SHORT ANALYSES OF THE UKRAINIAN ECONOMY IN THE YEARS FOLLOWING ITS INDEPENDENCE

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Abstract
Even since 1991, after regaining its independence from the Soviet Union, the international community was optimistic regarding the international trajectory of Ukraine, as they believed that soon enough, she would become a new member of NATO, OECD and European Economic Community. Even if Ukraine was the biggest European country in terms of territory, she was always looked upon as being Europe`s "sick man", an almost failed country given its geopolitical situation, its history and the mistakes that were made in terms of political and institutional development. From an economic perspective, Ukraine did not have a sustainable growth basis and did not followed the trend set out in Eastern Europe after the collapse of the Soviet Union. The collapse of the heavy industry, the lack of a national coin, the political and economic chaos after the independence brought about serious challenges that this country had to face in order to gain even a small place at the table of the negotiations. The strong dependence on Russian resources did not made the path easier and for many years Ukraine struggled to keep the pace with the international trend in terms of trade and development.
This paper stresses the difficulties faced by the Ukrainian economy from the early 90s until 2015-16, the challenges that had to be overcome and the attitude of the International Community towards this country.

Keywords*: economic development, economic reform, market economy, Eastern Europe*

Clasificare JEL : *F19, F34, F40, F50, F53*

Introduction

After the disintegration of the Soviet Union, Ukraine was in 1991 one of the poorest countries in Europe. Traditionally an agricultural country, she was often viewed as *Russia`s basket bread*, but the forced industrialization process begun since the times of Stalin and perpetuated until the late `80s brought damages not only in terms of forced migration and alteration of the labor factor, but also in terms of resources. "The soviet way" was advertised as being "the modern way to a sustainable development", but in reality has destroyed the quality of the Ukrainian soil and later on brought the heavy dependency of Russian oil, minerals and gas. Some analyses state that there was a "good part" of the soviet heritage translated into a solid infrastructure and capital stocks, but these so-called advantages did not bear fruit after the disintegration of the Soviet Union (Sutela,2012).

Shortly after its independence, Ukraine was required to gain the market economy status, creating a strong economic climate and an integrated economy not only with the ex-soviet territory but also with the European market of the Central and Western state. At the same time, the International Community requested that its political system needed to be a functional and open democracy. Unfortunately, at the beginning of the `90s Ukraine was in a difficult situation, which can be summarized as follows:

- Chaotic transition process
- Emphasize on nationalism and "nation building" concepts
- Neglecting crucial economic aspects which led to crisis and hyper inflation
- Usage of the surrogate coin as the Hryvnia was seldom used and not yet established as a national coin (until 1996)
- Development of the underground economy
- Political instability
- Tapering of the taxation base.

All these aspects, together, have led to a strong development of the black-market economy, an adversity to competition, investment (both national and foreign), and the development of the new industries. Macroeconomics and structural policies were subject to a massive neglect from the political decision factors through all the `90s decade.

