

Ukraine's Economic Transformation in Western Academic Literature: A Selective Review

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Assessing What Has Been Learned, Devising a Research Agenda*

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I . Introduction¹

The marching orders given to me by the organizers were to prepare a limited and selective review of the academic literature on Ukraine's economic transformation, a paper which would:

- *recap what have been the major trends in this research,*
- *what has been learned,*
- *and what is still useful to investigate in a future research agenda.*

While writing a short paper is as Mark Twain often pretended more difficult than writing a long one, I certainly appreciated the organizers' permission to avoid a comprehensive analytical survey, because even in English-language sources this literature turns out to be enormous: an opportunity to visit Ottawa has much value, but the economic cost-benefit of a truly proper survey would have pointed to a different venue such as Banff. So I come with a more modest product addressing these marching orders, based

1. 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 paper 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.

on a still good-sized sample of about eighty academic papers. I do not present you with a comprehensive analytical survey, but rather what may be called a “meta-survey,” inferring from the sample what the literature tends to be about, what sort of writings are done and by whom, what it has come to in the way of conclusions and what gaps in knowledge remain.

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, and Slavic Studies abstracting services – ABSEES and others – a vast number of references were found, printing of which did some damage to the boreal forest of Canada – 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 (dare one say seven pillars of Ukrainian economic wisdom?) which are 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. Ukrainian language sources were not searched partly to keep down the numbers, but more importantly because the focus of the paper is what the outside academic world does on Ukraine.

The rest of this paper is organized as follows. Section II gives a broad overview of how much there is in this literature, where such works are published, who are the authors (Ukrainians, Ukrainianists, or others), to what extent is Ukraine now on the radar screen of academic economists. Section III provides a summary of the findings in the literature for each of seven key areas and the degree of consensus or continued debate that emerges. Section IV attempts 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? Finally, Section V concludes with a prospective look at a possible research agenda for the future, where are scholars likely to go on their own, who will they be, how can this agenda be stimulated?

II. The extent and nature of the literatu

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 a cost of course not only to the boreal forest, but also in the time then required to scan over a vast list of more than a thousand references, about 800 from ABSEES, 200 from Uof T library, and about 100 from the

European electronic abstract on Slavic Studies.² 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 round of search added items that merited inclusion. For better or worse, the end-result is the seventy-plus items shown in the Literature 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), but these are their more analytical pieces which have always been regarded as on par with other academic sources. On 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 for reasons given above, except for two items: a book by key economic advisers of the present government and a brief foray into the contents of a recent issue of *Visnyk Ekonomika* (December 2000). 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, that is with the rationalist model building and hypothesis refutation methodology of received economics. The rest were much more of a purely descriptive sort, or where analysis was done it was at worst of the “in my opinion” variety, or at best had only implicit reference to standard behavioral approaches or theories. This is too limited a look at Ukrainian sources to draw any unfavourable 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, but one French monograph is included.

Identifying the researchers definitively was not possible, but a “fingerspitzengefühl” 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 70 authors (only coincidentally similar to the number of

2. The energy issue draws considerable interest in trade journals of the oil industry. A search under “Odessa-Brody” yielded also about 800 items, which on an inadequate scan appeared to be largely in trade journals and not academic sources.

references – some authors published more than one piece, and some pieces were by several authors), 20-plus were UU, perhaps 10 UD, and about 40 were NU.

In the first group, five were highly placed government officials contributing articles in English that varied from fairly descriptive to reasonably 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% sure), 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 Section V. 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 pigeon-hole individuals in this way, though all that is intended here is to ask whether a person spends the large majority of his time on things 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 interests, and research on Ukraine is not their only or even primary focus. Frankly, I think this is good news rather than bad, a point to which I return in Section V.

Topic coverage: There does appear to be some congregation effects around a small number of issues. For this paper, seven areas of interest are identified 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
- Sectoral or area analysis: agriculture, industry and specific sub-sectors, banking and finance, government finance and budgets, administrative restructuring

Each of these seven areas is discussed briefly in Section III, where the key conclusions from the literature, consensus or lack thereof are noted. Here it is useful to observe that the number of items from the reference list is reasonably spread in Table 1, with each including between 7-10 items, except for the last where 17 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. For the present paper, this will not be done, partly to maintain the nice Ukrainian tradition that gifts of flowers must not be in even numbers.

Is there a bottom line? Yes. From the meta-analysis so far one can draw a few quite 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 recently PhD'ed, 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 really means that the interest 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 there is an appetite by outsiders to do academic work on Ukraine.

III. A Selective review of analytical substance in the literature

In this section, the paper 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 miss out some important works, perhaps including ones by scholars present here, for which I apologise. 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 presentation 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 ECONOMY OF UKRAINE**1. Overview Monographs**

Banaian 1999/ Grandjean 1999/Kravchuk 2002/ Kuzio & Wilson 1999/
Kuzio 1997/ Sachs & Pivovarsky 1998/Shen 1996/Wilson and Burakovsky 1996/
Van Zon 2000

2. Reform Dynamics

Aslund 2001, 2003/Banaian 2001/ Bandera 2003/Halcynski et.al.2002/ Harasymiw
2002/Havrylyshyn 1995,1997a,2000,2003/Motyl 2003/Puglisi 2003/
Pynzenyk 2000/Scherbakov 2002/ Shpek 2000

3. International Diversification

Bojcun 2001/ Burakovsky et.al 2003/ Eremenko et.al. 2003/ Havrylyshyn 1997b, 2004/
Havrylyshyn & Al-Atrash 1999/Kuzio 2003/ Mankovska & Dean 2003/Thiel 2002

