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PATHWAYS TO FREEDOM: CHAPTER PREVIEW

Ukraine

Political and Economic Lessons From Democratic Transitions

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Overview

Post-Soviet Ukraine was a completely new entity, both as a state and as a nation. Since independence in 1991, it has struggled to overcome internal divisions, create representative political institutions, and build a market economy with opportunity for all. Although it appeared poised for progress after the Orange Revolution in 2004, Ukraine today remains gripped by corruption, repression, and oligarchy.

Ukraine's old Communist elite remained in charge following independence. The first president, Leonid Kravchuk, centralized power rather than building real democracy. Little civil society existed to check his autocratic tendencies and inflation had decimated the middle class in the early 1990s. Kravchuk also aimed to recreate a smaller version of the Soviet economy instead of a true market economy. Gross domestic product (GDP) fell by almost 50 percent and Kravchuk was swept aside in the 1994 elections.

His successor, Leonid Kuchma, forced through a new constitution in 1996, exploiting both nationalists who favored state-building and liberals who favored market reforms. Once Kuchma had the powers granted by the new charter, however, he advanced neither.

As reform faltered, oligarchs took over the economy in the late 1990s and early 2000s. The opaque privatization process was rigged to their benefit and Kuchma parceled control of heavy industry to rival regional clans in insider deals. Substantive economic reform was delayed. Real GDP per capita dropped below \$650 between 1997 and 1999.

In December 1999, an impending balance of payments crisis forced Kuchma to appoint a reformist prime minister, Viktor Yushchenko. Yushchenko's reforms boosted growth, but this enriched the oligarchs and made them harder to dislodge. Added to this combustible mix was the Gongadze scandal, named for a pioneering online journalist found beheaded in 2000. Secret tapes emerged in which President Kuchma was heard demanding that his subordinates deal with Gongadze in colorful ways.

In 2004, the Orange Revolution, triggered by an attempt to rig a presidential election, captured global attention. Hundreds of thousands mounted demonstrations in Kiev for two months. The opposition candidate, former prime minister Yushchenko, won a revote, which appeared to lay the groundwork for real democracy. But the so-called revolution produced only a change in elites, and those elites were captured by the system rather than vice versa. The nascent middle class and small- and medium-enterprise sector were too small to sustain robust pressure for democracy.

Moreover, pro-Orange voters were nearly all in western and central Ukraine, allowing defeated candidate Viktor Yanukovich, backed by Russia, to question the revolution's legitimacy in the east and south. Indeed, since independence, Ukraine has faced questions of national identity. Although decades of Soviet rule blurred many cultural differences, issues of ethnicity, language, and religion remain divisive.

As president, Yushchenko presided over political crises and elite infighting. The global downturn then sent Ukraine's already weak economy into free fall in 2009. GDP fell by 15 percent. Exports fell by 49 percent in the first three quarters, with steel especially hard hit.

A lack of international support also hindered Ukraine's post-2004 reformers. The European Union (EU) was overextended with new members and Ukraine's prospects for membership in the North Atlantic Treaty Organization were always remote and receded rapidly after the war between Russia and Georgia in 2008. As Western support dissipated, Russia sought to impede reform and democratization.

