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Post Soviet Economic Transitions: A comparative historical analysis of Russia and Ukraine from 1991 to 2014

Jonas Manuel Abreu do Souto

Master in Political Economy

Supervisor: Luís Francisco dos Santos Gomes de Carvalho Assistant Professor, ISCTE – Instituto Universitário de Lisboa

September, 2024

CIÊNCIAS SOCIAIS
E HUMANAS

Department of Political Economy

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Dedico esta Dissertação,

à minha familía, amigos e professores que me permitiram aqui chegar.

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Resumo

A presente dissertação de mestrado tem como seu objetivo o estudo das economias de transição que emergiram após a dissolução da União Soviética, mais especificamente a Rússia e a Ucrânia durante o período de 1991 até 2014 e como os processos que estes países adotaram contribuíram para a decisão de não adotar um economia de mercado. A significância deste trabalho vem das conclusões nos aspetos de como as transições contribuiram para a adoção de sistemas económicos distintos, Capitalismo de Estado e Oligarquia Competitiva.

A queda da União Soviética e as suas consequências levaram estas nações a mudarem por completo o seu modo de vida sem as instituições necessárias para guiar esta mudança. Assim, as suas transições sofreram repetidas falhas e estavam repletas de ineficiências e corrupção. Os problemas sociais causados por isto simplesmente reproduziam estes problemas.

Este trabalho permitiu o estudo em detalhe desta época com recurso a estatísticas disponibilizadas por organizações internacionais e por governos nacionais assim como através de várias fontes de literatura secundária.

As conclusões centram-se nos problemas que cada país enfrentou e como estes estão inevitavelmente relacionados com a estabilidade que cada governo experienciou em todos os aspetos, visto que isto é o fator que permite alterações significantes sem oposição generalizada. Esta estabilidade ou falta da mesma, levou a que cada país adotasse o modelo que lhe fosse possível adotar, permitindo uma melhor compreensão de cada caso.

Palavras-chave: Transições económicas, Russia, Ucrânia, Oligarquia Competitiva**,** Capitalismo de Estado**,** Estabilidade

Abstract

The present master's dissertation has as its objective the study of the transition economies that emerged from the dissolution of the Soviet Union, specifically Russia and Ukraine during the period of 1991 to 2014 and how the transition processes led these countries to move away from their attempt to become market economies. The significance comes from the conclusions on how the transition approach led to the adoption of distinct economic systems, State Capitalism and Competitive Oligarchy.

The fall of the Soviet Union and its consequences left these nations needing to change their entire way of life without the needed institutions in place to do so. Thus, their transitions were prone to repeated failures and were plagued with inefficiencies and corruption. The resulting societal issues permeated these conditions.

This work allowed for an in-depth analysis of this period through the use of several statistics provided by international organizations and the governments themselves as well as through the use of several sources of secondary literature on the subject.

The conclusions centre around the problems that each country faced and how they are inevitably connected to the stability each government enjoyed in all aspects, given that this is what allows for needed change to happen without widespread dissatisfaction. This stability or lack of it, led to the adoption of the current models that each country employs, allowing for a better understanding of these nations.

Keywords: Economic transition, Russia, Ukraine, Competitive Oligarchy, State Capitalism, Stability.

JEL Classification System: P20 – Political Economy and Comparative Economic Systems
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Acronym List

DESA	**Department of Economic and Social Affairs**
EE	**Eastern Europe**
ERBD	**European Bank for Reconstruction and Development**
FSU	**Former Soviet Union**
GDP	**Gross Domestic Product**
IMF	**International Monetary Fund**
NATO	**North Atlantic Treaty Organization**
U.S.	**United States**
U.N.	**United Nations**
WTO	**World Trade Organization**
WWI	**World War One**
WWII	**World War Two**

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1. Introduction

The dismantling of the Soviet Union was, without a doubt, one of the most significant occurrences of the twentieth century. The states that spawned from the breakup of this pole of the then bipolar world, totalled 15 countries, barring a few that were subsequently absorbed by others or have little to no recognition. Attempts to incorporate these new nations into the global economic system started almost immediately, with success varying to a great degree. These nations entered the twenty-first century with differing results owing to the approaches the national governments adopted and as such had wildly different economic standings and stages of progression towards the idealised market economy.