4. The Energy Problem

Balmaceda 1998, 2000/ Laurila 2003/ Petri & Taube 2003/ Scherbak 2004/
Smolansky 1995

5. Privatization and Firm Performance

Akimova 2002/Akimova & Schwodiauer 2000, 2004/ Brown & Earle 2004/ Johnson et al.
2000/Konings & Kupets 2003/Mertens & Demchuk 2001/ Pivovarsky 2003/
Schnytzer & Andreyeva 2002/ Warzynski 2003/ Yekhanurov 2000

6. Economic Growth

Berengaut et al. 2003/ Dabrowski 2002/ DeMenil 2000/ Havrylyshyn 2003/ 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 & Carriquiry 2003/ Legeida 2002/
Malysh 2000/Pugachov & Van Atta 2000/ Shulman 2003/ Teriokhin 2000/
Thiessen 2003/ Volosovich 2002/ Way 2001, 2002/Yuschenko 2000

III.1: 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. The sharp improvement in GDP growth performance since 2000 will be analysed at the end of this sub-section. For the preceding period, which is covered by the literature items listed in Table 1.1, there is a broad consensus on the "facts" – 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 attributable to going too fast. A clearer dichotomy cannot be imagined, and neither the literature on Ukraine nor the wider literature on transition³ has seen a resolution of this debate. I venture to say the debate, though grown sterile, will go on heatedly for a long time.

Of course there are nuances in the work of any one scholar, but at the risk of making enemies amongst my friends, let me illustrate briefly who says what. Most, but by no means all, economists tend to be in the first school of thought, and certainly Banaian, Kravchuk (Robert, not Leonid), Sachs and Pivovarsky are of this persuasion. The members of the group include from those listed under category 2, (obviously a cognate category) Aslund, Harasymiw (not an economist), and some of the Ukrainian officials, like Pynzenyk and Yuschenko. 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. A political scientist, Motyl, presenting one of the most cogent defenses of the view, argues 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 lack of vision, will, leadership, and personal gain. In the next subsection I 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.

3. I have reviewed this large literature elsewhere, and admit to arguing on the Big-Bang side. A brief survey is Oleh Havrylyshyn, "Avoid Hubris , but Acknowledge Success," *Finance and Development*, September 2004. An extensive survey is in *Capitalism for All or Capitalism for the Few? Divergent Paths in Post-Communist Transformation*, forthcoming

More nuanced positions on this debate are taken by most of the other authors listed. Thus Grandjean (1999), in a correct but not overly incisive review of developments, recognizes the link between poor performance and slow reforms, but tends to be sympathetic to the leadership “en vue des circonstances historiques très difficiles.”⁴ Kuzio and Wilson (1994) are very clear on the skullduggery of the former communists taking power under Kravchuk and blocking reform efforts in the interests of the embryonic nomenklatura-capitalists, virtually identical with one key argument of the Big-Bang school. But then in Kuzio (1997), 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” (p.3). Later writings by Kuzio (not cited here) I believe show this scholar leaning a bit closer to the view that too-slow reforms caused more problems than they avoided—but I am prepared to be corrected. Bandera (2003) may be characterized as taking a neutrally hopeful position. He describes the Ukrainian economy in the late nineties as a mixed-economy of the social market type. He hedges his bets by saying its success and viability “depend crucially on (certain) requirements” followed by a list dear to big-bang proponents, and on the ability of its leadership “to implement fully a dynamic social market economy.” (p.75).

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.

Ukraine finally experienced a surge of GDP growth in 2000 (Table B) with rates at lofty levels approaching or exceeding 10 percent 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 moving economic reforms forward under Prime Minister Yushenko; some statistical exaggeration is possible; given the huge decline in output in the nineties, it will still take many years to catch up with the early reformers; the pace may not be sustained much longer and academics should be particularly careful to let time roll by before making strong inferences; last the benefits of this growth are highly concentrated in the hands of a very few oligarchs. Consider only this last point. Any growth is good, and 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 Ukraine⁵, be it for democratization or

4. I did learn something useful from this book: that Voltaire, in *Histoire de Charles II*, wrote “les Ukrainiens ont toujours aspirés à être libres.”

5. I have written about this phenomenon elsewhere: “Uncharted Waters, Pirate Raids, and Safe Havens,” available at <http://www.hnb.hr/dub-konf/10-konferencija-radovi/oleh-havrylyshyn.pdf>.

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.

III.2: Reform Dynamics

What follows is simply a continuation of the story line in III.1. Big-Bang proponents not only argue that slow reforms resulted in poorer performance, but perhaps even worse, provided the window of opportunity for an oligarch group to develop which then capture the state or at least state policy to its advantage. The delay in reforms permits the old nomenklatura which may have been uncertain of its 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 allows some to accumulate huge sums of capital in a much shorter time than the 14th - 16th.c. capitalists of Braudel's history, indeed in an even shorter time than it took Braudel to write his books.

This is not the place for details. The preceding footnote provides more, as do many articles Table 1, section 2, by Aslund (2003), Havrylyshyn (1995 and 1997), Harasymiw (2002), and Puglisi (2003). Suffice it to illustrate one mechanism: 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, "forcing" 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 finaglers like Messrs. Milken and Rich green with envy. This is elaborated in Appendix A. The general story of such opportunities is also described by a leading reformer who was for some time in government: Pynzenyk (2000) describes how "delayed reforms have bred clan capitalism." In the same vein, but with a state of the art game theory mathematical model, Scherbakov (2002) 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."

