ukrainiskaya Pravda, 5 August 2003). Nevertheless, regional "oligarchic" clans controlled the majority of parties represented in the parliament, especially those with more or less pronounced regional origin (Kowall, Zimmer, 2002, p.14-15). Since parliament had a much more important position in the Ukrainian political system in the late 1990s than in Russia or in Kazakhstan, capture of political parties formed an important channel of business influence. Moreover, at least since 2002 business groups controlled the government (Aslund, 2005a). Unlike modern Russia and Kazakhstan, Ukrainian current and former business leaders "dared" to engage in public policy both in support of the president and in opposition to him. Finally, unlike Yeltsin, Putin or Nazarbaev, Kuchma had strong personal connections within the business elite (he had started his carrier as director of a large military-industrial complex and before his election he was the leader of the businessmen association).

The extremely low progress of economic reforms in Ukraine during the 1990s and early 2000s partly gives evidence in favour of H1, probably in combination with E1 (although, since there is no observed dynamics of government-business relations during the transition until the revolution, E1 does not seem to be as evident from the empirical point of view, than E2 for Russia). Ukraine was the last among three countries discussed in this paper to initiate large-scale privatisation (INION, 2003), and the overall economic reforms were inconsistent. In 1999 the average index of structural reforms of the EBRD for Ukraine was 2.21 (out of 4) as compared to 2.55 for Kazakhstan and 2.45 for Russia. In the following year Ukraine achieved significant advances in economic reforms under prime minister Viktor Yushchenko; however, in 2001 Yushchenko's government was removed, also because of the pressure of "oligarchic" parties in parliament (Kravchuk, 2005), while reform progress slowed down significantly.

On the other hand, however, the strong position of business actors evidently supported the success of *political* transformation. Aslund (Weekly Standard, 27 December 2004) describes the "orange revolution" of 2004 as the "revolt of the millionaires against the billionaires", i.e. of business leaders without strong ties to the government against state-supported (and supporting) business groups, since business actors actively backed both sides of the confrontation. Moreover, Aslund (2005a) points out the role of competition between "oligarchic" groups as one of the driving forces of the "orange revolution". Finally, the political activity of Yulia Timoshenko, which shaped the results of the "orange revolution" extensively, could be traced back to her arrest in 2001, which was strongly associated with her business interests (although at this moment Timoshenko occupied the position of vice prime minister and therefore did not belong to business actors in the narrow sense defined in section 3). Hence, the Ukrainian case evidently shows, that the relatively strong power of business actors makes them more likely to support political transition, i.e. apply alternative instruments.

Therefore Ukrainian experience proves H3, but mostly for political transformation; however, results of "revolution" in terms of economic transformation, as already mentioned, have so far been ambiguous. Indeed, the period after reforms was associated with increasing interventionist activity of the government of Timoshenko, including a deprivatization threat (which evidently reduced economic growth and investment activity (Pashaver, Verkhovodova, 2006)), the abolition of long-term obligations of the government vis-à-vis strategic investors (Lebedev et al., 2005), an increase in fiscal redistribution and attempts of price control. On the other hand, the removal of Timoshenko's government, which limited this redistribution activity and reinforced property rights, also resulted from state-business conflicts: first against Russian investors, controlling the oil refining industry in Ukraine (which induced the first public conflict between the president and the prime minister in summer 2005), and second against the owners of the Nikopol plant (which initiated the government crisis in September 2005).

These contradictions give rise to several interpretations. It is possible to claim that it provides evidence for H4. The political influence of business actors facilitates political changes, but blocks economic reforms. From this point of view relatively successful acts (like privatisation of Kryvorozhstal') could be considered as exceptions. On the other hand, the success of the Party of Regions, which is closely associated with several powerful business groups in the parliamentary elections in 2006, could be interpreted as support for H4. However, since the policy of the Timoshenko's government was not continued by her successors, this claim fails to explain further changes in economic policy of Ukraine after the autumn 2005. Moreover, the Ukrainian development gives a good example of what one may call the dilemma of trust in catching up reforms (see Oleinik (2005a) for a similar discussion). On the one hand, it is impossible to carry out economic reforms without fighting the oligarchic power concentration, if there is demand for bad institutions. On the other hand, they are to be implemented in an economy with a very low level of trust; therefore even benevolent intervention of the government may be considered a new threat to private property and stability (especially if the results of the privatisation are reconsidered) and reduce incentives for economic activity and for the transition from rent-seeking to productive behaviour. The problem appears as a consequence of the general deficit of trust in the post-Soviet world; therefore relative advantages in vertical trust could be very important to overcome this dilemma. But there is no empirical evidence, that Ukraine was characterised by a lower trust level than other post-Soviet countries; on the contrary, the post-revolutionary regime seemed to achieve high support of the population and large groups of entrepreneurs (otherwise the revolution would have been impossible, although public support diminished in turn of the post-revolutionary reforms and conflicts (National Post, 24 March 2006)).

