ABSTRACT. This article provides a limited and selective review of the academic literature on Ukraine’s economic transformation, specifically 1) recapping what have been the major trends in this research; 2) what has been learned; and, 3) what is still useful to investigate in a future research agenda. From a meta-analysis one can draw quite a few optimistic conclusions. First, Ukraine as a laboratory for academic analysis in the received paradigm of the economics discipline using state of the art methodology, attracting solid scholars, both established and recent PhDs, is on a strong footing, and very much on the radar-screen of the Anglophone profession. Inasmuch as most European economists with global ambition invariably publish much of their work in English, this means that the interest in Ukraine is global, or at least in the North Atlantic sphere. Second, the vast majority of the researchers in this sample are not Ukrainian specialists but economists with a current interest in Ukraine, which suggest that while they may move on, others will replace them. Third, the majority of researchers are neither from Ukraine nor of the diaspora, again suggesting that there is an appetite by outsiders to do academic work on Ukraine. It concludes with a ten point research agenda.

* I am grateful to Dominique Arel for guidance and suggestions, and for bibliographical references provided by the staff of the Chair of Ukrainian Studies, University of Ottawa. Wasyl Sydorenko of the Petro Jacyk Resource Center at the University of Toronto provided considerable help in the bibliography search. The article was prepared with the collaboration of Natalia Ingrid Havrylyshyn, who undertook the first annotated review of the selected references and in particular focused on reviewing the energy question in detail, with the resulting analysis included as Appendix A. An earlier version was prepared for the workshop, «Understanding the Transformation of Ukraine,» Chair of Ukrainian Studies, University of Ottawa, 15-16 October 2004.

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that highlights in particular the rich potential of research on Ukraine’s economic transformation with the passage of time and increased availability of data, the valuable contribution to be made by Ukrainian economists and scholars, the need for focused monographs on the development of oligarchs in Ukraine, and the merit of more studies on land privatization, among others.

KEY WORDS. literature survey, Ukraine, economics, economic growth, economic reform, oligarchy, oil, gas, energy, international diversification, privatization and enterprise performance, sectoral analysis

This article provides a limited and selective review of the academic literature on Ukraine’s economic transformation, specifically 1) recapping what have been the major trends in this research; 2) what has been learned; and, 3) what is still useful to investigate in a future research agenda. While it avoids a comprehensive analytical survey, because even the English-language literature turns out to be enormous, the article nonetheless draws from a good-sized sample of approximately eighty academic papers, rather what may be called a «meta-survey,» and infers from it what the literature tends to be about, what sort of writings are done and by whom, what are the conventional conclusions and what gaps in knowledge remain.1

The article begins with a broad overview of the size of this literature, where such works are published, who are the authors (Ukrainians, Ukrainianists, or others), and the extent to which Ukraine is now being followed by academic economists. The following section provides a summary of the findings in the literature for each of seven key issue-areas and the degree of consensus or continued debate that emerges. The next section at-

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1 To ensure the references finally selected are nevertheless representative of the wider literature, we have undertaken the following filtering process: using university library search engines including the Jacyk Resource Centre at Robarts Library, University of Toronto and Slavic Studies abstracting services—ABSEES and others—a vast number of references were found, over 200 pages just for the search before printing selected papers. The most relevant economic studies were isolated from this on the basis of the author’s prior familiarity with the issue of Ukrainian economic developments, some a priori judgments on the quality of publications, reputation of authors and the like. These were then categorized into seven key issues most pertinent in Ukraine’s economic evolution since independence. To ensure that enough pieces were selected for each issue a second round of searching was undertaken utilizing less-than-electronic search engines, such as author’s prior awareness of work not found by the computer, references noted in the better-quality articles found in the first round, etc. The starting date chosen was 1995, partly to keep a limit on the number of items, and partly on the rationale that with publication lags, anything before that would have covered too short a period since independence.
tempts to give a tentative quality assessment of the work: is it on par with economics literature in general? is it on the frontiers of scientific research? has it been improving? is there appropriate coverage of important issues? The final section concludes with a prospective look at a possible research agenda for the future, for instance, what are scholars likely to research? who will they be? how can this agenda be stimulated?

The Extent And Nature Of The Literature

The initial effort to search the literature electronically used key phrases such as "Ukrainian economy" and variants thereof, but this yielded very limited results. It was necessary to broaden this by using "Ukraine," at the expense of the time required to scan a vast list of more than a thousand references, about 800 from ABSEES, 200 from the University of Toronto library, and about 100 from the European electronic abstract on Slavic Studies. In the end, about 100 useable items on economic reforms and performance were culled from the broader list, with some items excluded because they appeared to be more journalistic or were published in non-academic sources such as practical trade journals for doing business in the region. A closer look at abstracts or the text itself further reduced the list to more interesting and academic quality items. At the same time, a second search added items that merited inclusion. For better or worse, the end result is the seventy-plus items listed in the References.

Where and Who? Virtually all the items reviewed are from academic publishing sources: books, journal articles in both the specialized Slavic/Ukrainian domain and the general economics one, chapters in conference and symposium volumes, working papers. A handful of institutional publications are included (World Bank, IMF) since these are analytical pieces...
and have always been regarded as on par with other academic sources. With respect to one issue investigated — energy and in particular the Odessa-Brody pipeline — a handful of non-academic writings from trade press websites were used to allow an updating of the facts to the present day.

Ukrainian-language sources were not covered in order to keep the assignment manageable, but more importantly because the focus of this article is on what the outside academic world does on Ukraine. Nevertheless, two items were included: a book by key economic advisers of the Kuchma government and a brief foray into the contents of a December 2000 issue of Visnyk Ekonomika. Of the twenty-plus articles there, at most one (Mertens and Demchuk on debt structure of firms) could be considered in the mainstream of international academic research, i.e. with the rationalist model building and hypothesis refutation methodology of received economics. The rest were much more of a purely descriptive sort; what analysis was done was of the «in my opinion» variety, or had only implicit reference to standard behavioral approaches or theories. One French monograph is also included.3

Identifying the researchers definitively was not possible, but a «fingerspitzgefühl» approach — prior knowledge of researchers and their institutions, the names and their spelling — came up with some broad-brush results of considerable interest. Consider three broad groups: Ukrainians from Ukraine (UU), diaspora Ukrainians (UD), and non-Ukrainians (NU). Of the over seventy authors (only coincidentally similar to the number of references — some authors published more than one piece, and some pieces were by several authors), just over twenty were UU, perhaps ten UD, and about forty were NU.

In the first group, five were highly placed government officials contributing articles in English that varied from fairly descriptive to reasonably

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3 This is too limited a look at Ukrainian sources to draw any unfavorable comparisons, and in any event there is plenty of English language literature which could be characterized as being «outside the academic mainstream». Also of interest is the fact that the search in the European Slavic abstracts yielded relatively less than in English — though many Europeans are in the references used here — and the vast majority of these were in German/Austrian sources, with a few in Scandinavian ones and very few in French. Limited German skills precluded reviews of these items in the short period available.
academic, but all were included because the individuals were prominent policy makers. The larger part of the UU group appeared to be relatively young scholars writing economic dissertations in Europe or North America, or the early products stemming from a dissertation. The diaspora group comprised only three economists to the best of our knowledge (on one we can be 100 per certain), with the rest political scientists. They were included here because their cited works had extensive coverage of economic reform issues, that is political economy, not unlike many of the works by economists. That the largest group was the NU group provided a pleasant surprise and optimistic auguries for future research, as discussed in the concluding section. Here, two points merit attention. First, the large number of non-Ukrainians suggest strongly that Ukraine is very much on the radar-screen of academic economists around the world. This conclusion is further enhanced by the fact that the publications are by top-notch university presses, or in high-ranking refereed economics journals. Second, the authors in this group are nationally very diverse: North Americans, British, German, Austrian, Dutch, Scandinavian, Spanish, Belgian, Polish, etc. Finally, are these Ukrainianists or generalists devoting part of their research effort to Ukraine? It is not easy nor indeed correct to label and limit individuals in this way, though all that is intended here is to ask whether a person spends the large majority of his time on matters Ukrainian. Broadly, it appears that at most a few of the political scientists might fall into this category, while the vast majority of the authors in this sample are generalists in their discipline who have much broader if not more primary interests than research on Ukraine. The positive aspects of this will be discussed in the concluding section.