But the oligarchy outcome can also come from a model favored by gradualists. An article making such an argument explicitly for Ukraine 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 pained by the too-rapid reforms.⁶ This led to the ouster of reformers, the growth of oligarchic

6. Peter Reddaway and Dmitri Glinski, *The Tragedy of Russia's Reforms: Market Bolshevism against Democracy*. Washington, DC: United States Institute of Peace, 2001.

power, and the curtailment of democratic developments. The analysis of Puglisi (2003b) on the rise of oligarchs in Ukraine describes similar power struggles and methods of accumulating wealth, but does not argue it was too-rapid reforms that gave rise to the oligarchy. But neither is it fully in line with the delayed reforms hypothesis as in Pynzenyk (2000) and others. It perhaps is closer to Motyl's (2003) argument on the importance of prior history. As Puglisi puts it, "the weakness of political and economic institutions...[allow] the pre-existing elite to play a controlling role." She admits, however, that history is not all and "unfinished reforms...led to a consolidation of... political and economic groups interested in ...the status-quo."

The debate between the 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 may become civilized over time anyway. Here is an agenda item for future research, mirroring what has already begun in work on Russia, quantifying the power of oligarchs and inferring from behavioural models in economics political science and history what is the likelihood oligarch power is bound to decline.

Last, it is important to note that several of these works in III.1 and 2, no matter the position they take on the debate, provide excellent descriptive accounts of what happened in the nexus between economic and political developments. I would mention in particular for the Kravchuk period Kuzio and Wilson (1994), Havrylyshyn (1997), Banaian (1999), and Puglisi (2003b). For later periods, there is as yet less, but still much can be gleaned from Kuzio (1997), Harasymiw (2002) and Aslund (2003).

III.3: International Diversification

There are many questions related to international diversification of Ukraine's economy since independence. The paper will address three:

- how much of a shift from the inward oriented trade patterns of the Soviet period has occurred and what forces have driven such diversification
- what has been the volume and role of foreign investment in Ukraine, and
- what has been the history of integration in regional and global institutions, including membership in the EU and the WTO.

In the first half decade or so after independence, Ukraine's exports did shift from an overwhelming concentration within the socialist bloc to other destinations, especially Europe, but not nearly as much as in many other transition countries, a fact attributed by Havrylyshyn and Al –Atrash (1997) to slower reforms. That work also argued, using well-know models in economics, that the degree of new diversification 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 (2003), the pattern of destinations, with Russia taking 25-30 percent and Europe over 50 percent, had reached what is probably the “right” proportions.⁷ There does not appear to be in the literature much debate on these facts or assessments.

Foreign investment, often scourged by anti-globalists for the evils it imparts upon third-world countries (and in Canada’s Trudeau years for the undermining of sovereignty), is so far in all post-communist countries a highly prized commodity. There is hardly a high-level delegation from Ukraine to advanced countries without a sales-pitch on how very, very, welcome are foreign investors.⁸ The attached data annex illustrates that, so far, the magnetism of such appeals has had slim results compared to others countries in the region, especially in Central Europe and the Baltics. The important question “why” is the subject of some research papers like Mankovska and Dean (2003) and Thiel (2002). There appears to be a consensus also found in general writings on investment in the region that the attractiveness for investors is driven by three factors: advanced economic reforms, including in particular a transparent regulatory environment with limited corruption; a lot of oil in the ground, in which case the level of corruption is less relevant; and prospects of EU membership. This last point is elaborated in Havrylyshyn (2004).

Understanding why Ukraine attracts so little foreign investment seems to be clear in the literature, but other related issues do deserve further work. Mankovska and Dean (2003) point the way by looking at the details, and observing that Europeans invest mostly in food products, while CIS (largely Russian) invest primarily in energy. How much is at question, as a lot of Russian and hidden Ukrainian capital comes back indirectly from the Cayman Islands and other such industrial giants. The degree of concentration of ownership in key industrial sectors by such foreign capital and its economic-cum-political implications also deserve further study.

Last, what can one say on international economic organizations? Membership in the IMF and World Bank came quite early, not much delayed compared to other countries. Compliance with their demands upon borrowing monies is a mixed story, and indeed one that is still worth the writing in perhaps a dissertation.⁹ Notwithstanding the source of the present author’s daily bread, I would argue (Havrylyshyn 1997) that 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

7. The same conclusion is found in a broader analysis of trade patterns in all transition countries: Lucio Vinhas de Souza and A. Titchytskaya, “Trade Integration In eastern Europe,” Kiel Institute of World Economics, unpublished paper, 2004.

8. 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.

9. 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, 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.

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 (a view I hold, as do many others not cited here) or as argued by Bojcun (2001), it is to Brussels via Moscow. The last appears to be the most recent direction taken by the current administration in Kyiv, which explains this turn by the fact that after years of trying to take a Western integration tack, Ukraine has been rebuffed by the EU. Bojcun also puts the blame on the Europeans who rebuffed Ukraine after its many years of taking a more pro-western orientation.

But not all analysts agree it is so simple, and the present author would side with the analysis in Kuzio (2003) who posits a sensible intermediate interpretation. Yes, the EU has been at best ambivalent and cool, or sometimes “nearly insulting,” but Ukrainian leaders are hardly innocent and their policy cannot really be considered as having been more pro-western in the past years. 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 policies that undermine this goal.” A recent speech by a high ranking official for many years involved in this issue firmly supports this interpretation. Scherbak (2004) 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 many historians at this workshop will see the continued echo of this centuries – old refrain, the tug-of-war between those wishing to go west and those pulling east, as for example in the work of Rudnytski (year). Plus ça change!

