

How Ukraine Became a Market Economy and Democracy

Anders Åslund • March 2009 • 248 pp. ISBN 978-0-88132-427-3 • \$26.95

Ukraine has been one of the hardest hit economies during the current global financial crisis. Its embattled currency, the hryvnia, suffered one of the worst depreciations in the world. The stock market has fallen precipitously, and the country has sought emergency assistance from the International Monetary Fund to help stabilize the financial sector. Ukraine's large steel industry—the heart of the economy—is facing a major structural predicament, and many of the existing big corporations will undoubtedly go under. Aggravating the country's financial woes is deep domestic political instability: Orange Revolution allies President Viktor Yushchenko and Prime Minister Yuliya Tymoshenko have frequently locked horns. In October 2008 Yushchenko tried to dissolve the parliament and called for new elections. The January 2009 natural gas conflict with Russia over pricing and contractual terms further highlighted the twin political and economic crises.

In this book, Anders Åslund explores Ukraine's postcommunist transformation from 1991 to 2008, how and why key policy decisions were made, and what Ukraine should do to overcome the ravages of its political and financial crises. The path Ukraine has traveled since 1991, when Ukrainians overwhelmingly voted for their nation's independence, has been turbulent. During this time, it has recorded many achievements, but it has also faltered. Its greatest triumph is that hardly any Ukrainian questions the sovereignty of the state. It has become a democracy, albeit fragile, and is a market economy with predominant private ownership. Despite being one of the last postcommunist countries to opt for serious market economic reforms in the 1990s, it grew at an average of 7.5 percent a year from 2000 to 2007.

At the same time, many tasks remain incomplete. The European Union has not yet recognized Ukraine's long-expressed desire to become a member. The most blatant shortcoming is the malfunctioning constitutional order, which gives the president the power to block government decisions and legislation but no incentive to be constructive. A rational solution would be to move to a fully parliamentary system.

The current financial crisis will severely test Ukraine's democracy and its market economy, and hopefully it will improve them. Old businesses will be streamlined or go bankrupt. Bad business practices, such as corruption, will be exposed and questioned. Much of the current political financing will then disappear. Ukraine can come out of this crisis with a more level playing field economically and with a better democracy.

Åslund's vivid account of Ukraine's journey begins with a brief background where he discusses the implications of Ukraine's history, the awakening of society because of Mikhail Gorbachev's reforms, the early democratization, and the impact of the ill-fated Soviet economic reforms. He then turns to the reign of President Leonid Kravchuk from 1991 to 1994, the only salient achievement of which was nation-building, while the economy collapsed in the midst of hyperinflation.

The first two years of Leonid Kuchma's presidency, from 1994 to 1996, were characterized by substantial achievements, notably financial stabilization and mass privatization. The period 1996–99 was a miserable period of policy stagnation, rent seeking, and continued economic decline. In 2000 hope returned to Ukraine. Viktor Yushchenko became prime minister and launched vigorous reforms to cleanse the economy from corruption, and economic growth returned.

The ensuing period, 2001–04, amounted to a competitive oligarchy. It was quite pluralist, although repression increased. Economic growth was high.

The year 2004 witnessed the most joyful period in Ukraine, the Orange Revolution, which represented Ukraine's democratic breakthrough. The two leading presidential nominees were Viktor Yanukovich and Yushchenko. Massive fraud in the second round of elections brought thousands of protestors to Kyiv's Independence Square in November 2004. The Orange Revolution had erupted. Yushchenko eventually emerged the winner from the final election round in December. With this election, Ukraine passed the test of a free society and a democracy. For the first time, Freedom House raised Ukraine's ranking to "free."

The postrevolution period, however, has been characterized by confusion and great domestic political instability. Åslund finds Yushchenko's behavior in 2008 perplexing. Although he formed a coalition with Tymoshenko, he never gave her government a chance to work. His whole presidency has been marred by legislative stalemate. The only legislation worth mentioning during his tenure was Ukraine's accession to the World Trade Organization and annual budgets. His own popularity is at an all-time low, and his old party, Our Ukraine, risks being wiped out in the next elections. Ukraine faces both an evident security threat from Russia and an acute risk of financial collapse primarily because of domestic political instability.

Disappointment and discontent prevail in Ukraine as the nation approaches the end of the Yushchenko presidency. The general expectation is that Tymoshenko, Yanukovich, and Yushchenko will be the dominant candidates again in the presidential elections scheduled for 2009/2010. Yushchenko seems to have burned the last of his capital of trust in 2008. Tymoshenko is likely to suffer from the financial crash, as she was prime minister when it took place, though she might save her reputation by decisive anticrisis measures. Yanukovich is lucky to have been out of power at this time of hardship.

The frailty of Ukraine's democracy is captured in Alfred Hirschman's phrase that democratic leadership must prove its ability. Ukraine suffers from three related weaknesses. First, legislation securing property rights is too limited to satisfy society's need for law and order. Second, the government lacks efficacy. Third, corruption remains extensive and disruptive. Outrageous mismanagement of the state is evident, and by most measures the state's efficacy seems to have declined after the Orange Revolution, while public demands have increased. The current financial crisis presents an opportunity for Ukrainians to demand more and better laws and deal a decisive blow against corruption.

In foreign policy, Ukraine has little choice but to turn to the West because Russia offers nothing but destabilization. Ukraine's WTO membership is an important achievement. The next step is an Association Agreement with the European Union. An outstanding controversial issue is Ukraine's relationship with the North Atlantic Treaty Organization.

At this juncture, it is critical that the United States continue to play an important and positive role in the life of independent Ukraine. Only the United States can guarantee Ukraine's security, and it has committed itself to doing so in multiple agreements on Ukraine's denuclearization. The United States should also catch up with the European Union and offer Ukraine a bilateral free trade agreement to favor economic integration between the two countries. Ukraine needs to develop a new elite, and the United States can help by offering a large number of student scholarships at American universities. Finally, the United States should facilitate visa regulations for Ukrainians, all the more so as Ukraine allows all American citizens to enter Ukraine without a visa.