Topic coverage: There does appear to be some congregation effects around a small number of issues. This article identifies seven areas of interest on the combined basis of the author’s assessment of and prior involvement in Ukrainian economic studies, and
the coverage of the sample. The seven key areas of focus are:

- Broad monograph length overviews of Ukrainian economic or political economy developments;
- Analysis of reform dynamics since independence (shorter articles often overlapping with the first category);
- International diversification of trade, economic relations with other countries and regional and international organizations;
- The energy problem: shortages, dependence on Russia, relation to oligarchic evolution;
- Privatization and consequent performance of enterprises;
- Economic growth: its inhibitors and motive forces; and,
- Sectoral or area analysis: agriculture, industry and specific sub-sectors, banking and finance, government finance and budgets, administrative restructuring.

While the next section briefly discusses each of these seven areas as well as key conclusions from the literature, and any consensus or lack thereof, in the meantime it is useful to observe that the number of items from the reference list is reasonably spread in Table 1, with each including between seven and ten items, except for the last where seventeen items are included. Arguably the last category is a bit of a catch-all and might be subdivided into sector or industry specific studies and studies dealing with government administration and policy, but this will not be done for the present article.

The bottom line: From a meta-analysis one can draw quite a few optimistic conclusions. First, Ukraine as a laboratory for academic analysis in the received paradigm of the economics discipline using state of the art methodology, attracting solid scholars, both established and recent PhDs, is on a strong footing, and very much on the radar-screen of the Anglophone profession. Inasmuch as most European economists with global ambition invariably publish much of their work in English, this means that the interest in Ukraine is global, or at least in the North Atlantic sphere. Second, the vast majority of the researchers in this
sample are not Ukrainian specialists, but economists with a current interest in Ukraine, which suggest that while they may move on, others will replace them. Third, the majority of researchers are neither from Ukraine nor of the diaspora, again suggesting that there is an appetite by outsiders to do academic work on Ukraine.

A Selective Review of the Analytical Substance in the Literature

In this section, the article will review and assess the substantive content of the literature using the sample designated, according to the seven key areas noted in Table 1. The sample is by definition not a comprehensive bibliography and the review may omit with apologies some important works. In some cases the gaps are simply because items were missing from the library. Again, the reader is reminded that the limited scope of this article may preclude the full-fledged analysis that a literature survey should have. Yet it should suffice as a basis for thinking about a future research agenda.

Table 1: Literature on the Economy of Ukraine

|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
4. The Energy Problem
Smolansky 1995

5. Privatization and Firm Performance
Johnson et al. 2000/ Konings & Kupets 2003/
Mertens & Demchuk 2001/
Pivovarsky 2003/ Schnytzer & Andreyeva 2002/
Warzynski 2003/ Yekhanurov 2000

6. Economic Growth
Havrylyshyn et al. 2002/ Mel’ota & Thiessen 2002/ World Bank 1999

7. Sectoral Analysis
Allina-Pisano 2003/ Dabrowski et al. 2000/
Eremenko 2002/ Goralska 2000/
Kobzev 2002/ Kravchuk 2001/ Kurkalova & Carrigury 2003/
Legeida 2002/

Overview Monographs

Until the year 2000, Ukraine’s economy performed rather poorly, even compared to other post-communist states, both in terms of sluggish progress towards market institutions, and actual results such as GDP growth, foreign investment, unemployment, poverty levels. While the sharp improvement in GDP growth performance since 2000 will be analyzed at the end of this sub-section, for the preceding period, which is covered by the literature items listed in Table 1, there is a broad consensus on the «facts,» i.e. things did not go well, but there is a sharp disagreement on the explanation. On one side is the «Big Bang» school of thought, which argues that economic reforms after communism should have been introduced as rapidly as possible, and since in Ukraine this was not done, economic performance suffered. On the other side is the gradualist (and/or path dependent) school, which argues that the «shock therapy» approach (the term is preferred by this group, resisted by the first) was not appropriate and that, if anything, the poor performance was at-
tributable to going too fast. A clearer dichotomy cannot be imagined, and neither the literature on Ukraine nor the wider literature on transition has seen a resolution of this debate, which will continue heatedly for a long time.

Of course there are nuances in the work of any one scholar, and at the risk of alienating colleagues, it is worthwhile summarizing their key points. Most, but by no means all, economists tend to be in the first school of thought, and certainly Banaian, Kravchuk, Sachs and Pivovarsky are of this persuasion. The group also includes some scholars listed in Table 1, Section 2 (obviously a cognate category): Åslund, Harasymiw (not an economist), and some Ukrainian officials, such as Pynzenyk and Yushchenko. The present author shares this point of view. In the gradualist group are Shen and Van Zon (both economists), Halchynskiy and co-authors representing Ukrainian officials of the gradual reform persuasion. Motyl, a political scientist, presents one of the most cogent defenses of the view, arguing that historical conditions precluded rapid economic reforms before state institutions were established, and judges that «to initiate a big-bang would have been the worst of decisions.» However, his analysis differs substantially from the simpler apologias for slow reform that some officials give, or the almost paternalistic arguments as in Shen and Van Zon that these societies were not ready, that their intellectual and government elites lacked knowledge of market economics. Motyl is unsparing in his criticism of Ukrainian governments since independence, pointing to a lack of vision, will, leadership, and personal gain. In the next subsection the article will show that on this issue, which relates to the build up of economic interests and oligarchs, the extreme ends of the debate begin to find common ground.

More nuanced positions on this debate are taken by most of the other authors listed. Thus Grandjean, in a correct but not overly incisive review of de-

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velopments, recognizes the link between poor performance and slow reforms, but tends to be sympathetic to the leadership «en vue des circonstances historiques très difficiles» [in view of very difficult historical circumstances — trans. ed.] Kuzio and Wilson are very clear on the deception by which the former communists took power under Kravchuk and blocked reform in the interests of the embryonic nomenklatura-capitalists, virtually identical to a key argument of the Big-Bang school. But then in Kuzio’s other writing, a more sympathetic tone is taken: «economic and political transition in Ukraine had no choice but to be evolutionary…[which]…was the order of the day for all post-Soviet states.» Later writings by Kuzio (not cited here) show this scholar leaning closer to the view that too-slow reforms caused more problems than they avoided, but this observation can be corrected. Bandeda may be characterized as taking a neutral, hopeful position. He describes the Ukrainian economy in the late nineties as a mixed-economy of the social market type and protects himself by saying its success and viability «depend crucially on (certain) requirements,» proceeds to provide these requirements which are dear to big-bang proponents, and emphasizing as one requirement the ability of Ukraine’s leadership «to implement fully a dynamic social market economy.» The statements of the key arguments in the debate, and the nuances in-between, should serve to illustrate that this literature is extremely rich and fully in line with the analogous literature on the economic transition in the entire region, and indeed with the so-called transitology debates within political science.