The economics of what EU membership goals have done for those now inside or those on track for the next accession is extensive. For Ukraine, the most useful future analysis here is for political scientists inquiring about the workings of the process and how best to convince Ukrainian leaders to work for membership, and to convince Europeans to use it as a carrot motivating Ukraine to move in that direction. But some economics of the trade impacts ought to be done, as for example in the volume edited by Burakovsky et al. (2003) 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.

III.4: 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 both by industry and domestic users, attributable to aging equipment and very low costs well below world prices in the Soviet period. Rationalizing pricing and restructuring of Soviet firms

are the answer, but 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, shared to some extent by Moldova: 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 has given Russia essentially a monopoly position in negotiations over price or continuity of supplies. From the beginning, it was clear that the solution must include creation of alternative transport systems from other sources. Appendix A provides a thorough review of the events and causal factors behind the stark reality that, even today, this dependency relationship has not yet been broken. Suffice it to say here that the reasons were not technical – an alternative pipeline Odessa-Brody was planned long ago and, albeit delayed, has been complete for four years. No oil flows and worse, the latest government decision appears to be that the pipeline will be used not for oil coming to the Black Sea terminal (most likely Caspian) for shipment northward and used domestically as well as on-flow to Poland and Europe, but in agreement with Russia for Russian oil to flow southward for on-shipment. The Appendix describes the main forces behind this, pressure of domestic interests which profit from deals with Russian entities, and the vacillation of Ukrainian government in its East-West strategy.

III. 5: Privatization and Enterprise Performance

Inasmuch as the workshop is a multi-disciplinary one, a review of this rather esoteric area will be very brief. The process of privatization did have a lot of non-economic dimensions, but it was in Ukraine as in many neighbours so fraught with non-transparency, and so infused with insider dealings, that it is not at all easy to follow or summarize. Pivovarsky (2002) does do some of this and emphasizes the non-transparency, as does more cautiously Yekhanurov (2000), who was for some time head of the Privatization Agency in Ukraine. Most of the literature focuses on the post-privatization period asking how this affected firm performance and does so using massive databases for hundreds or even thousands of firms, manipulated by a variety of statistical techniques.

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
- Within privatized, the best performers are small and medium enterprises in particular *de novo* firms.
- The improvements in performance are greater in Central Europe and the Baltics than in the CIS and this is attributable to a climate of more open competition and evenhanded rule-of-law

The many empirical studies for Ukraine cited in Table 1 come to broadly the same conclusion, though some like Schnytzer & Andreyeva (2002) find that even in privatized firms owners/managers behave as in Soviet times with personal ties dominating decisions. This is not of course inconsistent with the views of others that in CIS countries the market climate favors the large firms over small new ones. Is there from this an indication of what future research may be useful? Additional studies of this sort are unlikely to change the conclusions dramatically, though they may help illuminate the connections with the problem of insider vested interest or oligarchs discussed in III.2.

III.6: 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 8-12% per annum. Given the recovery is so recent, it is not surprising the academic literature is almost entirely focused on the earlier period, though a handful of the latest writings have appeared analyzing the sources of the recovery.

There is virtually no disagreement in the academic literature as to why the performance was so poor until 2000. Whether it is the World Bank study (2002), Dabrowski (2002), De Menil (2000), Havrylyshyn (2003), much 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 of establishing a clear market environment, transparent regulations and commercial laws, secure property rights for new private entrepreneurs. Some government officials and internal advisers (Halchynski et al 2002, Shpek 2000), while accepting these key explanations, also insisted unfavorable historical priors such as a high concentration on heavy and military industry, or dependence on Russia for newly-costly energy, played a very important inhibiting role. Maybe, but as III.4 above noted, energy dependence was not a given after 1991, but a policy choice. Furthermore, a predominant source of recent growth has been exports of metallurgical and chemical industry – thus the question is raised why were they a burden for ten years and suddenly become an asset?¹⁰ A related issue often covered in the literature is the coincidence of negative growth in the nineties with strong growth of the underground economy. Mel'ota and Thiesen (2002) analyse how poor tax policy drives activity underground. Several earlier studies of the World Bank, led by Kaufmann (not cited here), investigated in detail the size, nature, evolution and causes of the underground economy, with some dimension of bad policy, rather than criminality, always found to be the best explanation.

10. Without getting into too much technical economics, one answer is in the general literature on transition economies, e.g. Nauro Campos and Fabrizio Coricelli (2002), "Growth in Transition," *Journal of Economic Literature*, Vol XL, pp. 793-836. They 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 become dominant.

For academic purposes, 3-4 years of recognizedly high growth in Ukraine is still a bit too soon to expect definitive research conclusion. Some tentative views do emerge in a handful of studies. Aslund (2001), with barely one year of recovery, argued forcefully that this was thanks to the success of the Yushchenko government in imposing a “hard-budget” constraint, especially in the energy sector – economist jargon for telling state and private enterprises “no more government support.” Others do not disagree this was a catalyst and the general signal of intention sent to all economic actors helped as well to generate optimism and revived activity including surfacing of underground firms.

Dabrowski (2002) comes to the cautious conclusion that, in addition, some real restructuring of firms had already begun in the late nineties and also 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. The most comprehensive analysis so far is in an IMF study of Berengaut et al (2003), which attributes some role to each of the above mentioned factors, emphasizing more than the others that a sharp depreciation of a country’s currency often sparks an export boom which in turn spills-over into general economic growth. Indeed much of Ukraine’s growth – and the equally impressive growth rates in Russia, Kazakhstan and many others in the region – could be attributed to similar factors.