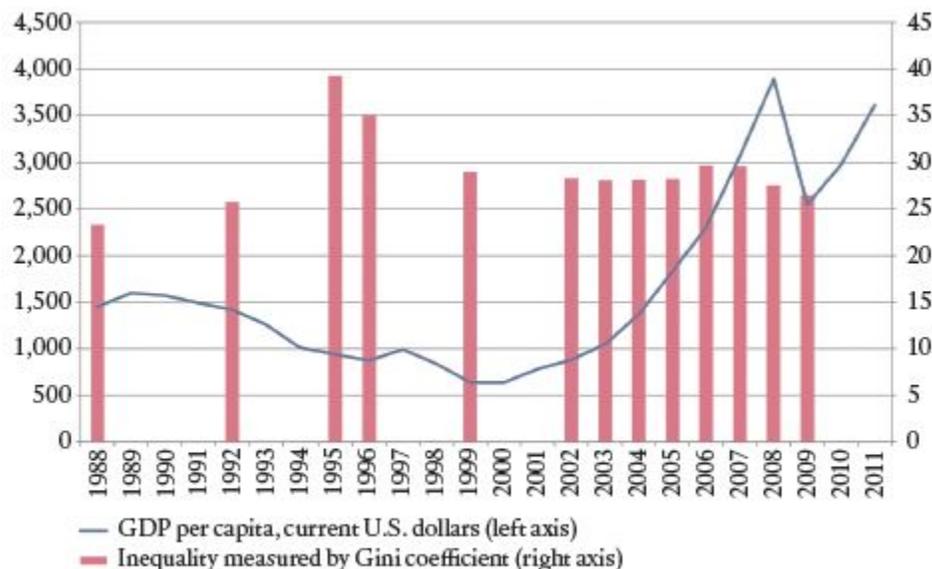
With Orange supporters disillusioned and many Ukrainians viewing Russia as the only source of significant funds, Yanukovich won the 2010 presidential election. Orange-era infighting had weakened political institutions and fatigued voters, allowing Yanukovich to centralize power with little resistance. He prosecuted his political opponents, notably former prime minister Yulia Tymoshenko, who was sentenced to seven years in prison on trumped-up charges. Though he raised the gas price and pension age, Yanukovich also failed to enact thorough economic reforms.

Pathways to Freedom: Political and Economic Lessons From Democratic Transitions, a new book from the Council on Foreign Relations, explores Ukraine's progress and challenges in six areas of economic, political, and social development.

SOCIOECONOMIC EXCLUSION AND INCLUSION

Ukraine's economy has enough money to make the oligarchs rich, but not the people. World Bank figures show that GDP per capita fell by more than half during the 1990s, from \$1,490 in 1991, before recovering to \$3,615 in 2011. Inequality and poverty have also dropped since the 1990s. Official figures do not really account for the super-rich, however. Ukraine's fifty richest citizens control almost half of GDP.

INCOME AND INEQUALITY IN UKRAINE

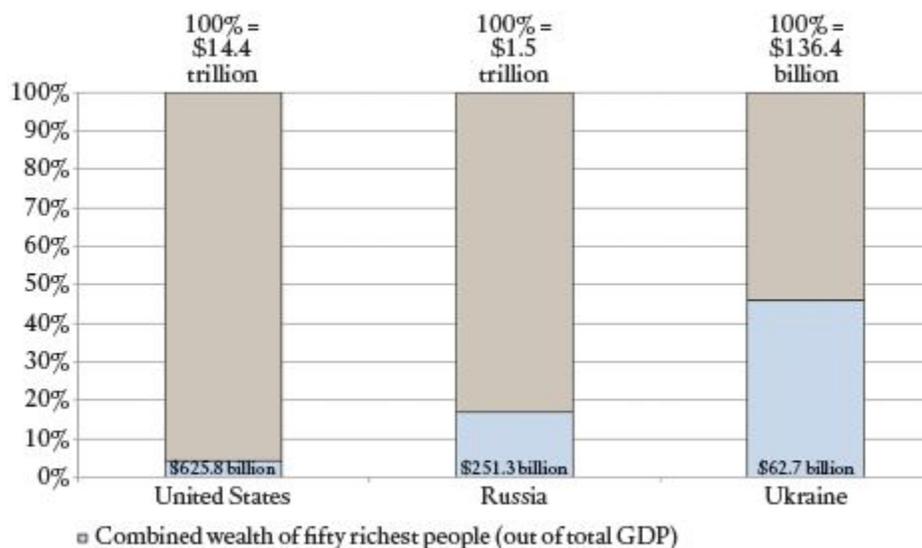


Source: World Bank (GDP per capita). The Gini coefficient is a measure of inequality in which a value of 0 signifies perfect equality and 100 signifies inequality.

The country's cleavages make it hard to challenge oligarchic power. Though ethnic Ukrainians are the vast majority, Ukraine is evenly split linguistically; Ukrainophones are largely rural and Russo-

phones typically work at factories in the more-developed east. Many continue to associate Russian language and culture with urbanity and opportunity. Politicians play off the resentments of the Russian- and Ukrainian-speaking camps, hindering the formation of cohesive governments with coherent reform programs.