5 Ibid., p.75.
Ukraine finally experienced a surge of GDP growth in 2000 with rates at lofty levels approaching or exceeding ten per cent annually, comparable to the torrid pace of economic expansion seen in China and earlier in Japan, South Korea, Taiwan, and Singapore. These precedents are the source of the term authorities like to use for Ukraine today: the «European Tiger Economy.» Does this new set of facts tip the balance of the above debate in favor of the gradualists? It may be too early to say as there are reasons for skepticism about this performance: the surge began after an important period of economic reforms under Prime Minister Yushchenko; the statistics might be exaggerated; the many years it will take for Ukraine to catch up with the early reformers given the huge decline in output in the nineties; the possible unsustainability of the pace (and academics should be particularly careful to let time pass before making strong inferences); and, the benefits of this growth are highly concentrated in the hands of a very few oligarchs. In considering this last point, certainly any growth is good, since even if the benefits are concentrated, they do spill over eventually, but the real problem is the strengthening of oligarchic power this economic boom brings. Stronger oligarchs can hardly be a good thing for the future prospects of Ukraine, be it for democratization or long term economic dynamism. As the next sub-section notes, one of the biggest negative outcomes of the economic reform process in Ukraine has been the nurturing of oligarchic power.

Reform Dynamics

Big Bang proponents not only argue that slow reforms resulted in poorer performance, but also, perhaps even worse, provided the window of opportunity for an oligarchy to develop and capture the state or at least influence state policy to its advantage. Indeed, the delay in reforms permitted the old nomenklatura, which may have been uncertain of its

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status in the early years, to rise phoenix-like from the ashes of the Berlin Wall and, with a little help from some new capitalists of uncertain origin, take advantage of an insider position to arbitrage between the possibilities of getting state privileges and the new freedom to make private profits. This partly reformed economy allowed some individuals to accumulate huge sums of capital in a much shorter time than the 14th-16th century capitalists of Braudel’s history, indeed in an even shorter time than it took Braudel to write his books.

Although details can be found elsewhere,11 suffice it to illustrate one mechanism by which oligarchies were thus empowered in Ukraine. Partial reforms meant private ownership of energy companies was allowed, but also that regulated prices of imported energy were well below world market prices. Privileged new capitalists obtained government rights to buy cheap and sell dear or, even better, to accumulate debts to Russian suppliers under contracts guaranteed by the Ukrainian governments, default on these contracts and «force» the Ukrainian budget to pick up the remainder. In the interim, plenty of mechanisms for siphoning off funds were found that would have made Wall Street swindlers green with envy (see Appendix A).

The general story of such opportunities is also described by a leading reformer who was for some time in government; specifically, Pynzenyk describes how «delayed reforms have bred clan capitalism.»12 In the same vein, but with a state of the art game theory mathematical model, Scherbakov analyses the possibility that large firms can (and did) avoid the rules of competition in a partially reformed environment by lobbying government for support on the argument they were «too big to fail.»13

But the oligarchy outcome can also be explained by a model favored by gradualists. Although an article making such an argument explicitly for Ukraine

11 The preceding footnote provides more details, as do many of the articles listed in Table 1, Section 2, by Åslund (2003), Havrylyshyn (1995 and 1997), Harasymiw (2002), and Puglis (2003).
could not be found, consider instead a well-known work on Russia by Reddaway and Glinski which argues that it was the inevitable failure of shock therapy being sowed on infertile ground that generated a coalition of the nomenklatura, or red directors, with the impoverished masses pains by the too-rapid reforms. This led to the ouster of reformers, the growth of oligarchic power, and the curtailment of democratic developments. While the analysis of Puglisi on the rise of oligarchs in Ukraine describes similar power struggles and methods of accumulating wealth, it does not argue that too-rapid reforms gave rise to the oligarchy. And neither is it fully in line with the delayed reforms hypothesis of Pynzenyk and others. It perhaps is closer to Motyl’s argument on the importance of prior history. As Puglisi puts it, «the weakness of political and economic institutions … [allowed] the pre-existing elite to play a controlling role.» However, she admits that history is not everything and «unfinished reforms … led to a consolidation of … political and economic groups interested in … the status quo.»

The debate between these schools of thought has one common ground: virtually all agree that the rise of the oligarchs is not a good thing for the commonweal. The more difficult question is what can be done about this, or indeed whether anything needs to be done, since in the view of some the oligarchs in any case may become civilized over time. Here, then, is an agenda item for future research, mirroring what has already begun in work on Russia, i.e. quantifying the power of oligarchs and inferring from behavioral models in economics, political science and history the likelihood of oligarchic power declining.

It is important to note that several of the works considered to this point, no matter the position they take on the debate, provide excellent descrip-

16 Pynzenyk, «How to Find a Path for Ukrainian Reforms.»
tive accounts of what happened regarding politico-economic developments, in particular for the Kravchuk period, Kuzio and Wilson, Havrylyshyn, Ba-
naian, and Puglisi. There are fewer sources for later periods, but still much can be gleaned from Kuzio, Harasymiw and Āslund.

International Diversification

There are many questions related to international diversification of Ukraine’s economy since independence. The article addresses three:

1. the size of the shift from the inward oriented trade patterns of the Soviet period and the forces that have driven such diversification;
2. the volume and role of foreign investment in Ukraine; and,
3. the history of integration in regional and global institutions, including membership in the European Union (EU) and the World Trade Organization (WTO).

In the first half decade or so after independence, although Ukraine’s exports did shift from an overwhelming concentration within the socialist bloc to other destinations, especially Europe, this shift did not occur nearly as much as in many other transition countries, a fact attributed by Havrylyshyn and Al-Atrash to slower reforms. This work also argued, using well-known models in economics, that the degree of diversification that one would expect after the dissolution of the USSR was still far from achieved. Another half decade later, the diversification of exports (less so imports because of energy from Russia and Turkmenistan) was substantially greater, and, according to Elborgh-Woytek, the pattern of destinations, with Russia taking twenty-five to thirty per cent and Europe over fifty per cent, had reached what is probably the «right» propor-

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tions. There is little debate on these facts or assessments in the literature.

Foreign investment, often scoured by anti-globalists for its negative impact on third-world countries, is thus far a highly prized commodity in all post-communist countries. There is hardly a high-level delegation from Ukraine to advanced countries without a sales-pitch on how foreign investors are very, very, welcome. However, so far the magnetism of such appeals has had slim results compared to other countries in the region, especially in Central Europe and the Baltics. Reasons for these differences are the subject of some research papers like Mankovska and Dean and Thiel. There is a consensus in general writings on investment in the region that investors will be more likely to be attracted by three factors: advanced economic reforms, including in particular a transparent regulatory environment with limited corruption; significant amounts of oil in the ground, in which case the level of corruption is less relevant; and prospects of EU membership.

While the literature is clear on the reasons why Ukraine attracts so little foreign investment, other related issues deserve more work. In this respect, Mankovska and Dean point the way by looking at the details, and observing that Europeans invest mostly in food products, while CIS (largely Russians) invest primarily in energy. Even so, the size of the investments is at question, since a lot of Russian and hidden Ukrainian capital comes back indirectly


\[22\] And in Canada sometimes a diplomatic rebuke to diaspora-Ukrainians that they are not doing enough to «convince» Canadian business and government to invest in Ukraine.


\[24\] This last point is elaborated in Oleh Havrylyshyn, «The Impact of EU Enlargement on Countries Beyond the New Frontiers,» in Shaping the New Europe: Economic Policy Challenges of European Union Enlargement, eds. Michael Landesmann and Darioz Rosati (Houndsmills, UK, and New York: Palgrave Macmillan, 2004).

\[25\] Mankovska and Dean, «Relationship.»
from the Cayman Islands and other such locations. Moreover, the degree of concentration of ownership in key industrial sectors by such foreign capital and its economic-cum-political implications also deserve further study.

Concerning international economic organizations, Ukraine’s membership in the International Monetary Fund (IMF) and World Bank came quite early and was not significantly delayed compared to other transition countries. However, compliance with their demands upon borrowing monies is a mixed story, and indeed one that is worth considering in perhaps a dissertation. Even so, the importance of the EU far exceeds that of these other institutions, in particular through the strong discipline that a serious quest for membership by Ukraine would impose upon its progress in both economic and democratic liberalization. There is in the literature a keen debate on whether the best road to Moscow is via Brussels or, as argued by Bojcun, to Brussels via Moscow. The latter appears to be the direction taken by the Kuchma administration in its final years, which explains this turn by noting that after years of pursuing Western integration, the EU rebuffed Ukraine.

