How Ukraine can move forward

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It's now a decade since Ukraine's "Orange Revolution" brought hope that the country could be liberated from its post-Soviet legacy and join the ranks of the successful transitional countries of Central and Eastern Europe. The question now, of course, is whether Ukrainians do better this time around. But to really understand where Ukraine is headed, it's important to understand the roots of the unrest that led to the ousting of President Viktor Yanukovych.

First, the country's oligarchic elite, which ruled the country for the past two decades, cared little about the prosperity of ordinary Ukrainians. The evidence is not just in the tacky mansions of **President Yanukovych** and his **men**, but also in the fact that the average income in Ukraine is roughly **one third** of that in Poland even though both countries started from around the same point in 1990.

Second, the change of government in Ukraine follows a miscalculation on the part of the Kremlin, which long considered Ukraine as its client state, dependent on imports of natural gas from Russia. Ukrainians simply lost patience after their government effectively followed instructions from Moscow and canceled the broadly popular **association agreement with the EU**. Now that the plan to bully Ukrainians into submission has backfired, Russian President Vladimir Putin is likely to leverage the situation to push claims to parts of Russian-speaking Eastern Ukraine – most prominently **Crimea and the port of Sevastopol**.

Regardless of whether such territorial concessions become a reality, with an **interim cabinet** in place and a new presidential election scheduled for late May, it is time for Ukraine to reckon with the massive governance failure of the past twenty years.
The problems facing Ukraine can't be solved by clever technocrats. But in purely economic terms, the situation is anyway not hopeless. While Ukraine is facing an

immediate liquidity problem, it doesn’t suffer from chronically high debt levels – its debt-to-GDP ratio is barely 40 percent.

True, there’s space for essentially technical reforms. For example, the country’s energy sector combines state ownership with heavy subsidies, which are wasteful, unsustainable, and contribute to the country’s dependence on imports of natural gas from Russia. The situation can be remedied if energy markets are deregulated and privatized and if private investors start exploiting domestic natural gas sources. Bankruptcy law needs reform as well. Resolving insolvency cases takes almost three years, according to the World Bank’s **Doing Business** project, and costs 42 percent of the value of the estate in question – compared to only 9 percent in OECD countries. This, together with high business taxes, unreliable protection of investors, and red tape burdening international trade, contributes to the fact that the country is not a good place for entrepreneurs and businesses, placing it 112th in the world on the Doing Business ranking.

But it’s not hard to see that the essence of the Ukrainian problem is institutional. It lies in the fact that for far too long the government at large was effectively run like a money-making enterprise for a narrow group of cronies and oligarchs. The country’s public service and judiciary is beset with corruption. **According** to Transparency International, in 2013, Ukraine’s score on the Corruption Perception Index placed it in the “’high risk’ [group] together with Cameroon, Iran, Nigeria, the Central African Republic and Papua New Guinea” – and risked “slipping even lower in the next year.” The key task for the new leadership is to make a radical departure from the past practices, emulating the experience of countries like Georgia.

In 2007, the Georgian government disbanded the entire police force, known for its corruption, and replaced it with a much leaner structure with strong safeguards against bribery. Entire ministries were closed, and close to 30,000 civil servants were fired. After years of unchecked rent-seeking and corruption at every level of government, it is difficult to imagine that Ukraine would make sustained economic progress without similarly bold steps.

The reality is that it’s probably unreasonable to expect the United States to be involved in any leading way in the Ukrainian transition – after all, the future of Ukraine is for Ukrainians to decide – the European Union can help. This is not a question of aid. In fact, any large-scale aid package – or "Marshall Plan" – for Ukraine would be counterproductive, especially given the lack of solid institutions that could prevent mass-scale theft and cronyism.

Yet there are much better ways of engaging with Ukraine. Countries like Poland, the CzechRepublic or the Baltics offer valuable lessons for the Ukrainian transition, which can be shared at essentially no cost. More importantly, the prospect of EU membership, within a reasonably close time horizon, can provide an incentive for Ukrainian policymakers to pursue reforms that would be otherwise difficult to achieve politically.

In the meantime, there are many benefits of EU membership that don’t have to wait until Ukraine joins the club. And while it may be a tough sell in a Europe marked by heightened hysteria about immigration, free trade with Ukraine and an opening of capital and migratory flows to Ukrainians would be hugely beneficial both for the EU and for Ukraine, bringing tangible economic benefits and opportunities to a country that has been deprived of them for so long.