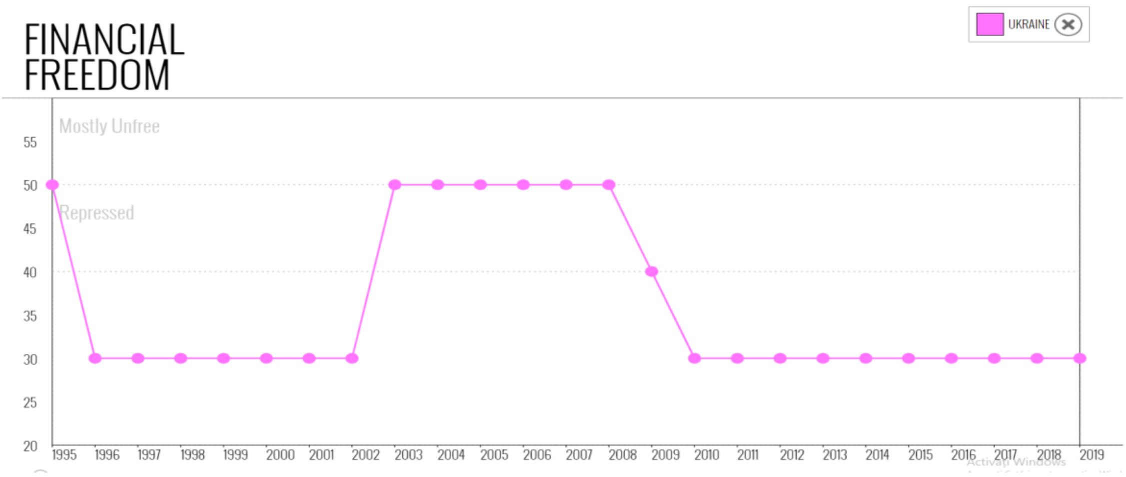
1. The early years

Stabilizing the economy proved to be a challenge and most difficult to achieve given the fact that the corruption and shadow economy were strongly connected with the entire (major) decision factors. The decreased capacity to collect the incomes, difficult subsidies control and strong fiscal discrepancies have added up to the challenges the state reform faced.

Small, medium and big size economic entities, most of them inherited from the old soviet regime were privatized in name only as their managers were the same as before and given the fact that there was no actual line between shadow economy and the subsidies a clear mark between state economy and private sector was hard to find (Aslund, 2008).

The power structures, the networks and the behavioral frames, all of them perpetuated from before independence were strongly rooted in every aspect of the economic, social and political life and this led to a strong opposition to change and reform. As Fukuyama remarks, "using Ukraine as an example of a transition from a typically authoritarian system to a democratic one is like pointing to failure as this transition is not only long, but also extremely costly and requires a lot of work. In cases such as this, expecting a result may take even longer than building a state system that actually works" (Fukuyama, 2011).

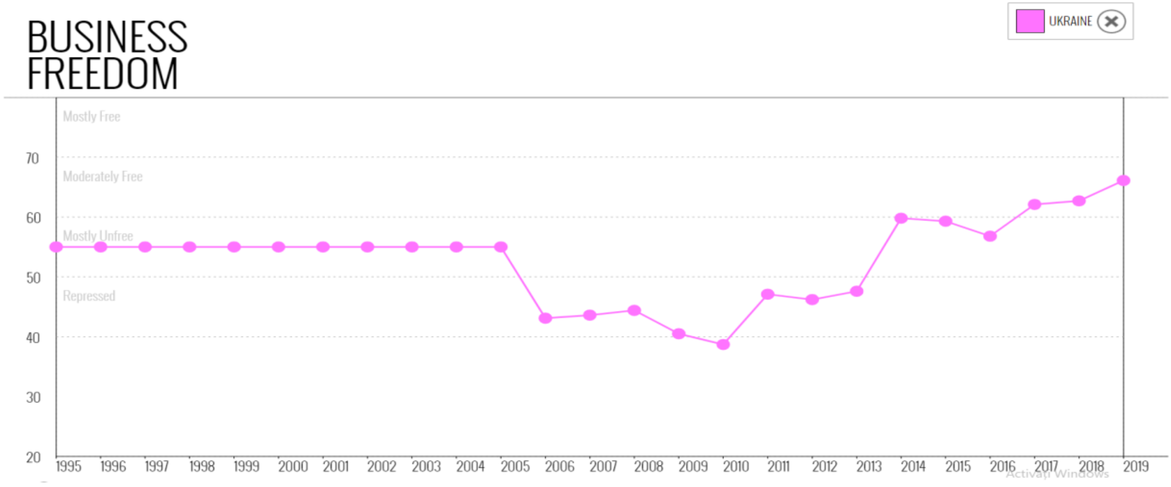
Table No.1 Financial Freedom in Ukraine



Source: Index of Economic Freedom, Heriage.Org

During the next decade (2000-2009), we observe the beginning of a boost in the economic system, but for the small investors this is still a hostile environment as they are not encouraged at all to start and develop new businesses. The lack of reform and strong market barriers put on hold the rhythm of development that other post-soviet states have embarked upon and the focus of the decision factor is on populist notions such as *nation building* and keeping Russia at a bay.