But not all analysts agree that it is so simple. For instance, Kuzio posits a sensible intermediate interpretation whereby, while the EU has been at best ambivalent and cool, or sometimes nearly insulting, Ukrainian leaders are hardly innocent and their policy cannot really be considered as having been pro-western in the past years. Moreover, both sides have only a virtual policy … [the] EU has never developed a clear strategy towards Ukraine … [and] Ukraine has espoused [a] ‘European rhetoric’ … while adopting

26 It is also a two-sided story: Pynzenyk (2000) is highly critical of the IMF not for being too harsh on Ukraine in its demands, but too soft when Ukraine failed to comply, thereby contributing in particular to the delays in structural reform, which he argues led to the rise of capitalist clans. Incidentally, the same criticism is often made by Russian reformers like Gaidar and Fyodorov.

27 Notwithstanding the present author’s institutional affiliation with the IMF, Havrylyshyn, «Ukraine: Looking East, Looking West.»

28 This is a view I hold, as do many others not cited here.


policies that undermine this goal.» This interpretation is firmly supported by Scherbak who states: «The Euro-Atlantic strategy ... has encountered the inconsistency of certain Ukrainian leaders ... on the other hand, the disdainful attitude of certain European leaders ... has contributed to this change.»

The literature on the economic impact of EU membership goals on new members and those on the accession track is extensive. For Ukraine, the most useful future analysis here would be by political scientists inquiring about the workings of the process, how Ukrainian leaders might consider working towards EU membership, and how European leaders might use the prospect of membership as a carrot to motivate Ukraine in that direction. At the same time, an assessment of the economics of the trade impacts ought to be done, as was done in the volume edited by Burakovsky et al. on the issue of WTO accession for Ukraine. In this volume, the chapter by Ivanter et al. applies a standard empirical model projecting what Russia’s trade would be following WTO membership, and the chapter by Eremenko et al. uses analogous methodology for Ukraine. Starting with the history of the formation of the European Community in 1960 and continuing with the enlargement to Greece, Spain, Portugal, and Central Europe, such analysis has been a staple of the public debates on the matter. These areas deserve attention in a future research agenda.

The Energy Question

There are two main problems related to energy in Ukraine. The first is common to all transition countries and will not be dealt with here: excessive energy use by both industry and domestic users, attributable to aging equipment and costs well below world prices in the Soviet period. While rationalizing pricing and restructuring of Soviet firms are

31 Yuri Scherbak, «Ukraine and the Euro-Atlantic Community,» remarks at a conference, Ukraine and the Euro-Atlantic Community, Kyiv, 24 September 2004. Historians will recognize the continued echo of this centuries-old refrain, the tug-of-war between those wishing to go west and those pulling east.
the answer, the sluggish pace of reforms and new investment has meant a considerable lag in resolving this problem.

The second problem is relatively unique to Ukraine: virtually complete physical reliance on Russia as the sole supplier of oil and gas, including the fact that any flows from Turkmenistan must pass through Russia. This situation has given Russia essentially a monopoly position in negotiations over price or continuity of supplies. From the beginning, it was clear that a solution for Ukraine to this problem must include the creation of alternative transport systems from other sources. However, a thorough review of the events and causal factors related to such a solution demonstrate that even in this way Ukraine’s dependency could not be overcome. Indeed, the reasons are not technical given that an alternative pipeline Odessa-Brody was planned long ago and has been complete for four years, notwithstanding the delays in its construction. Even so, oil does not flow through this pipeline. Worse still, the Kuchma administration appeared to have decided to not use the pipeline for oil coming to the Black Sea terminal (most likely from the Caspian Sea) for shipment northward and domestic use as well as on-flow to Poland and Europe, but instead for the southward flow of Russian oil and on-shipment as per an agreement with Russia. Appendix A describes the main forces behind this shift, including pressure from domestic interests which profit from deals with Russian entities and the vacillation of the Ukrainian government in its East-West strategy under Kuchma.

Privatization and Enterprise Performance

While privatization has many non-economic dimensions, in Ukraine as in many of its neighbors the experience was so fraught with lack of transparency and so infused with insider dealings that the process is not easy to follow or summarize. Pivovarsky does some of this and emphasizes the problem of non-
transparency, as Yekhanurov, who was for some time head of the Privatization Agency in Ukraine, also does more cautiously.\textsuperscript{35} Even so, most of the literature on the topic focuses on the post-privatization period and is concerned with how privatization affected firm performance, using massive databases for hundreds or even thousands of firms and applying a variety of statistical techniques to ascertain its influence.

In the wider literature on post-communist privatization, three key conclusions emerge, though not entirely without debate:

- Privatized firms do better than state firms, but not always by much;
- Among the privatized firms, the best performers are small and medium enterprises, in particular de novo firms; and,
- The improvements in performance are greater in Central Europe and the Baltic states than in the Commonwealth of Independent States (CIS), attributable to a climate of more open competition and even-handed rule of law.

The many empirical studies for Ukraine cited in Table 1 come to broadly the same conclusion, though some such as those by Schnytzer and Andreyeva find that even among privatized firms owners/managers behave as in Soviet times with personal ties dominating decisions.\textsuperscript{36} This is consistent with the views of others that in CIS countries the market climate favors the large firms over small new ones, indicating in this way the direction of useful future research. While additional studies are unlikely to change the conclusions dramatically, they may illuminate the connections with the problem of insider vested interest or oligarchs with reform dynamics discussed earlier.


Economic Growth

It has already been noted that Ukraine was virtually the last of the transition countries to overcome the GDP decline in the nineties, showing positive growth only as of the year 2000. However, since then, the rates of growth have been extremely high, in magnitudes of eight to twelve per cent per annum. Given that the recovery is so recent, it is not surprising that the academic literature is almost entirely focused on the earlier period and only a handful of the latest writings analyze the sources of the recovery.

The academic literature is almost unanimous as to why Ukraine’s GDP performance was so poor until 2000. Whether it is the World Bank study, Dabrowski, de Ménil or Havrylyshyn, the same factors are identified: very late and not always sustained efforts to control inflation and stabilize the currency; inadequate progress on so-called structural reforms for establishing a clear market environment; transparent regulations and commercial laws; and insecure property rights for new private entrepreneurs. While accepting these key explanations, some government officials and internal advisers also point to unfavorable historical legacies, such as a strong emphasis on heavy and military industries, or Ukraine’s dependence on Russia for costly energy as playing very important and inhibiting roles. But as the previous section noted, energy dependence was not a natural condition after 1991, but a policy choice. Furthermore, exports of metallurgical and chemical industries became a predominant source of Ukraine’s recent growth, raising questions about how they were suddenly transformed from being a burden.


for ten years into an asset. A related issue often covered in the literature is the coincidence of negative growth in the nineties with strong growth of the underground economy. For instance, Mel’ota and Thiessen analyze how a weak tax policy drives economic activity underground. Several earlier studies of the World Bank investigated in detail the size, nature, evolution and causes of the underground economy and finding bad policy, rather than criminality, as the best explanation.

For academic purposes, three to four years of recognizable high growth in Ukraine is still too short a period of time to achieve definitive research conclusions. Some tentative views do emerge in a handful of studies. For instance, barely one year into it, Aslund argued forcefully that Ukraine’s economic recovery was due to the success of the Yushchenko government’s imposition of a «hard-budget» constraint, particularly in the energy sector (in essence, withdrawing government support from state and private enterprises). Others agree that this policy was a catalyst and, as a general signal of intent sent to all economic actors, also helped to generate optimism and revived activity, including uncovering underground firms.