UKRAINE'S WEALTH CONCENTRATION IN COMPARATIVE PERSPECTIVE



Source: Wealth of fifty richest people calculated by adding top fifty numbers on the 2010 *Forbes* World's Billionaires list (Russia and the United States) and the top fifty numbers in the *Korrespondent's* 2010 list of the richest Ukrainians. 2010 GDP in current U.S. dollars from the World Bank.

ECONOMIC STRUCTURE AND POLICIES

Ukraine has a classic rentier curse. Oligarchs and politicians, often one and the same, extract rents from the transit of energy and other scams. Some prices are market based and others controlled, creating huge opportunities for arbitrage. Various licenses and concessions depend on political favor, facilitating corrupt lobbying, and oligarchs have manipulated the political process to ensure a supply of subsidized gas, coal, and electricity. Bursts of market reform in 1994–95 and 2000–2001 were only the minimum necessary to prevent international lenders from withdrawing completely. After 2004, the Orange Revolution's leaders enacted populist measures rather than tackling systemic problems.

Notwithstanding relatively liberal privatization laws, the process came to benefit oligarchs. Most big enterprises were sold by closed discount cash sales. Today, without an effective legal system, all property remains insecure. Violent corporate raiding is widespread; oligarchs use mafia muscle to take over each other's firms and scare away most foreign investors. The black economy accounts for 40 to 50 percent of official GDP. Ukraine has received support from international financial institutions, but these funds have been small relative to Ukraine's GDP. The country's failure to enact reforms has repeatedly marred its relationship with the International Monetary Fund.

CIVIL SOCIETY AND MEDIA

Ukraine's civil society, though stronger than other aspects of democratic governance, remains weak. After the Orange Revolution, cohesion and engagement quickly disintegrated as people grew disillusioned by elites' broken promises. Today, only 5 percent of Ukrainians belong to nongovernmental organizations (NGOs). The current Yanukovich government has curtailed freedom of assembly and used the security and tax services to harass activists. Despite this (or perhaps because of it), however, NGO activities are rising. Some elites, exasperated by the divided political opposition, are organizing civil society groups instead of pursuing political power.

Ukraine's media have generally functioned as an instrument of power rather than an independent force. Many media companies have long been left in private hands under "reliable" oligarchic control, fostering self-censorship. The Orange Revolution allowed a window of media freedom, but today many journalists face bullying and bribery. By contrast, the internet remains lively and free, with growing social media and anticorruption sites.

LEGAL SYSTEM AND RULE OF LAW

The law in Ukraine is deliberately capricious and its application arbitrary. Because the population must constantly break the law, authorities can decide whom to prosecute, and they wield this authority to consolidate power. Punishment is used to disable anyone who challenges the system; forgiveness is used as patronage. Most judges are holdovers from the Communist era and continue to respond to instructions from officials. Conviction rates top 99 percent.

Reforms passed in 2010 have increased executive control over the judiciary. Yanukovich created two new courts to bypass relatively independent ones and he purged the Supreme Court and Constitutional Court. Other executive bodies gained control over judicial appointments. The ease with which authorities launched political prosecutions in 2011 and 2012—most prominently against Tymoshenko—showed the new system's weakness. Today, politicians routinely take bribes from oligarchs or are oligarchs themselves. Members of parliament are immune from prosecution, making public office a gravy train. A place on an electoral list is estimated to cost \$5 million in bribes to party leaders.

GOVERNMENT STRUCTURE AND DIVISION OF POWER

Ukraine has made almost every mistake imaginable in its institutional design. In the 1990s, it built ministries that recreated bad habits of the Soviet command economy. Prosecutors, tax police, and the former KGB were given too much power. Kuchma also expanded presidential authority but used it to act as the oligarchs' patron. The constitutional changes to weaken the presidency agreed to during the Orange Revolution were therefore not necessarily bad ideas. However, they were hastily drafted and poorly implemented, allowing oligarchs to build an alternative power center in parliament. Nonetheless, the reversal of these changes in 2010 was unwise. It restored the status quo ante, rather than keeping the best of the reforms, and its aim was not rebalancing the system but entrenching Yanukovich's administration.