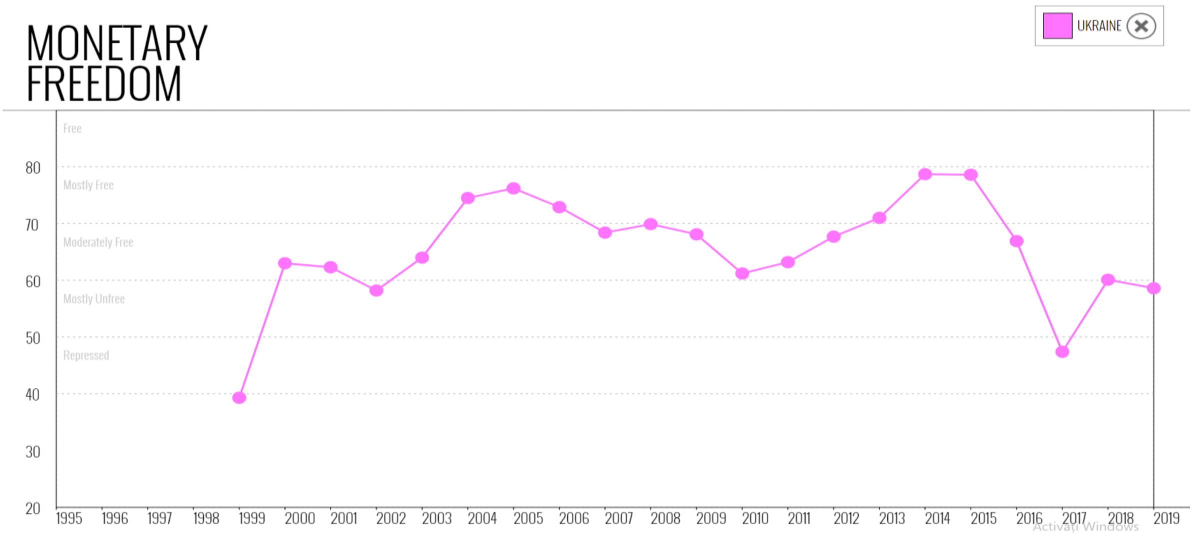
Table no.2 Business Freedom in Ukraine



Source: Index of Economic Freedom, Heriage.Org

Still, in this climate, the banking sector started to develop and open to foreign investors and the privatization – a phenomenon so present in the Central and Eastern part of Europe since the late `90s- brought up very good results in terms of re-technologization, better market access and creating new jobs. However, Banking was only the exception and the success that the Ukrainian economists talk about was happening only to the surface because the core sectors such as agriculture and industry were being largely neglected. The hostility to Foreign Direct Investments, especially in the industry filed, made possible the rise of the new oligarchy and the so called "inside owners" kept progress and development on hold. Although the first decade of the 2000s is considered a good example of the economic growth, we need to state the fact that this was not a result of the reforms and strategic investment or a good management of resources, but it was in fact due to conjunctural factors (Sutela,2012).

Table no.3 Monetary Freedom in Ukraine



Source: Index of Economic Freedom, Heriage.Org

The national coin-hryvnia- started to being used more often, but it was not strong enough to compete with the foreign coins, which were already used since 1991. The surrogate coin was much preferred opposite to hryvnia and this led to a lack of suitable environment for the investments, competition and economic growth. According to some scholars, the only good thing that came out of this coin instability were the competitive prices, but this idea is strongly opposed by many economists (Gorodnichenko and Peter, 2008).

Another factor of the economic growth was represented by the income from the traditional industries such as metal and metallurgy, chemical industry or the food sector industry. The prices for metals and chemicals have grown in the same rhythm and at the same time with the prices from the international market and this led to a significant growth of the internal incomes. All of these, combined with the cheap gas from Russia led to a growth rate of the GDP and this was primary translated into opening the credit lines not only for domestic investors but also for the foreign ones on the one side and on the other side the emerging economies begun to develop and flourish.