Alternatively, the changes could be explained by transitions in organisation of government-business relations after the "revolution", if influence of business actors on political decision-making really declined. The evidence with this respect is highly controversial, but it is also theoretically inconsistent with H1, which, as mentioned above, seems to perform well for the interpretation of the early transition stage in Ukraine. Further observation of economic reforms in Ukraine could provide additional information helpful for understanding this phenomenon.

5.3. Kazakhstan

The main difference between Ukraine, Russia and Kazakhstan is that the third one formed practically two models of government-business relations: with respect to national businesses and multinationals. Unlike Russia and Ukraine, Kazakhstan was fairly open to international investors during the 1990s, and therefore they play a key role in several crucial industries, like oil extraction, power utilities and metallurgical sectors. Under some estimates, companies with major foreign ownership represent 40% of the Kazakhstan's industrial potential and 50% of its foreign trade (Akhmetova, 2002). Unlike domestic businesses, multinationals seem to be less bound by political and coercive pressure of national elite and definitively did not suffer under the "double lack of legitimacy". Indeed, although there have been many cases of opportunistic behaviour of the government trying to reformulate the previous agreements by tax policy or new requirements to social responsibility of foreign investors (CVEI, 2003, p.121), the influence of multinationals on Kazakhstan's economic policy was substantial during the 1990s. The other group of business actors is formed by domestic companies, mostly controlled by the large banking groups and strongly related to the government (Chebotarev, 2002). These actors proved to have significantly less power, than their analogues in Russia and Ukraine. First, the authority of the president exceeded that of his counterparts in the other two FSU countries. Second, the main income sources (like oil and gas and metallurgy) have been under control of foreign investors. The Nazarbaev's family has dominated both political and economic activity (Furman, 2004).

The coexistence of these two models seemed to have contributed to the controversial success of economic transition in Kazakhstan. Dominance of multinationals correlates with the higher degree of economic freedom, liberalisation and deregulation, as well as introduction of international standards. From this point of view Kazakhstan is also an example of positive influence of the multinationals on the reform progress and gives evidence in favour of H2. However, external financial flows from the multinationals played an important role in the stabilisation and power concentration of political regime in Kazakhstan in general (Bayulgen, 2005) and thus in strengthening the position of political actors in relations with domestic businesses, which seems to have been used for rent seeking and for development of a system of privileged dominating firms similar to Russia (Furman, 2004; Murphy, 2006). Hence, strong power of multinationals could have had a negative indirect influence on economic reforms. Moreover, there is a backward link from this negative development to the behaviour of multinationals: empirical studies show, that foreign companies in economies with high capture level tend to pay significant unofficial payments to the bureaucrats (Hellman, Jones, Kaufmann, 2000). Similar processes were observed in Kazakhstan (Olcott, 2002). Nevertheless, these factors probably explain why Kazakhstan still failed to exit the inefficient equilibrium (or the sequence of inefficient institutions) and why the successful progress of reforms happened to be as unstable as in Russia.

The increasing power of political actors was used in the 2000s to re-establish control over attractive assets (originally offered to multinationals), while the measures to reduce the influence of transnational corporations generally slowed down economic reforms and increased governmental interventions in the economy. As Russia and Ukraine, Kazakhstan faced a number of government-business conflicts (associated with the names of Ablyazov and Zhakianov – in both cases, however, the situation was similar to Timoshenko's, since both actors occupied positions in government at the moment of conflict); however, attempts of businesses to move to alternative instruments were very limited. On the contrary, one of the conflicts (with Ablyazov) ended with a typical "undercover agreement": Ablyazov was freed from prison, left the country, and later returned and received the position of chairman of the board of directors at one of the largest banks in Kazakhstan (TuranAlem) after "publicly confessing" his previous "crimes". On the other hand, multinationals often applied instruments like international courts and public statements to support their positions (which is hardly surprising, given the overall business practices of these companies world-wide. A typical example is the Canadian *World Wide Minerals*, which received the management rights for the Celina chemical plant in 1996; in 1997 the government of Kazakhstan unilaterally abandoned the contract and since 1998 the company initiated a number of legal trials against the government of Kazakhstan at international courts; the latest trial started in March 2006). Hence, Kazakhstan also provides empirical evidence in support of H3.