For Russia, a popular and simple explanation is: oil. Perhaps, but that surely cannot be the case for Ukraine and the other seven oil-importers in the CIS. The sources of this recent growth remain to be researched carefully, using existing methodology in economics to “parse out” the role of several different factors. But it is possible to give a reasonable explanation of the role of oil already. For oil importers like Ukraine, the price spike has at first the negative effect of higher energy costs. But the large increase in exports revenues for Russia, Kazakhstan, Azerbaijan and Turkmenistan created a strong demand for imports from Ukraine, hence on balance the effect is positive. Nevertheless, this is not a complete explanation as it should mean Ukraine’s growth is positive, but lower than in the oil exporters. In fact, it was as high as in oil exporters, and at the same time as exports to them increased, exports to other destinations (Europe, China, Asia) increased even faster (Elborgh-Woytek 2003). Clearly more is at work than oil. A better understanding of this provides an excellent field of exploration for future academic studies by economists.

III.7: Sectoral Analysis

The number of references in this category is unsurprisingly much larger, and it does not have a central guiding issue around which to review the literature. Thus, for illustration purposes, only a few of these items will be discussed where there is a useful connection to be made with the preceding six categories.

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 the society, an issue related to category III.2. Way (2001, 2002) shows in one study how inadequate change in government institutions contributes to slower reform by allowing opposing interests to capture these institutions. In another, paradoxically, he argues that the inertia of Soviet institutions for social support 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. Allina-Pisano focuses on land privatization, analyzing in detail two regions, one in Russian, one in Ukraine, to conclude that the lack of such 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. The article by Pugachov and Van Atta (2000) tell an analogous story of *de jure* land privatization having little *de facto* effect, but Allina-Pisano seems to go even further, and somewhat in the spirit of Reddaway & Glinski or Motyl, judges the reform packages themselves at fault, having been parachuted from the centre without consulting those who knew well the nature of agriculture's problems and needs. This makes for a compelling criticism of radical reforms, though she does create wiggle-room for the Big-bang school of thought, by pointing out that state officials did not try to get involved when local hierarchies seized the process. This suggests the state officials knew what was happening and non-interference means they may not have been serious about the reforms in the first place. What if they had been serious: would the local hierarchies been able to exercise as much power? Such counterfactuals could form the basis for continued research of this relationship.

A completely different approach to the agricultural sector uses mathematical modeling. Kobzev (2002) analyses the potential for more rational regional specialization and trade for sunflowers, and Kurkalova & Carriquirry (2003) assess how close to the optimal production efficiency Ukrainian agriculture has come. The cautious conclusions are that efficiency has improved in general, but there is much room for improvement. It would be unfair to say these are modest results, because in all academic work, the vast majority of studies comprise small building blocks that allow big-picture scholars to stand higher and higher and see better the horizon of knowledge. These two are, as with the previous ones, excellent examples of very solid building blocks.

Consider last an equally interesting and constructive paper, albeit one that might not be considered very academic, rather more a business success story from a business journal. Kalantiridis et al. (2003) describe how the clothing industry in Transcarpathia revived after 1995 unlike most other industries which continued the transition decline. Despite limited privatization – 5 of 14 firms studied – and little change in management, most of the firms followed the tactics of one leader, using the pre-existing network of contacts of the CMEA period to hitch themselves to Hungarian and Slovak clothing firms that had moved far in restructuring. The Ukrainian firms arranged lower-cost subcontracting for certain products, and suddenly found a huge new market in exports. This illustrates that even without privatization, firms that are given more autonomy and forced

to survive on their own, will find innovative ways to do so, even if the old Soviet managers remain. This is in fact reminiscent of an important conclusion in the early nineties in Poland where large privatisation 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. What is unfortunately lacking in such purely descriptive studies is an investigation of why this happened in that sector but not elsewhere, how did this relate to the general progress on market reform policies, etc.

IV: 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 even specialization on thematic subfields (international, monetary, fiscal policy etc.). In this context, it is very gratifying to see both a large magnitude and high quality of the economics literature dealing with Ukraine since independence, entirely comparable to such work on other countries. The professional level of this work is further reflected in the highly appropriate focus on a half dozen or so critical issues.

Consider first the appropriateness of the questions investigated. The first six categories of Table 1 are broadly perceived by specialists, not only on Ukraine but the entire post-communist region, as the most interesting and important issues to understand, and with the exception of *III.4.: The Energy Question*, coincides closely with the emphasis found in the broader economic literature on economic transition. For Ukraine, the problem of energy dependence, without a doubt, merits inclusion in the list. Contrary to the popular refrain that Ukraine is unique for its international crossroads position (III.3), its burden of inefficient industry (III.5), its need to first build state institutions and then deal with economic reform (III:1 and 2), on all these dimensions it shares similar initial conditions with many other post-communist states. But on energy dependence, it is relatively unique as already noted. 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. One might even boast that the S.S. ACADEMIC UKRAINE is on a better course than the S.S. POLITYK UKRAINY.

It is equally clear that the quality of the studies is entirely on par with the comparable economics literature analyzing regions or countries. The bulk of the literature goes well beyond merely descriptive or discursive presentation of what happened, but at a minimum the vast majority of articles contain some attempt at analyzing why things happened as they did. In all such cases, the approach is very analytical, typically beginning with some reference to a relevant theory or theories of behavior known to all specialist 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 wrong or right, what

future implications may be. As is the norm in economics writings whose authors have some ambition to achieve tenure and full-professorship, many studies formalize the theoretical foundation of their research in a mathematical model, and perhaps go on to undertake statistical econometric analysis testing the hypotheses derived from this model. Indeed, by the norms of the discipline, and considering that purely theoretical work is not usually done in country applications, the sample covered here includes a surprising number of frontiers-of-knowledge pieces, for example: Scherbakov's (2002) 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 slow needed efficiency improvements; Kurkalova and Carriquiry's (2003) theoretical extension of standard output-efficiency models to analyze agricultural sector productivity; Mertens and Demchuk (2001) with their state-of-the-art rational expectations model on firms' optimizing their debt-structure.