2. The 2000s and the new developments

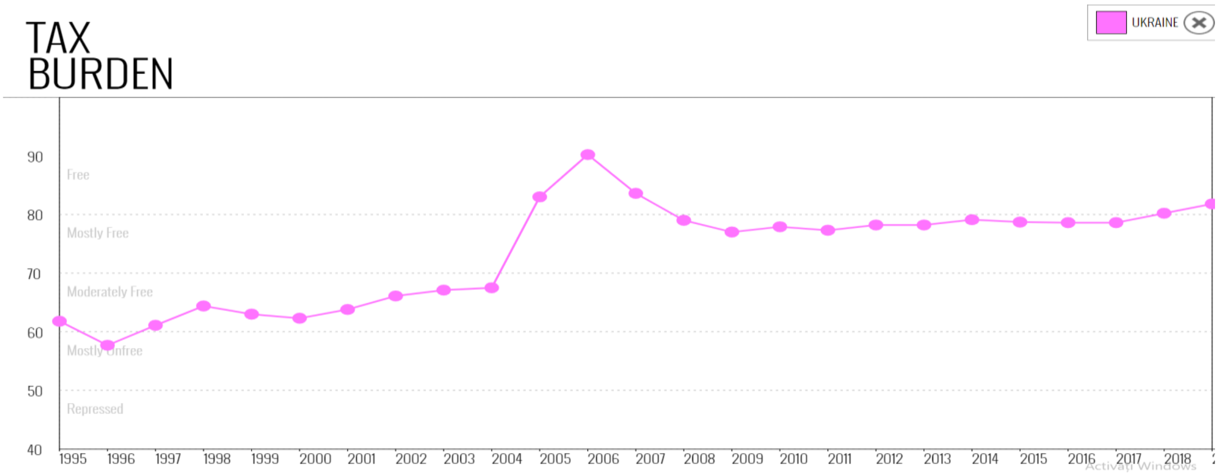
Between 2000 and 2007 the real growth rate of Ukraine was similar to the one from Russia, as these two countries were strongly linked both politically and economically. During this period of time, the economy was strongly oriented towards consumption and financial development while the political arena was dominated by populist discourses meant to exacerbate the "nationalist feelings" and bent to winning the elections. The industrial capacity which was largely neglected in the 90s, started to be taken into consideration when developing new economic strategies, the capital inflow had increased and the credit growth was mainly attributed to the external loans.

If at the beginning of the 2000s the European Union was the main destination for Ukrainian exports, towards the end of the decade, alongside the EU, Asia became one of the most important trading partners with its emerging economies and its overall rapid growth in terms of consumption and technology export. The main area in which Ukraine is exporting into Asia is the metallurgical sector, as the Asian countries prove to be the main consumers in this area (Aslund, 2008).

On the long run however, the economic growth proved to be unsustainable. The boom which had characterized the first decade of the 2000s was improperly used, the economy ended up suffering greatly from the nationalistic policy promoted by the Kiev leadership and from the bad management of the funds. Thus, the growth perspectives vanished as quickly as they emerged (Aslund, 2008).

The following decade was one of the most difficult for the Ukrainian economy, especially due to internal and external shocks.

Table No.4 Tax Burden in Ukraine



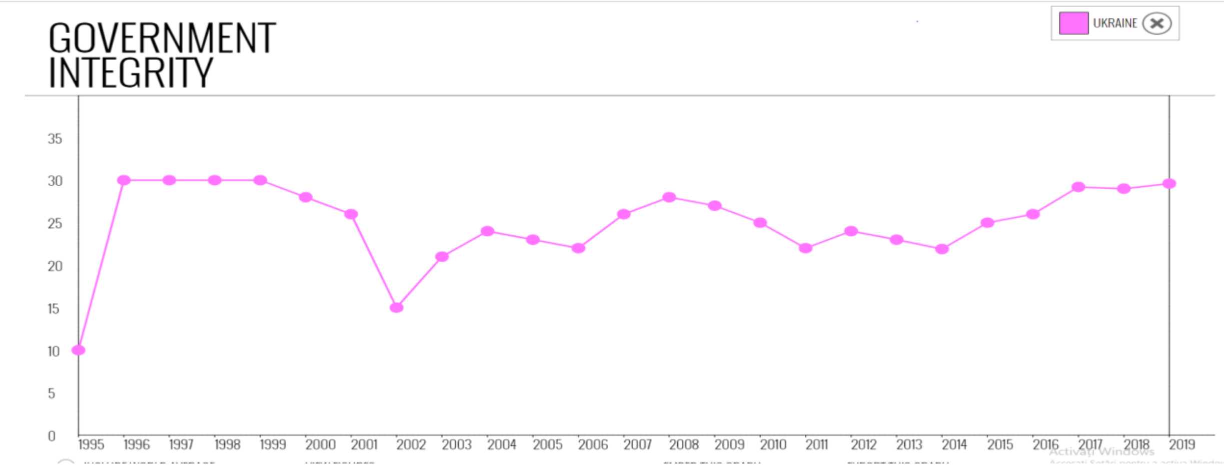
Source: Index of Economic Freedom, Heriage.Org

In the international arena the Russian aggression which ended up with the occupation of a strategic territory of Ukraine brought about losing of some key advantages in terms of productivity, international trade, access to resources and economic development. The continuation of the military conflict in the Donbass region puts a strong break on economy at the national and to some extent at the international level as well, making the balancing of the economy a chimera. The downward trend of the global prices for the basic products was dubbed by the ongoing economic and financial shocks (BBC News Europe, 2012).