On the other hand, Dabrowski cautiously concludes that effective firm restructuring had already begun by the late nineties and reminds readers of the old reality that a depressed economy often hits bottom and turns around with no clear explanations for the timing. He mentions further the depreciation of the hryvnia following the ruble after the 1998 financial crash in Russia as another factor prompting

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39 Without getting into too much technical economics, one answer is found in the general literature on transition economies. For instance, Nauro Campos and Fabrizio Coricelli note that initial historical conditions of a negative sort might be a hindrance to growth for the first years, but over time their importance declines sharply, and the role of good policy to stimulate restructuring from inefficient burden to efficient asset becomes dominant. Nauro Campos and Fabrizio Coricelli, «Growth in Transition,» Journal of Economic Literature 40 (2002).

40 Iryna Mel’ota and Ulrich Thiessen, «Fiscal and Regulatory Causes of Ukraine’s Shadow Economy,» in Fostering Sustainable Growth in Ukraine, eds. Stephan von Cramon-Taubadel and Iryna Akimova (Heidelberg: Physica-Verlag, 2002).


43 Dabrowski, «Is the Economic Growth in Ukraine Sustainable?»
Ukraine’s economic growth. The most comprehensive analysis of this aspect so far is in an IMF study by Berengaut et al. which, while attributing some role to each of the above mentioned factors, emphasizes the impact that a sharp depreciation of a country’s currency can have on sparking an export boom which in turn spills-over into general economic growth.\footnote{Julian Berengaut et al, “An Interim Assessment of Ukrainian Output Development 2000-2001,” IMF Working Paper 02/97 (Washington, D.C.: International Monetary Fund, 2002).}

Indeed, the same factors can attribute for much of the economic growth in the region, including Ukraine, Russia, Kazakhstan and others. Nevertheless, while oil serves as a popular and simple explanation for Russia’s growth, the same cannot be easily said for Ukraine and the other seven oil importers in the CIS. In this respect, oil might suggest a reasonable explanation whereby, for oil importers like Ukraine, the negative effect of higher energy costs resulting from higher oil prices was followed by a strong demand for imports from Ukraine because of the large increase in exports revenues for Russia, Kazakhstan, Azerbaijan and Turkmenistan, resulting in a positive effect on balance. Nevertheless, this is not a complete explanation as it should mean Ukraine’s growth is positive, but lower than that of the oil exporters, when in fact it was as high as that of the oil exporters. Moreover, at the same time that Ukraine’s exports to the oil-exporting countries increased, its exports to other destinations (Europe, China, Asia) increased even faster.\footnote{Katrin Elborgh-Woytek, “Of Openness and Distance: Trade Developments in the Commonwealth of Independent States, 1993-2002,” IMF Working Paper, WP/03/207, October 2003. Available at http://imf.org/external/pubs/ft/wp/2003/wp03207.pdf.} Clearly, more is at work than oil to explain Ukraine’s economic growth. Thus, the sources of this period of growth remain to be researched carefully, using for instance existing methodology in economics to «parse out» the role of several different factors. In the end, there is much in this phenomenon to be uncovered by economists in future academic studies.

**Sectoral Analysis**
Because of the large amount of disparate items in this category, only those that have a useful and illustrative connection with the preceding six categories will be considered. In this respect, two young political scientists doing work on Ukraine provide deep and provocative analyses of the relations among the state, powerful vested interests, and the weaker members of society. In the first instance, Way shows in one study how inadequate change in government institutions contributes to slower reform by allowing opposing interests to capture these institutions. Paradoxically, in another he argues that the inertia of Soviet social institutions ensured that in the chaos of the early post-communist years, those hurt most by the decline still benefited from some redistribution of the nation’s wealth. In the second instance Allina-Pisano focuses on land privatization, analyzing in detail two regions (one in Russia, one in Ukraine) to conclude that the lack of administrative change in the local hierarchies meant the pre-existing power structure (local officials, kolkhoz managers) captured the process and determined who would get how much land, where, with what property rights in practice, etc. While the article by Pugachov and Van Atta tell an analogous story of de jure land privatizing having little de facto effect, Allina-Pisano goes further, and somewhat in the spirit of Reddaway and Glinski or Motyl, judges the reform packages themselves at fault, having been parachuted from the centre without consulting those who knew the nature of agriculture’s problems and needs. While this offers a compelling criticism of radical reforms, she does allow for some accommodation of the Big-Bang explanation by pointing out that state officials did not try to get involved when local hierarchies seized the process, suggesting that state officials, although they knew

what was occurring, did not interfere because they may not have been serious about reforms in the first place. In this respect, the counterfactual, i.e. the extent to which the local hierarchies would have been able to exercise power if the state officials had been serious, form the basis for continued research of this relationship.

The agricultural sector has also been approached using mathematical modeling. For instance, Kobzev\footnote{Alexander Kobzev, «A Regional Agricultural Trade Model For Wheat and Sunflower Seeds in Ukraine,» in Fostering Sustainable Growth in Ukraine, eds. Stephan von Cramon-Taubadel and Iryna Akimova (Heidelberg: Physica-Verlag, 2002).} analyses the potential for more rational regional specialization and trade for sunflowers, and Kurkalova and Carriquiry\footnote{L. A. Kurkalova and A. Carriquiry, «Input and Output Oriented Technical Efficiency of Ukrainian Collective Farms, 1989-1992: Bayesian Analysis of a Stochastic Production Frontier Model,» Journal of Productivity Analysis 20:2 (2003): pp. 211-231.} assess how close to the optimal production efficiency Ukrainian agriculture has come. They cautiously conclude that while efficiency has improved in general, there is much room for improvement. While modest, these studies cannot be easily dismissed since in all academic work, the vast majority of studies serve as small building blocks that allow big-picture scholars to stand higher and higher and to see better the horizon of knowledge. As with previously mentioned studies, these two are excellent examples of very solid building blocks.

Finally, although not very academic and more a business success story from a business journal, Kalantaridis et al.\footnote{C. Kalantaridis, S. Slava and K. Sochka, «Globalization Processes in the Clothing Industry of Transcarpathia, Western Ukraine,» Regional Studies 37:2 (2003).} describe how the clothing industry in Transcarpathia revived after 1995 unlike most other industries which continued to decline despite limited privatization (only five of fourteen firms studied were privatized) and little change in management. As an explanation, most of the firms followed the tactics of one leader, using the pre-existing network of contacts of the COMECON (Council for Mutual Economic Cooperation) period to link up with Hungarian and Slovak clothing firms well-advanced in their restructuring. Thus, the Ukrainian firms arranged lower-cost subcontracting for certain
products, and suddenly found a huge new market in exports. This case illustrates that, even without privatization and under old Soviet management, firms that are given more autonomy and forced to survive on their own will find innovative ways to do so. This is in fact reminiscent of an important conclusion from Poland in the early nineties where significant privatization was long delayed but, because the state firms were faced with a «hard budget» and could no longer rely on government support, they started very quickly to improve their production efficiency and find new markets. Unfortunately, these purely descriptive studies lack analysis and an explanation of why this occurred in a specific sector but not elsewhere, the impact on general progress on market reform policies, etc.

An Assessment of Appropriateness and Quality of the Literature

In the hierarchy of the economics discipline, country or regional studies are not as highly placed as theoretical work or specializations in thematic subfields (international, monetary, fiscal policy, etc.). In this context, it is very gratifying to see both the magnitude and high quality of the economics literature dealing with Ukraine since independence which is entirely comparable to such work on other countries.

The professionalism of this work is further reflected in their focus on several issues that are critically appropriate for investigation. More specifically, the first six sections of Table 1 are broadly perceived by post-communist specialists, not only Ukrainians, as the most interesting and important issues to understand. Moreover, with the exception of the peculiarities of the energy question, the issues investigated coincide with the emphasis found in the broader economic literature on economic transition. However, where Ukraine is concerned, without a doubt the problem of energy dependence merits inclusion in the list. Contrary to the popular refrain that Ukraine is uniquely situated at an
international crossroad, more common is its burden of inefficient industry and its need to first build state institutions and then deal with economic reform (as discussed in previous sections), a condition which it shares with many other post-communist states. However its energy dependence is relatively unique. The thorough coverage for each of these categories in our literature sample gives comfort that the choice of research topics by academics has been most appropriate.