Finally, there is no question that the learning curve is upwards and a steep one. While before 1995 the literature (not reviewed here) was more descriptive, in the second half of the decade it became not only more voluminous, but also much more analytical. From 2000 onwards, the quality improvements continued with 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 and North-American universities.¹¹ This inference is of some importance for the prospects of future economic research on Ukraine.

V: A Prospective Research Agenda

It is always difficult to make predictions, especially about the future, hence the thoughts expressed in this summary are more in the nature of expectations than forecasts. Three questions will be addressed. 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

As this is written, Ukraine's polity is on the brink of a critical and very uncertain juncture, perhaps moving rapidly towards a very authoritarian and non-Western stance. But were this to happen, the impacts on academic research are unclear. On the one hand, the disappointment of such a democratic failure could push Ukraine off the near-centre-

11. A frequent occurrence is to find one of the authors 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 Ph.D dissertation by the latter done at the university of the former.

stage position it has occupied recently, but on the other hand the interest may be piqued even further by such a dramatic reversal. The tipping factor for this balance is not predictable, apart from the possibility that a truly authoritarian turn plus a reintegration in a more isolated Moscow-oriented sphere could make research more difficult. But it may be best to avoid such speculation, as there are several factors that point in the other direction of continued or even increased interest in Ukraine, all having to do with the institutional entrenchment of academic interest in Ukraine.

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 PhD's. 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 they will be replaced by others, not least the younger scholars as they move up the academic ladder. From these, gratis the tenure system, one can expect continued work on their initial interest for a decade or more: few scholars can avoid 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 4-5 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 line¹² 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 of much less significance 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, inertial interest of senior scholars, a constant flow of new scholars from Ukraine and its continuation up the professorial ladder, and not least for economics, the establishment of large databases including surveys on firm performance that provide for researchers seeking PhDs, tenure, or promotion, a gold-mine for exploitation.

The second form of institutionalization concerns the younger scholars from Ukraine who, for better or worse, have in growing numbers 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

12. Personal communication from the editor, Prof. Lucio Vinhas de Souza, Kiel Institute of World Economics.

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.¹³ Not all 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 IMF, World Bank, European Bank, and UNDP, 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 (Ministry or Department of International 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.

One of my favorite theoretical models in economics is that of vested interests and how they try to capture decision-making to ensure their personal security. This applies extremely well here: there are many vested-interests now studying Ukraine in an academic or at least analytical fashion, in both university and government bureaucracies.¹⁴ 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 for a considerable time to come continuation of resource support for research on Ukraine, including on economic issues.

Most Likely Research Topics

First 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 availability of data for analysis and appropriateness of methodology for the peer reviews in the discipline. This would suggest a lot of future studies on sectors like agriculture, industry or specific industries, more on post-privatization performance as it takes arguably years for the adjustments to be complete, and so on. Overview monographs will

13. I have encountered many Ukrainian scholars completing a Ph.D. 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.

14. Having been a bureaucrat in both types of institutions, I can allow myself such a judgment. That is different from judging which is better: I may prefer the university one, but not because it is less bureaucratic (sometimes it is more!) but because it is far more stimulating.

not come in large numbers, but since only one of them is dated after 2000 and even then it covers data for considerable less than ten years, it is not unlikely that the passage of time, new developments and more information will stimulate a new round of such monographs.

For the reasons given in III. 4, there is little of an analytical nature left to study on energy dependence, but on the dynamics of oligarch development and their role in the future of these economies, there remains much to investigate, though data for empirical analysis is hard to come by and one might expect less quantitative analyses from more established scholars on this issue. International diversification as a topic depends very much on developments after the October 2004 presidential election. Should it bring about a clear turn from an EU western orientation, there will less for economists to study. Should it be the opposite, it could stimulate a lot of new work on the trade and economic impacts of future EU an WTO membership. Finally, the rather unexpected boom in growth since 2000, has already begun to spawn efforts to explain this performanc, and this is clearly a puzzle of great interest both to economic specialists on the transition and those interested in economic growth in the long term. 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 established institutions such as this new Chair of Ukrainian Studies at the Université d'Ottawa and others like it. What follows is a research agenda with a number of concrete recommendations for work meriting support or worthy of institutional stimulation. In most of these cases, the topic is amenable to a PhD dissertation.

1. Within a year or so, fifteen years of data and events will be known to researchers, 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 here were published in the period 1994-99, covering at best five-six years of information since independence. Not only will more time have passed for a deeper analysis, but the very nature of the evolution will be different: all such economies experienced a U-curve of some deterioration for a few years, then a recovery of varying speed. For Ukraine, the first part of the U extended for nearly a decade, hence even the more recent overviews barely capture any of the elements of the upswing. There will be by the 15th anniversary of independence a more complete cycle of economic events.
2. The debate between Big-bang and gradualist schools is in the wider literature an issue of the past and somewhat sterile, but for Ukraine and some others the issue continues to be discussed as reforms are incomplete, and worse, the over-

whelming 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: did Ukraine's economy suffer from too much big-bang or too little?