6. Conclusion

This paper discussed the influence of government-business relations models on economic reforms in Russia, Kazakhstan and Ukraine during the later stage of transition. All three countries did not achieve significant success during the early stage of economic transition and faced the problem of inefficient stable institutions (or sequence of institutions). In all three countries governments engaged in a series of "catching up" reforms to reduce the inefficiencies of national varieties of capitalism. However, the scope and specifics of reforms varied significantly. The differences in government-business relations models influenced this cross-country variation, and the changes of government-business relations models contributed to changes of the speed and direction of reforms over time, while economic (and political) reforms also influenced the changes of government-business relations. The varieties of relative power of business and political actors in Russia, Ukraine and Kazakhstan seem to be helpful for understanding this phenomenon: while in Ukraine business was relatively more influential, than in Russia, in Kazakhstan domestic corporations had relatively less power, than their counterparts in other two countries and multinationals were relatively more powerful, than even Ukrainian regional groups. Russia during the 2000s moved from the Ukrainian case to the Kazakhstan's case in relations between political actors and domestic corporations

The discussion of the experience of Russia and Ukraine suggests, that there is evidence for H1: there is a negative causal relation between relative bargaining power of business and the progress of economic reforms, if and only if there still exists demand for bad institutions from the corporations and the government prefers good institutions. For Russia we can consider this hypothesis together with E2: the first years of Putin's presidency were associated with both declining business power and increasing reform activity, while business actively contributed positively to re-design of economic institutions. The further decline of business power, however, coincided with a reduction of reform activity. On the contrary, for Ukraine H1 seems to explain the economic development of the early 2000s, probably, combined with E1: regardless of the preferences of the government (which are also hard to assess empirically), a relatively strong power of business associated with a demand for bad institutions is able to influence negatively the progress of economic transition

In Kazakhstan the relatively strong influence of multinationals combined with fast economic reforms suggests that H2 performs well, although the indirect effects of the support of political actors vis-à-vis domestic businesses could have had an overall negative effect on institutional development, on the stability of reforms, and on the behaviour of multinationals themselves.

The unintended results of business-government conflicts in all three countries fit H3: more powerful actors are more likely to use alternative instruments to counteract their opponents. In Ukraine business actors supported political transition (however, with still unclear consequences for economic reforms), and in Russia demand for law was associated with activity of governmental agencies (which, however, had negative by-products in form of further concentration in the economy).

Finally, the weak performance of catching up reforms after the “orange revolution” provides some evidence in favour of H4 (especially given the doubts of many observers regarding the successful transformation of Ukrainian oligarchs to entrepreneurs up till now (Kuzio, 2005)), and, probably illustrates one of the main problems of political-economic transformations, which other CIS countries may face in the future.

Any discussion of the potential future development of government-business relations models is to a certain extend speculative; however, given current trends, it is at least possible to make some general statements. Satarov and Parkhomenko (2000) suggest that there are four alternative directions of development of government-business relations in transition economies: (1) the establishment of transparent rules of game on the market and of the rule of law; (2) “backward development” with deprivatisation and deliberalisation; (3) an increase in the power of rent-seeking privileged business groups and (4) an increase in the power of rent-seeking groups of politicians and bureaucrats.

Evidently, the first scenario indicates the success of catching-up reforms; however, it seems to be quite unrealistic in the three countries discussed in this paper. Russia and Kazakhstan exhibit a combination of the second and the fourth scenario: on the one hand, increasing governmental interventions and partial deprivatisation seem to continue; on the other hand, governments put special emphasis on the selection of management for large companies in both the private and the public sector in order to guarantee informal control of the political elite over the business activity. As shown above, after a certain threshold, an increase in the power of the state in government-business relations seems to be damaging for the catching up reforms. However, the development is crucially dependent on the political stability of the regimes of Putin and Nazarbaev in both countries, which seem to enter the period of the “choice of successor” for the current president. Increasing political instability, on the one hand, can shift the benefits and costs of reforms for political elites and change the current trend. On the other hand, however, there is empirical evidence for higher levels of concern over political instability for firms in hybrid regimes (like those in two post-Soviet countries) than in authoritarian or democratic countries (Kenyon, Naoi, 2006), and therefore the very fact of political contests can change firms' attitude towards reforms and make private businesses more supportive of the status quo.

In Ukraine the situation is even more difficult to assess. So far it is possible to conclude, that the powerful business groups at least have not lost their positions and therefore are still able to effectively block catching-up reforms. However, the political landscape of the country is more flexible, than in Russia and in Kazakhstan. Given the strong power of business, unintended results of business-government conflicts and political competition could have a positive impact on future changes of institutions. Anyway, the further development of government-business relations models seems therefore to have an impact on the progress of reform, which still remains necessary to improve the quality of institutions in the post-Soviet countries.

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