Internally, Ukraine went through three rounds of elections (Presidential, Parliament and Local), mass protests (Orange Revolution, Euromaidan), and has begun the process of comprehensive reforms primary aimed to reduce, decrease the economic and political corruption.

The political crisis has amplified and stressed the vulnerabilities of the national economy, and at the same time it also stressed and ever-growing gap of the fiscal discrepancies, the loss of the international reserves and the rapid devaluation of the hryvnia. The national coin has lost approximately two thirds of its value between and 2014 and 2015 (Vicere, 2018).

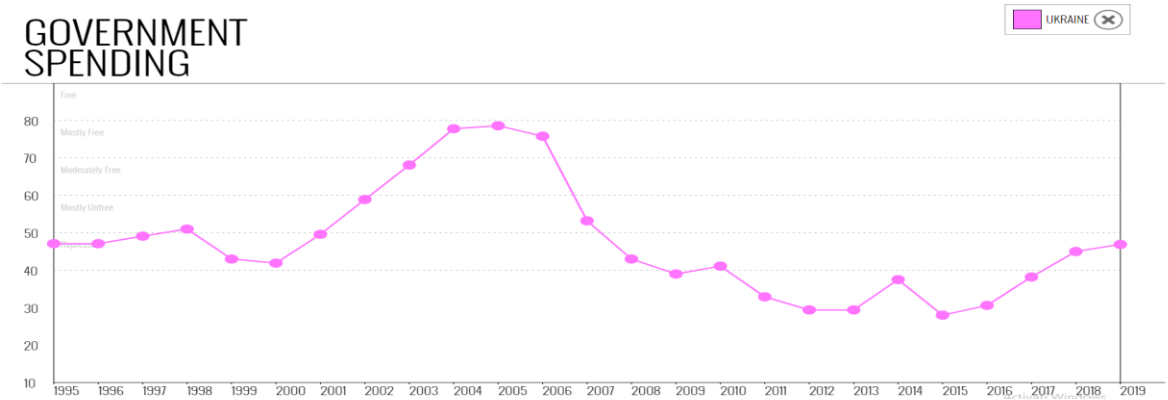
Table No.5 Government Integrity in Ukraine



Source: Index of Economic Freedom, Heriage.Org

The positive economic incentives generated by the autonomous commercial preferences granted by the European Union in April 2014 were insufficient to overcome the crisis which has escalated to an international level. The first signs of macroeconomics stability have begun to show towards the end of 2015 after Ukraine went serious about implementing the deep and comprehensive reforms requested not only by the European Union, but also by the International Community.

Table No.6 Government Spending in Ukraine



Source: Index of Economic Freedom, Heriage.Org

In the Spring of 2014, Ukraine has started to renew the talks and negotiations with the International Monetary Fund and in April 2014 the new Stand-by Agreements were signed for a sum totaling 11 billion DST, out of which only 3 billion were effectively given to Ukrainian authorities (Vicere, 2018).

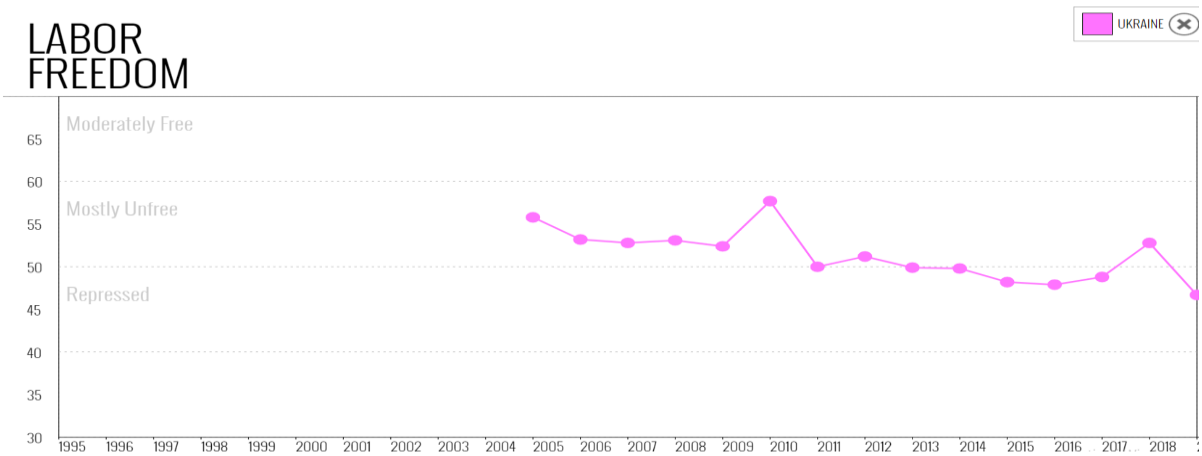
The International Monetary Fund Program included among other aspects the extended fiscal consolidation, the reform of the energy sector, the liberalization of the exchange ratio and the stability of the Banking sector (The World Bank, 2010)