3. There is also great value to a more detailed, monograph-length study of the development of the oligarchs or clans in Ukraine, comparable to the extensive treatment this has received for Russia.¹⁵ The shorter articles on Ukraine like Puglisi provide a good basis for a much fuller treatment. 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. If they become even more entrenched, analyzing the causes of oligarchic 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 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 (vs. 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 has not happened, not because of ignorance of policy-makers, but because of the successful lobbying against this conducted by those domestic interests who profit greatly from such dependence. What may be of much greater value is an academic marketing exercise, such 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, institutional inertia of data availability and the suitability of this topic for state-of-the-art research will probably result in a lot more such work. 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

15. Personal communication from the editor, Prof. Lucio Vinhas de Souza, Kiel Institute of World Economics.

discussed here merit extension and emulation, especially after an important institutional milestone occurs, the right to use land titles for obtaining loans and mortgages.

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 & Tauber, Wa). More of the same is merited.
10. Finally, and despite the fact I find that many mathematical-model are not invariably illuminating, 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 someone in the UU group to pursue things like the game-theory models discussed earlier cannot but help keep Ukraine on the academic radar screen.¹⁶

Ten specific suggestions is no doubt more than enough to provide food for thought for administrators and funders of research, and this being such a perfect number, it is best to end here.

16. Young UU scholars may have a comparative advantage in economics given its emphasis on mathematical models and their globally superior training in mathematics.

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APPENDIX A

RETROSPECTIVE REVIEW OF THE ENERGY PROBLEM IN UKRAINE

(Prepared by Natalia Ingrid Havrylyshyn)

Motion – is everything, the final goal – is nothing

Low energy prices, sometimes as low as one-seventieth of the world market prices,(1) and wasteful consumption were key features of the central planning system of the former Soviet Union. Ukraine's per capita energy consumption in 1996 was 40% higher than in Western European countries(2). Outdated manufacturing equipment, energy – intensive assembly – line production technology significantly contributed to raise the index of energy use per unit of production to levels 3 - 4 times higher than in Western Europe.

Ukraine's significant oil and gas reserves in the shelves of Black Sea and Sea of Asov are not fully exploited, therefore only 13% of oil and 17% of gas are produced domestically, as own oil and gas production has fallen sharply in the past 20 years to about one-third of the peak 1975 production levels. At present Ukraine gets about 70% of its total crude oil domestic needs from Russia which transports gas to Europe through the following main pipeline systems crossing the territory of Ukraine:

- Soyuz system which transports gas from the Urals region;
- Urengoi – Uzhgorod (Brotherhood or Druzhba) system which transport gas from Siberia.

The Druzhba oil pipeline has two branches, one through the territory of Ukraine, and a Northern one through Belarus. Taking into account the fact that Russian energy complex gets most of its hard currency revenue from exports to Europe (nearly 100% of gas exports goes to Europe, and 85% of energy exports overall), the issue of transport of gas and oil, primarily from Siberian deposits, are of great importance. Ukraine plays an important role in this transporting system, inasmuch as 95% of Russian energy exports currently pass through its territory.

For Ukraine, however, existing pipelines and other transport links not only provided inadequate revenue, but became a physical and graphical representation of its structural links of dependency on energy imports from its traditional supplier – Russia.(1).

Inability to define national interests, inconsistent and contradictory decision – making at a state level 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) are: further development of nuclear power capacity (unpopular after Chernobyl nuclear disas-

ter); search for new suppliers in Turkmenistan, Iran, Bulgaria (price, time of delivery, ways of payment disagreements); development of own gas resources in the Black Sea shelf (lack of comprehensive legislation, inability to provide favourable climate for the foreign investors).

Because Russia remained the only supplier of energy to the Ukrainian market, it was in a position to set monopoly prices for gas and oil exported to Ukraine. According to the 1993 agreement the price for gas supplied to Ukraine by Gasprom was set at \$80 per 1000 cubic meters, quite a lot higher than prices paid (excluding transit fees through Ukraine) by other Central and East European countries. For comparison, in 1995 prices paid for Russian gas (including transit fees) by Italy, France, Germany and Czech Republic were: \$68.40, \$69.40, \$70.90 and \$77.20 per 1000 cubic meters respectively (3).

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 policy before it started to parcel out the energy import business to private companies, incidentally raising questions about insider favouritism, clan preferences and illegal methods of privatization. Consequently, large new debts were incurred after it 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 unpaid debts to the government, while private owners made huge profits on price margins. As of January 1997 Ukraine's energy debt to Russia and Turkmenistan amounted to \$4.205 billion.

Unable to pay its debts to Russia in hard currency, Ukraine was subjected to considerable political pressure (on the issues of the Black Sea Fleet division, status of Sevastopol, conditions of nuclear disarmament, NATO and EU orientation etc). Another way of managing Ukraine's debt to Russia has been exercised through the possibility of debt-for-equity swaps which resulted in giving up state assets of strategic importance. This idea was implemented with various levels of success during the privatization of Ukrainian 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 signing agreements with Russia on terms unfavourable to Ukraine, and establishing a “double standard” on pricing. 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 \$60 million, Russia responded by building a detour via Suhodolnaya-Rodionovskaya, in operation since 2001, bypassing Odessa (4). It is worth mentioning that agreements with Russian energy suppliers were not usually concluded at the state-to-state level, rather at a level of deals between semi-private, semi-state sector dealers. For example, during

negotiations with LUKoil, which after winning a tender became interested in the privatization of Lisichansk oil refinery, insisted that the controlling packet of shares cannot belong to the state and the company would be among the shareholders.