EDUCATION AND DEMOGRAPHY

Ukraine's population is declining and aging. The country has one of the highest pensioner populations and dependency ratios in Europe, with fourteen million retirees in a population of forty-six million. Pensions absorbed 18 percent of GDP in 2009. Most pensioners live in Russian-speaking cities of southeast Ukraine. But dependency on welfare, state wages, and pensions is also high in the Ukrainian-speaking western and central regions, blunting the potential for a reformist party on the Orange side.

One positive Soviet legacy is mass education: almost 30 percent of Ukrainians have completed higher education, which could help build a middle class over time. Today's economy is growing just enough to absorb graduates, but a lack of opportunities will breed tension later if the economy deteriorates.

CONCLUSION

Ukraine missed its transition moment in 2004 as Orange politicians failed to tackle the rentier curse and supporting forces lacked the strength to help. More recently, Yanukovich has been able to swiftly disable the opposition, though civil society has proved surprisingly resilient. The optimistic scenario is that Yanukovich's project will implode or provoke protests if greedy elites overreach. The realistic scenario is that Ukraine will remain difficult to change.

Timeline

1991: Ukraine Becomes Independent

Ukraine emerges from the Soviet Union's collapse as an independent country for the first time in its history. It is a completely new entity, both as a state and as a nation. Leonid Kravchuk, a typical former Communist Party apparatchik, becomes the first president of Ukraine. Kravchuk focuses on centralizing his power rather than building a real grassroots democracy. His economic policy aims to re-create a smaller version of the Soviet Union instead of a true market economy.

1994: Elites Force Early Elections

Members of the business elite, who had taken advantage of the chaotic conditions of the early 1990s to begin enriching themselves, force early elections in summer 1994 by encouraging strikes in eastern Ukrainian cities. These elites back one of their own, former prime minister and missile factory director Leonid Kuchma, for president. Kuchma wins in a runoff on July 11, with especially strong support in the east and south.

1995: Mass Privatization Begins

The government launches a large-scale privatization program, following up on privatization laws passed as early as 1992. Thousands of large and medium enterprises are auctioned off into private hands. This process increases the private sector's share of GDP, but it is rigged to benefit oligarchs rather than designed to create a proper, functioning market economy. Moreover, an ineffective legal system prevents the emergence of secure property rights. Violent corporate raiding becomes increasingly widespread, with oligarchs taking over each other's firms.

1996: New Constitution Ratified, Expanding Presidential Power

President Leonid Kuchma forces through a new constitution granting him expanded authority, cleverly exploiting both nationalists, who want to complete unfinished state building, and liberals, who think Kuchma will use his powers to force through belated market reforms. Once he has the powers granted by the new constitution, however, he does neither. Kuchma is reelected president in a crudely fixed election on November 14, 1999.

1999: Ukraine's Economy Falters

Ukraine's GDP per capita falls to \$636, down from \$991 in 1997, and the World Bank temporarily downgrades Ukraine from lower-middle-income to low-income status. More broadly, a new class of oligarchs exercises its political influence to reshape the economy to serve its interests in the late 1990s and early 2000s. While other post-Soviet states began recovering by the mid-1990s, Ukraine's first year of renewed growth comes only in 2000.

1999: Yushchenko Appointed Prime Minister

In December, President Kuchma is forced by an impending balance-of-payments crisis to appoint a reformist prime minister, the former central bank chief Viktor Yushchenko, to negotiate with international lenders. Yulia Tymoshenko, a former gas trader, is appointed deputy prime minister to clean up the energy sector, the most corrupt part of the Ukrainian economy. Though the duo's economic reforms kick-start the economy, Ukraine's oligarchs benefit from growth and become further entrenched in power. Yushchenko and Tymoshenko are ejected from office in the spring of 2001 and go on to found their own political parties.

2000: Gongadze Scandal Erupts

Journalist Georgiy Gongadze, founder of a website devoted to political exposés and critiques of oligarchic corruption, is abducted in September, and his decapitated body is found on November 2. Sensational secret tapes emerge in which President Kuchma is heard angrily demanding that his subordinates deal with Gongadze in colorful ways. The scandal sparks mass protests against Kuchma's government, with opposition demonstrators demanding his resignation. The European Union calls for an investigation into the murder in 2001. However, Kuchma denies allegations of his involvement.