It is equally clear that the quality of the studies is comparable with the economics literature analyzing regions or countries. The majority of the literature on Ukraine’s economic situation goes well beyond merely descriptive or discursive presentation of what happened, and at a minimum most contain some attempt at analyzing why things happened as they did. In such cases, the approach is very analytical, typically beginning with some reference to a relevant theory or theories of behavior known to all specialists in economics, some modification of this to the Ukrainian situation as it may differ from the median case, and often some effort to assess what was done incorrectly or correctly and identify future implications. As is the norm in economics writings whose authors have some ambition to achieve tenure and full-professorship, many studies on Ukraine formalize the theoretical foundation of their research in a mathematical model, and perhaps go on to undertake statistical econometric analysis to test the hypotheses derived from this model. Indeed, by the norms of the discipline, and considering that purely theoretical work is not usually applied to country studies, the sample covered here includes a surprising number of frontiers-of-knowledge pieces. These include Scherbakov’s game-theory model showing how initial conditions and partial reforms combine to trap the economy in a state where firms too big to fail can delay needed efficiency improvements; Kurkalova and Carrigury’s theoretical extension of standard output-efficiency models to analyze agricultural sector productiv-

52 Scherbakov, «A Restructuring Trap in Transition Economies.»
ity;\textsuperscript{53} and, Mertens and Demchuk with their state-of-the-art rational expectations model on firms optimizing their debt-structure.\textsuperscript{54}

Finally, there is no question that the learning curve is upwards and steep. While the literature before 1995 (not reviewed here) was more descriptive, it became not only more voluminous, but also much more analytical in the second half of the decade. From 2000 onwards, improvements in the quality continued with the publication of many more quantitative and theoretical works. Though it is not easy to identify precisely who the scholars are, it appears that the most recent wave of higher quality research includes or may even be dominated by young Ukrainian scholars with recently completed studies at European or North American universities.\textsuperscript{55} This inference is of some importance for the prospects of future economic research on Ukraine.

A Prospective Research Agenda

To assess future research directions on Ukraine’s economy, it is useful to consider three questions: Will the interest of the economics profession in Ukraine continue, and who are the likely future scholars to pursue this interest? What are the most likely future topics they will pursue? What sort of research agenda or particular topics deserve institutional stimulation?

Future Interest and Scholars

Several factors point in the direction of continued or even increased interest in Ukraine as an area of study, all of which concern the institutional entrenchment of academic interest in this topic.

\textsuperscript{53} Kurkalova and Carriquiry, «Input and Output Oriented Technical Efficiency of Ukrainian Collective Farms.»


\textsuperscript{55} A frequent occurrence is that one of the authors is a senior researcher known in the field, while the other(s) are fresh, clearly Slavic, names. This is sometimes verified by the existence of a PhD dissertation by the latter done at the university of the former.
The first of these factors is suggested by the earlier conclusion that half or more of the scholars writing on Ukraine since 1995 are non-Ukrainians. As noted, these are both established, senior scholars, perhaps more Europeans than North Americans, and a large number of younger, recent PhDs. While many of them also do more general work on the issue of economic transition and may, with time, decide to move on to other countries or topics, there is reason to believe that they will be replaced by others, not least younger scholars as they enter academia and move up the ladder. Encouraged by the tenure system, one can expect these younger scholars to continue to work on their initial interests for a decade or more: few scholars can resist the attraction of staying with the topic they know best until well after tenure.

The relative importance of Ukraine for general studies on transition is reflected in the following: *The Journal of Comparative Economics*, one of the four to five top journals in the transition field, is planning a symposium issue on monetary policy in the region with some articles focusing on one country, some comparing two or three. Russia figures in seven articles, Ukraine in four, and all other countries together in four. Not surprisingly Russia still dominates, but Ukraine’s position is proportionately not at all out of line and clearly suggests that it remains very much on the radar screen for the near future. The fact that only a very small portion of these scholars are not «Ukrainianists» in the narrow sense is less significant in economics than perhaps in other disciplines, because it is not common to have such a narrow and life-long specialization. In a word, Ukraine as an area of studies has become institutionalized in economic academics through the usual means: chairs or professorships with at least a broad regional coverage which now invariably includes Ukraine, courses on Ukrainian economics, continued interest of senior scholars, a constant flow of new scholars from Ukraine and their

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56 Personal communication from the editor, Prof. Lucio Vinhas de Souza, Kiel Institute of World Economics.
progress on the professorial ladder and, not least for economics, the establishment of large databases including surveys on firm performance that provide researchers seeking PhDs, tenure, or promotion, an invaluable resource for exploitation.

The second form of institutionalization concerns younger scholars from Ukraine who, for better or worse, in growing numbers have acquired the knowledge of and credentials in the neo-classical economics paradigm of the West. While one may argue which paradigm is better, there is probably little disagreement that the paradigm that is most common in the world will provide the best vehicle for a significant presence on the international scene, especially since in economics even non-Anglophone scholars write largely in English. \footnote{I have encountered many Ukrainian scholars completing a PhD in France or Germany, and with the marginal exception of some French graduates doing their dissertation in French, the bulk of their research is issued in English.} Not all of these young scholars do their research on Ukraine, thankfully, and not all those who have been doing so will continue. But the institutionalization of this category and the inflows and outflows across economic specialization over the career of scholars augurs well for a constant supply of solid academic research on Ukraine based on personal choices.

The third form of institutionalization is found in national and international governmental organizations. Some of these, such as the International Monetary Fund, World Bank, European Bank for Reconstruction and Development (EBRD), and the United Nations Development Program, have specific mandates to cover all countries and devote some portion of their resources to analytical work often comparable to that done in universities, indeed often contracted out to academics. National bureaucracies (foreign affairs, aid and development agencies) also have well-entrenched departments, section units, individuals, devoted to Ukraine in some rough proportion to its size and importance. While the proportion could decline, this is likely to be a marginal change as long as Ukraine remains a formally sovereign nation, be it more or less autocratic, more or less western-oriented.
According to the theoretical model in economics of vested interests whereby these try to capture decision-making to ensure personal security, there are many vested-interests now studying Ukraine in an academic or at least analytical fashion in both university and government bureaucracies. Like the oligarchs of Russia and Ukraine (admittedly less wealthy, but equally self-interested), these vested interests will behave as bureaucrats have done for millennia and ensure the continuation of resource support for research on Ukraine, including on economic issues, for some time to come.

**Most Likely Research Topics**

First, it is important to consider what research scholars and institutions themselves are likely to want to research on the Ukrainian economy. In line with the vested-institutional-interest model deployed in the preceding arguments, one might expect future topics to be influenced by the availability of data for analysis and appropriateness of methodology for peer reviews in the discipline. This would suggest a lot of future studies on specific sectors such as agriculture, industry or specific industries, and eventually more on post-privatization performance as years pass after the completion of adjustments, among others. The number of overview-type monographs will likely remain small, but since only one dates after 2000, and even then covers less than a ten year period, it is likely that the passage of time, new developments and more information will stimulate a new round of monographs.

For the reasons given in previous pages, there is little left to study analytically on energy dependence. In contrast, the dynamics of oligarch development and their role in the future of these economies remains to be investigated. However, because data for empirical analysis is hard to ac-

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58 Having been a bureaucrat in both types of institutions, I can allow myself such a judgment.
cess, there will likely be fewer quantitative analyses from more established scholars on this issue. International diversification as a topic depends very much on developments after the 2004 presidential election. Finally, the rather unexpected boom in growth since 2000 has resulted already in efforts to explain this performance, a puzzle of great interest to economic specialists of transitions as well as of long-term growth. In this context, Ukraine along with other CIS boom cases provides an exciting research field.