But despite all of these, the crisis in Ukraine was far more serious than it was initially assessed and in March 2015 the International Monetary Fund has approved a Program for Facilitating Extended Funds for a period of 4 years totaling 12 billion DST. This Program was expected to push and develop the launching of the new reforms, stressing the financial stability, consolidating public finances and monitoring the progress of structural reforms.

Until the middle of 2015, Ukraine had received only two tranches out of the Program for Facilitating Extended Funds because it could not keep its part of the deal concerning the agreed calendar for reforms.

The real GDP ratio has dropped with 15,8% between 2014 and 2015 and the first real GDP growth was registered only towards the end of the first trimester of 2016. Nevertheless, the recovery process is very slow, the real GDP growth ratio being around 0,1% per year (Roman, 2018). The domestic consumption, the most important component of the GDP has remained on a descendent path, already loosing 26,8 per cent starting with 2013 (UNIAN Information Agency, 2018).

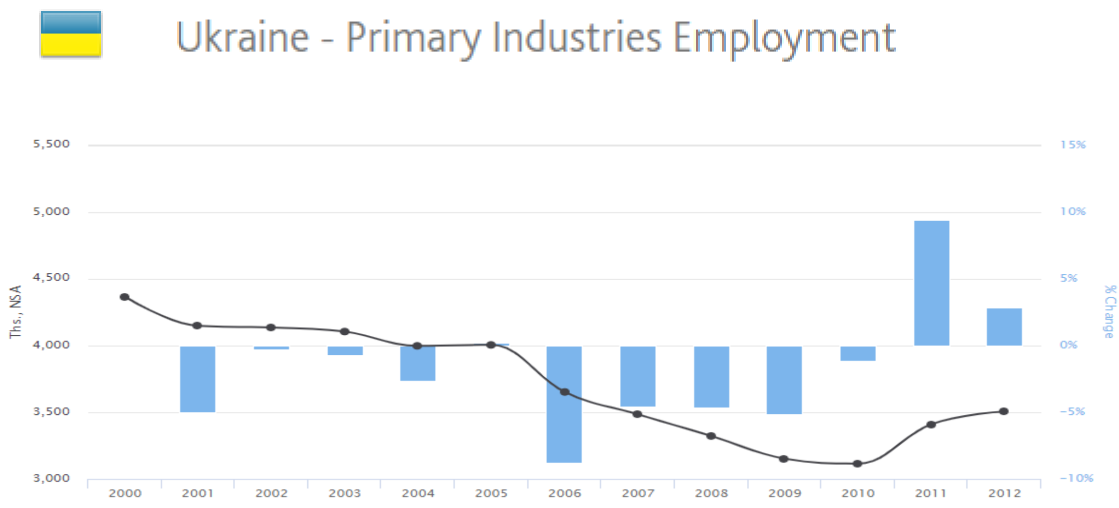
Table No.7 Labor Freedom in Ukraine



Source: Index of Economic Freedom, Heriage.Org

The labor market had absorbed the economic shock through a significative cut of the salaries – in two years` time the salaries had dropped with 25,4 per cent and the unemployment rate had increased from 7,3 per cent to 9,1 per cent. In 2015 the medium wage was around 4195 hryvnia, (approximatively 150 EURO) and the pension was situated around 1581 hryvnia (approximatively 56 EURO) placing thus the population who was no longer employed in the most vulnerable social category. (these data were collected through analysis of the relevant population from an economic point of view people aged between 15-70 years old) (The World Bank, 2018)