The reshaping of Ukraine's gas market began in 1996 when the government stopped centralized gas imports for industrial consumers, importing gas only for the household consumers and state organizations: eight independent wholesale importers were given regional monopolies to buy gas from Russia and Turkmenistan and to conclude barter contracts with the factories in their regions (later the number of licenced companies were reduced to two). Those various companies made large profits from the transport and distribution of energy. According to *The New York Times* (April, 9, 1997), Pavlo Lazarenko who at this 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. QFA's are a broad concept of government – provided support not by explicit subsidies in an annual budget, but implicitly by allowing purchase of goods at less than market price or allowing companies to accumulate debt until bankruptcy, then absorbing the debt into the government budget. According to IMF research on QFAs in the energy sector of Ukraine, the latter are concentrated in the gas and electricity sectors and were estimated to be several percent of GDP, a very high figure in the billions of dollars. These sums are in various ways routed to private company books.⁽⁵⁾ Computing of energy sector QFAs was based on methodology that relies on consumer or cost – recovery prices as a benchmarks, and data on collection rates and consumption volumes (end – product approach). Estimated energy QFAs are related to mispricing, arrears, 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, which deliver gas to the households, the ultimate beneficiaries from the implicit subsidies. The largest source of financing of energy sector QFAs was the use of the in-kind transit gas, provided by Naftogas 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 reduction or elimination of QFAs include: raising energy prices to world levels, elimination of preferential tariffs or free provision of 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 in integrating energy sector QFAs into fiscal analysis through more data dissemination, analysis and policy reform focusing on fiscal transparency and accountability. Recent IMF reports suggest significant improvements in this regard took place under the Yuschenko government, including a sharp reduction of QFAs in the energy sector, for which Minister of Energy Y. Tymoshenko was responsible. This process didn't continue after the above-mentioned officials left the government.

Recent debates regarding the Odessa – Brody pipeline which was originally designed as an alternative 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 to Poland and possibly Germany from Odessa to Brody, with oil flowing North, as originally intended. However, on September 2004 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. (6). These convulsive East – West oscillations of the political compass, have been extrapolated onto South – North fluctuations of oil flow and negate Ukraine's chances to break the stranglehold of Russia. In numerous debates, “fueled” by the interested pro-Russian lobbies the idea of diversification energy imports has disappeared like a puff of smoke, leaving Ukraine's energy dependency on Russia in status quo ante. This evolution is succinctly captured in a recent 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”(7).

Ukraine's energy problem has been reflected both in many academic studies in both the political science and economic literature. It epitomizes the state of Ukrainian economic policy showing the indecisiveness of the political elite to pursue full-scale economic reforms, resistance of the main interest-groups to restructuring the economy and lobbying to continue their privileges from the government budget. Broader national interests of Ukraine are undermined by the sum of contradictory personal interests, diverse clans and interest groups, members of which, aka “legislators-businessmen” hold political immunity and comprise what passes for a political and economic “elite” in Ukraine.

Conclusions

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 analyze. Economic policy recommendations, which include increasing energy prices, elimination of preferential tariffs or free provision of services for specific consumer groups, combined with strengthening of safety net, and most important eliminating the QFA's which feed the vested interest require strong political will to implement. Current political leadership doesn't show readiness to address and resolve this problem.

Appendix A References

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2. Balmaceda, Margarita, 1998
3. Balmaceda, Margarita, 2000
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APPENDIX B

COMPARATIVE DATA ON UKRAINE AND OTHER TRANSITION COUNTRIES

ECONOMIC INDICATORS

A: Ukraine's Rank on EBRD Transition Index (1.0=Socialist; 4.3= Market Economy)

	1994	2000	2003
Rank of 27	22	20	20
Value	(1.5)	(2.7)	(2.8)
Rank of 9 CIS Reformers* (countries lower)	6 AZE/GEO/TAJ	6 AZE/RUS/TAJ	7 AZE/TAJ
Index values for Central Europe	3.0	3.6	3.7

*Excluding Belarus, Uzbekistan and Turkmenistan, considered largely unreformed.

B: Growth in GDP

	UKR	CENT.EUR	CIS
2003 outcome	9.4	3.5	8.0
2004 expected	12.5	4.5	8.0

C: Foreign Direct Investment per capita, 1989-2002 \$US

(HighestLowest)

CZECH R.	CENT.EUR	BALTICS	CIS 12	UKR	TAJ
3,500	1,750	1,400	240	100	30

POLITICAL/INSTITUTIONAL INDICATORS**D: Freedom House Index of Democracy**

(1 best; 7 worst; the first number is for political rights, the second is civil freedoms)

	1992	1996	2003
Ukraine	3/3	3/4	4/4
Albania	4/4	3/4	3/3
Bulgaria	2/3	2/2	1/2
Czech R.	1/2	1/2	1/2
Azerbaijan	5/5	6/6	6/5
Russia	3/3	3/4	5/5

E: Reporters Sans Frontieres Media Freedom Rankings 2003

Canada	Latvia/Est/ Czech/Slvk	Ukraine	Kaz/Rus/Bel Uzb/ Trkm
10	11-12	132	138-158

F: Transparency International Corruption Index (values[10 best, 1 worst])

	Can	Est	Lva	Bulg	Rus	Ukr	Kyr/Aze/ Geo Tajk
1998							
rank of 85	6	26	71	66	76	69	n.a.
value	9.2	5.7	2.7	2.9	2.4	2.8	n.a.
2003							
rank of 166	11	33	57	54	86	106	118-124
value	8.7	5.5	3.8	3.9	2.7	2.3	2.1-1.8