**Promoting a Research Agenda**

Last we turn to the question of what research topics merit the greatest attention and possible encouragement by various scholarly and policy-oriented institutions. The following is a research agenda with a number of concrete recommendations, including topics amenable to a doctoral dissertation.

1. Within a year or so, researchers will have available fifteen years of data and events, enough since the last set of overview monographs to merit a new effort of this nature. Indeed, all but one of the nine monographs noted in this article were published between 1994 and 1999, covering at best five-six years of information since independence. Not only will more time have passed, thereby meriting a deeper analysis, but the very nature of the evolution will be different. More specifically, all related economies declined for a few years, then recovered at varying speeds. For Ukraine, the decline extended for nearly a decade; hence, even the more recent overviews barely capture any of the elements of the recovery. By the fifteenth anniversary of independence, a more complete cycle of economic events will have been experienced.

2. While in the wider literature the debate between the Big-Bang and gradualist schools is an issue of the past and somewhat sterile, for Ukraine and some other transition states the issue continues to be current and discussed as reforms are incomplete and, worse, the overwhelming influence of
vested-interest oligarchs on policy raises the related question of what the future holds. A more focused review of the history of Ukrainian reforms should address the question of the extent to which Ukraine’s economy suffered from too much or not enough Big-Bang.

3. There is also great value to a more detailed, monograph-length study of the development of the oligarchs in Ukraine, comparable to the extensive treatment this topic has received for Russia.\(^{59}\) The shorter articles on Ukraine like Puglisi provide a good basis for a much fuller treatment. Even if Ukraine’s oligarchs are swept away by a new broom in a few years — unlikely in my view as even a «Teddy Roosevelt» in Ukraine would face stiff resistance — this will still make fascinating history. And if they instead become more entrenched, analyzing the causes of oligarch development will be essential to draw lessons of what to expect in future.

4. The past evolution of international diversification probably does not need much further research. However, if after the 2004 presidential elections Ukraine returns to a serious EU-, WTO-orientation, there would be considerable value in additional research using established econometric models to estimate the impact of EU and WTO membership (as opposed to non-membership) of the sort that had been done for Central Europe and even for Russia with respect to WTO membership.

5. Similarly, the recent history of policies aimed at reducing energy dependence has seen enough academic research, as the consensus is nearly universal. Diversifying from sole dependence on Russia would have considerable economic benefit, but it is clear that this has not happened, not because of the ignorance of policy-makers, but because of the successful lobbying by domestic interests who profit greatly from such dependence. What may be of much greater value is an academic marketing exercise such

\(^{59}\) Reddaway and Glinksi’s book, *The Tragedy of Russia’s Reforms*, is but one example. Several long journal articles have done the same, and recently the World Bank reported on a two-year study of concentration of ownership by the top twenty «oligarchs» of Russia. It matters little whether the researcher wants to argue as do Reddaway and Glinksi that shock therapy was to blame, or as the World Bank does that it was insufficient reforms. All of these thorough studies are extremely illuminating.
as a symposium on the findings of the literature bringing together academics and policy makers.

6. Many studies have been done recently on the performance of Ukrainian firms after privatization, and, as noted above, as institutional inertia of data availability is overcome together with greater suitability of this topic for state-of-the-art research, much more work in this area will be done. This may help sharpen the analytical skills of young scholars, but is unlikely to lead to radically new knowledge different from what has already been concluded.

7. One exception which may be worthy of stimulation and support is on land privatization. It is too recent to allow consensus, and the studies that have been discussed here merit extension and emulation, especially after an important institutional milestone, i.e. the right to use land titles for obtaining loans and mortgages, occurs.

8. The recent surge in economic growth has only begun to be studied by economists and presents an important and challenging opportunity for research. Data is plentiful and the issue provides a clear paradigm test: received wisdom until 2000 stated that countries with greater progress on market reforms perform better. Since 2000, Central Europe is far in advance of Ukraine and others on such progress but has seen deteriorated performance, while many CIS countries have seen a dramatic improvement in performance. Why? Stimulating and certainly supporting work along these lines would be a good investment.

9. The issue of change in administrative institutions and how this interacts with economic reform remains understudied despite the few excellent items noted here (e.g. Kravchuk, Petri and Tauber, Way). More of the same is merited.

10. Finally, and despite many mathematical-models being inconsistently illuminating and stimulating, an occasional piece of pure theoretical research which uses Ukraine as an example will be good return for the money. First, without theory the frontiers of knowledge do not move forward, and second, support for a Ukrainian from Ukraine to pursue matters
like the game-theory models discussed earlier cannot but help keep Ukraine on the academic radar screen.  

60 Young Ukrainian scholars from Ukraine may have a comparative advantage in economics given its emphasis on mathematical models and their globally superior training in mathematics.
APPENDIX A

RETROSPECTIVE REVIEW
OF THE ENERGY PROBLEM IN UKRAINE

Prepared by Natalia Ingrid Havrylyshyn

Low energy prices, sometimes as low as one-seventieth of the world market prices, and wasteful consumption were key features of the central planning system of the former Soviet Union. This pattern continued after 1991, where Ukraine’s per capita energy consumption in 1996 was forty per cent higher than in Western European countries. Outdated manufacturing equipment, energy-intensive assembly-line production technology significantly contributed to an increase in the index of energy use per unit of production to levels three to four times higher than in Western Europe.

Ukraine’s significant oil and gas reserves in the shelves of the Black Sea and Sea of Azov are not fully exploited: only thirteen per cent of oil and seventy per cent of gas are produced domestically, with oil and gas production having fallen sharply in the past twenty years to about one-third of its peak 1975 production levels. At present Ukraine receives approximately seventy per cent of its total crude oil domestic needs from Russia which transports gas to Europe through the following two main pipeline systems crossing the territory of Ukraine: the Soyuz system which transports gas from the Urals region; and the Urengoi – Uzhgorod (Brotherhood or Druzhba) system which transports gas from Siberia (the Druzhba oil pipeline has two branches, one through Ukraine, and a northern one through Belarus).

Taking into account that the Russian energy complex gets most of its hard currency revenue from exports to Europe (nearly 100 per cent of its gas exports and 85 per cent of overall energy exports go to Europe), the issue of gas

and oil transport, primarily from Siberian deposits, is of great importance where Ukraine is concerned whereby approximately 95 per cent of Russian energy exports currently pass through its territory.

However, existing pipelines and other transport links have not only provided inadequate revenue for Ukraine, but also became a physical and graphical representation of its dependency on energy imports from its traditional supplier — Russia. Moreover, an inability to define its national interests in addition to inconsistent and contradictory state-level decision-making prevented Ukraine from taking decisive steps towards diversifying its energy sources. Several attempts were undertaken, with little or no success, in this direction. Those worthy of mention (with a brief references to the difficulties) include: further development of a Ukrainian nuclear power capacity (unpopular after the 1986 Chernobyl nuclear disaster); search for new suppliers in Turkmenistan, Iran, and Bulgaria (disagreements over price, time of delivery, method of payment); development of Ukraine’s own gas resources in the Black Sea shelf (lack of comprehensive legislation, inability to provide a favorable climate for foreign investors).

Thus, because Russia remained the only energy supplier to the Ukrainian market, it was in a position to set monopoly prices for gas and oil exported to Ukraine. According to their 1993 agreement the price for gas supplied to Ukraine by Gazprom was set at US$80 per 1000 cubic meters and much higher than prices paid by other Central and East European countries (excluding transit fees through Ukraine). In comparison, 1995 prices for Russian gas (including transit fees) by Italy, France, Germany and the Czech Republic were (in US dollars): $68.40, $69.40, $70.90 and $77.20 per 1000 cubic meters, respectively.