2004: Orange Revolution Garners Global Attention

The Orange Revolution catches the attention of the world when thousands flood Kiev's central square in a mass demonstration after Russian-backed prime minister Viktor Yanukovich is declared the winner of the November 21 presidential election. Yanukovich's victory over Western-oriented former prime minister Viktor Yushchenko is widely seen as fraudulent. After negotiations, Yushchenko wins a revote on December 26. He is sworn in the next month and appoints Yulia Tymoshenko prime minister. Per the negotiations, the parties also agree to change the constitution and reduce the president's power after the next parliamentary elections in the spring of 2006. The changes prove a trap for the winners of the Orange Revolution, as they shift power from incoming president Yushchenko to the oligarch-dominated parliament.

2005: "Orange" Leadership Plagued by Infighting

The "Orange" presidency of Viktor Yushchenko is marked by constant political crises. Infighting among political elites, including intraparty power grabs and personal squabbles, makes effective governance impossible. The first Orange government led by Prime Minister Tymoshenko collapses in September. Following parliamentary elections in 2006, Yushchenko joins Viktor Yanukovich, his rival from the days of the Orange Revolution, in a coalition that makes Yanukovich prime minister. A constitutional crisis breaks out in 2007 when Yushchenko tries to dissolve the parliament and calls for new elections in response to Yanukovich's attempts to accumulate power and force him from office. Tymoshenko is then reappointed prime minister after elections in September 2007.

2008: Ukraine Enters Economic Crisis

The global economic crisis hits Ukraine hard in 2008–2009, sending an already weak economy into freefall. GDP falls by 15 percent in 2009, while exports (most notably steel) plunge by 49 percent in the first three quarters. Real incomes also drop by 8.5 percent and official unemployment triples to more than 9 percent. The International Monetary Fund extends a loan to help bolster Ukraine's economy, but its relations with the government are ruined when Ukraine balks at raising domestic gas prices.

2010: Yanukovich Wins Presidency, Puts Tymoshenko on Trial

More than five years after failing to capture the presidency in the 2004 election that triggered the Orange Revolution, Viktor Yanukovich wins the presidential election of February 7. The constant infighting of the Orange years had weakened political institutions and created so much voter fatigue that, once in office, Yanukovich is able to centralize power with little resistance. His moves include weakening the courts, reversing the limits on presidential power introduced after the Orange Revolution, and, most brazenly, putting Tymoshenko, his main political rival, on trial. On October 11, 2011, Tymoshenko is sentenced to seven years in prison for abuse of office, a charge stemming from a deal she made with Russia over the price of natural gas in 2009. Ukrainian opposition figures and European leaders criticize Tymoshenko's trial as politically motivated, resulting in the Association and Free Trade Agreements with Brussels being put on ice in December 2011.

2012: Ukraine Holds Parliamentary Elections

The authorities change the rules for the October parliamentary elections, bringing back territorial districts, where fraud and bribery can have a more concentrated effect. Yanukovich's party wins 113 districts out of 225. However, the opposition does surprisingly well in seats allocated by proportional representation, winning 133 out of 225. Opposition parties are helped by some oligarchs rebelling against the growing power of the Yanukovich "family." With the economy faltering again, and Ukraine tempted to turn to Russia for help, the stage is set for yet another bitter contest in the presidential election of 2015.

Further Reading

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KIEV, Ukraine (AP) — Ukraine's new leader said he called Russian President Vladimir Putin on Wednesday to urge him to help halt fighting in eastern Ukraine. — Chernobyl™ miniseries sends curious tourists to Lithuania. By LIUDAS DAPKUS July 30, 2019. Ukraine, sometimes called the Ukraine, is a country in Eastern Europe. Excluding Crimea, Ukraine has a population of about 42.5 million, making it the 32nd most populous country in the world. Its capital and largest city is Kiev. Ukrainian is the official language and its alphabet is Cyrillic. The dominant religions in the country are Eastern Orthodoxy and Greek Catholicism. Ukraine is currently in a territorial dispute with Russia over the Crimean Peninsula, which Russia annexed in 2014. Including