Table No.8 Ukraine Primary Industries Employment

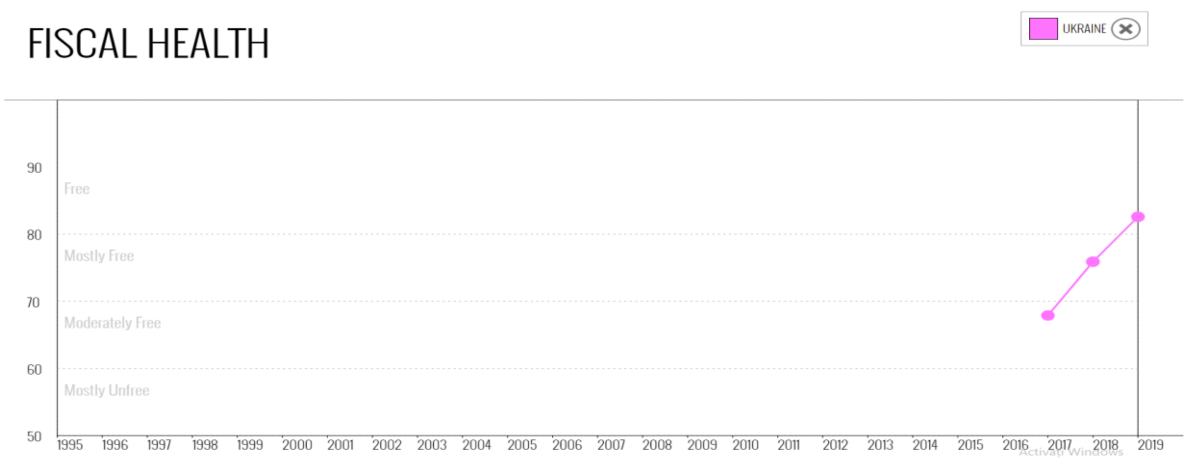


Source: Moody`s Analytics, Economy.com

In 2016, even after at an international level most of the devastating economic effects of the crisis were overcome not only by the improvement of the macroeconomic indicators, but also by developing of the niched digital economy, Ukraine remained in critical stage. On the one hand there was the ever-going conflict with Russia, the constant threat of gas cutting and the murky political climate, and on the other hand the international community offered little to no support. The funds allocated through the Eastern Partnership Instrument were not only insufficient, but mostly directed to developing a sector which at that moment and in that particular climate had insignificant contribution to economic development.

The level of consumption in terms describing the domestic households` needs was at a critical level, but the surprise came from the business sectors which was the first to show any signs of recovery. The real accumulation of the fixed capital had increased with 4,2 per cent in the first trimester of 2016 (when comparing the data with the same period of 2015) (The World Bank, 2018). Industrial investments had increased with 4,9 per cent, the biggest growth in this filed being registered in production of electrical equipment, electronical products and food industry. The first trimester of 2016 marked the first encasement of macroeconomic indicators since 2012. The trade has also increased and the beginning of the economic stability had begun to bear fruit.

Table No.9 Fiscal Health in Ukraine



Source: Index of Economic Freedom, Heriage.Org

Conclusions

After its independence, the economic ties between the European Union and Ukraine had gradually intensified. Nowadays, the EU is not only the most important trading partner for Ukraine, but also the biggest investor in Ukrainian economy as well as the second most preferred destination regarding the migration of the work force. Once the Association Agreement will be fully in force, the relations between these two actors will deepen.

In the last decades, we can observe a shift in Ukrainian trade, mainly its orientation from the Community of Independent States towards the European Union and Asia. In 2015 for example the EU was Ukraine's biggest trade partner (speaking in terms of free trade areas) with over 37 per cent of the exports finding their way towards Germany, Poland, Italy or Hungary, (World Integrated Trade Solutions, 2019).

The data available for 2000-2015/6 show that exports are comprised mostly of food industry products, metallurgical products, raw materials and metals, while the imports are dominated by machines, chemical industry products and mineral products. [16]. The same data shows that from 2013 the exports of mineral products from the EU zone had increased considerably and this was mainly due to the fact that Ukraine had started to buy natural gas from Europe. This reposition on the gas market plays a very important role for the future endeavors and economic development for Ukraine as it diminishes the influence of Russia who can no longer exert a tight leash on this country.

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