The majority of Ukraine’s energy debts to Russia were incurred in 1992–1994 when the government, preoccupied with establishing the symbols of independence, had no well-defined economic

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63 Smolansky, «Ukraine’s Quest For Independence.»
policy before it started to parcel out the energy import business to private companies, incidentally raising questions about insider favoritism, clan preferences and illegal methods of privatization. Consequently, large new debts were incurred after the government began to provide low-cost imported fuel and «sovereign guarantees» to some private companies for these purchases. Most of the companies created in 1992–1994 later ceased operations, leaving their unpaid debts to the government, while private owners made large profits on price margins. As of January 1997 Ukraine’s energy debt to Russia and Turkmenistan amounted to US$4.205 billion.

Unable to pay its debts to Russia in hard currency, Ukraine was subjected to considerable political pressure on such issues as the division of the Black Sea Fleet, the political status of Sevastopol, conditions for nuclear disarmament, orientation towards NATO and the European Union among others. Ukraine’s debt to Russia was otherwise managed through debt-for-equity exchanges, resulting in Kyiv giving up state assets of strategic importance. This idea was implemented with various levels of success during the privatization of Ukraine’s energy-related infrastructure, allowing Russian companies and joint ventures to obtain a considerable percentage of ownership (for example, Kremenchuh, Lisichansk refineries, Kharzyzsk pipe plant, negotiations on leasing underground reservoirs and sections of oil pipeline, etc.).

An incompetent negotiation strategy on such vital issues of economic dependence combined with Russia’s monopoly position, resulted in agreements with Russia on terms unfavorable to Ukraine and established a «double standard» on pricing. For instance, until 1996 oil was delivered to Ukraine in accordance with world prices, but transit fees paid to Ukraine were lower than world levels and determined in bilateral agreements. However, when annual transit fees for gas transport were raised by Ukraine to US$60 million, Russia responded by building a detour around Odessa via Suhodolnaya-Rodionovskaya; this
route has been operational since 2001.\footnote{Juhani Laurila, “Transit Transport Between the European Union and Russia in Light of Russian Geopolitics and Economics,” \textit{Emerging Markets Finance and Trade} 39:5 (September-October 2003).} It is worth mentioning that agreements with Russian energy suppliers were not usually concluded at the state level, but at semi-private, semi-state sector levels of dealers. For example, during negotiations with LUKoil, which after winning a tender became interested in the privatization of the Lisichansk oil refinery, insisted that the controlling packet of shares cannot belong to the state and that the company would be among the shareholders.

The re-shaping of Ukraine’s gas market began in 1996 when the government stopped centralized gas imports for industrial consumers, importing gas only for household consumers and state organizations; as part of this, eight independent wholesale importers were granted regional monopolies to purchase gas from Russia and Turkmenistan and to conclude barter contracts with factories in their regions (later the number of such licensed companies was reduced to two). Inevitably various companies made large profits from the transport and distribution of energy. According to The \textit{New York Times} (9 April 1997), Pavlo Lazarenko, who at the time was head of United Energy Systems (UES), personally netted $200 million a year in oil and gas deals. After Lazarenko became prime minister, Yulia Tymoshenko took over as head of UES.

Quasi-fiscal-activities (QFAs) played a large role in the above processes. QFAs are a broad concept of government-provided support, more in the form of implicit than explicit subsidies whereby goods are allowed to be purchased at less than market price or companies are allowed to accumulate debt until bankruptcy, after which the debt is absorbed into the government budget. According to IMF research, QFAs in the energy sector of Ukraine are concentrated in gas and electricity and were estimated to comprise several per cents of GDP, a very high figure in the billions of dollars. These sums are in various ways routed to private company books.\footnote{Martin Petri and Günter Taube, “Fiscal Policy Beyond the Budget: Quasi-Fiscal Activities in the Energy Sector of the Former Soviet Union,” \textit{Emerging Markets Finance and Trade} 39:1 (2003).} The calculation of energy sector QFAs is based on a method-
ology that relies on consumer or cost-recovery prices as benchmarks and data on collection rates and consumption volumes (the end-product approach). Estimated energy QFAs are related to mispricing, arrears and excessive losses including theft. In 1999 and 2000 the following types of prices were used in Ukrainian gas sector: auction, contract prices and prices set by government. Mispricing was related to regional administrations that deliver gas to households, the ultimate beneficiaries of the implicit subsidies. The largest sources of financing of energy sector QFAs was the use of the in-kind transit gas provided by Naftohas to domestic consumers, gas payment arrears to Russia, non-payment of taxes by energy sector companies, inadequate maintenance and underinvestment of the capital stock in the sector.

Recommendations for reducing or eliminating QFAs include: raising energy prices to world levels, elimination of preferential tariffs or the provision of free services for specific consumer groups, elimination of implicit subsidies to enterprises, ceasing government guarantees for energy sector firms, strengthening the safety net for low-income consumers who cannot afford full prices for energy. Greater efforts are required to integrate energy sector QFAs into fiscal analysis through more data dissemination, analysis and policy reform that focuses on fiscal transparency and accountability. Recent IMF reports suggest significant improvements in this regard already took place under the Yushchenko government, including a sharp reduction of QFAs in the energy sector, for which the minister of energy at the time, Yulia Tymoshenko, was responsible. This process did not continue after Yushchenko and Tymoshenko left government.

Recent debates regarding the Odessa-Brody pipeline, which was originally designed as an alternate route to lessen dependency on Russian oil but has remained idle since its completion in 2001, continue to demonstrate Ukrainian authorities’ inconsistency and indecisiveness. After long discussions in February 2004 the government made a decision to move Caspian crude oil to Poland and possibly Germany from Odessa to Brody, with oil flowing north, as originally intended.
However, in September 2004 the Ukrainian officials reversed their decision, directing the trajectory of the oil flow south from Brody to Odessa, providing another outlet for Russian oil export to Western Europe via a Ukrainian Black Sea port terminal.\textsuperscript{67} These convulsive, East-West oscillations of the political compass have been extrapolated onto south-north fluctuations of oil flow and undermine Ukraine’s chances of breaking Russia’s stranglehold on it. In numerous debates, «fueled» by interested pro-Russian lobbies, the idea of diversifying Ukraine’s energy imports has disappeared like a puff of smoke, leaving Ukraine’s energy dependency on Russia in status quo ante. These circumstances are succinctly captured in a speech by a high-level Ukrainian official, Yuri Scherbak: «The sad story with the Odessa-Brody pipeline, which through the efforts of Russian and Ukrainian «brothers» turned into a Brody-Odessa pipeline, became a parody of the energy independence of Ukraine.»\textsuperscript{68}

Ukraine’s energy problem has been reflected in many academic studies in both the political science and economic literatures. It exemplifies the state of Ukrainian economic policy by showing the indecisiveness of the political elite to pursue full-scale economic reforms, the resistance of the primary interest-groups to restructure the economy and lobbying instead to continue their privileges at the expense of the government budget. Broader national interests of Ukraine are undermined by the sum of contradictory personal interests, diverse clans and interest groups, of which some members such as «legislators-businessmen» hold political immunity and comprise what passes for a political and economic «elite» in Ukraine.

More than a decade after de jure independence, Ukraine has not resolved its energy problem, remaining de facto dependent on energy supplies from Russia. Political economy studies lead to a clear conclusion of inadequate state policy in the energy sector. From the academic point of view, there are not a lot of new issues to ana-

\textsuperscript{67} International Institute for Caspian Studies \url{www.caspianstudies.com}; \url{www.artukraine.com}; \url{www.turkishpress.com}.

lyze. Economic policy recommendations, which include increasing energy prices, eliminating preferential tariffs or the provision of free services for specific consumer groups, combined with strengthening the safety net, and, most importantly, eliminating the QFAs which feed the vested interest require strong political will to implement. The political leadership in place until 2005 did not show any readiness to address and resolve this problem, and the history of how the current leadership tackles it has yet to be written.

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Received by the editorial board: 25.10.2004