From Eastern Europe to Central Asia, the countries that emerged from the Soviet Union chose very different paths in order to distance themselves from the planned economic model or not so much as some cases illustrate. Eastern Europe had much interest put on it by the rest of Europe that saw these nations as new possible markets and as such were very active participants in the transition process that these countries underwent. These transitions largely of the rapid variety as the reigning theory at the time would suggest was the best course of action. Countries in Central Asia due to their distance from more developed market economies and due to the nature of the industries which they focused on, had very little interest, help or motivation to embark on a rapid transition to a market economy and its uncertain path. The considerable number of nations born of this collapse was something that simply could not be ignored, hence why the topic of transition economies gained so much prominence and why the study into it was so suddenly developed. The path ahead of each nation was different and fraught with obstacles, with the outcomes being as diverse as humanly possible, as such, there is a need to understand these paths.

Due to the sheer size of the Soviet Union, the different biomes it spanned, people it incorporated and cultures within it, it would be almost unimaginable for every single country that came out of this sizable entity to have a similar path ahead of it. The conditions of some of the countries can be said to be complete opposites, with some being on the European continent while others were in Central Asia, characteristics like this dictated what a country could or could not do. Eastern Europe already had a high amount of people working in the service sector, making a transition to a Western European style economy an easy one, while Central Asia is sparsely populated and thus relegated to the farming and extraction sectors. This merely serves to show just how much formerly unified countries can diverge and means to exemplify that a comparison between some of the cases would not be fair. As such a suitable comparison must be chosen on the basis of what nations had the most in common and are most relevant to examine.

The problem is in measuring what could possibly be the best approach to take when it comes to this transition to a market economy, what constitutes the main basis for success in these circumstances and most importantly for this work, what choices or conditions impacted the transition process in such a way that it prevented the achievement of the end goal. For this analysis to take place, this work will focus on two nations that emerged from the former Soviet Union and can still be classified as transition economies, these being Russia and Ukraine during the period from 1991 to 2014. The reason behind this choice is in part due to the initial similarities between both countries, these being a large population, inheriting a considerable amount of the Soviet industry and similar economic activity sectors. Both countries were very much alike at the start of the 1990s and as such, a documentation of their path up until 2014 will shed light on how the transition process proceeded and how both countries began to differ in their chosen approach. Additionally, the reasoning behind this case choice has to be further explained since many nations could prove themselves as potential candidates for a comparison.

The justification behind the choice of subjects in this work is simple yet complex, the selection had to be through a process of elimination of possibilities and taking into account which may be the fairest to compare to each other. Thus, the process started in delineating countries that had started something resembling a transition to a market economy, this criterion can be said to be plentiful with the number of transitions that took place in South America, Africa, Asia and Eastern Europe[1] throughout the past century, however there needed to be some more similarities to whittle down the number of possible cases.

Moving on to a question of having a similar system or ideology in place before any transition was made, it then makes sense to consider transition from vaguely communist or socialist systems to market-oriented ones, the logical step here would be to compare the transitions in the Soviet Union and China. The literature regarding this topic is plentiful, however, I believe it is not a fair comparison, the Chinese move towards integration in the global market began considerably earlier than the Soviet one, as such the Soviet case is limited to a handful of years to examine, years that were plagued with internal strife just regarding if a

[1] These locations all had different systems in place before anything close to a transition took place, resulting in approaches being widely different depending on the time they took place. South America saw the rise of the Washington Consensus theory, while Asia and Eastern Europe saw its fall.

transition should happen and what preparations should be made. Furthermore, the comparison between these two fails to address the significant differences between both nations, these include geography, culture, starting position, among others, but the main ones are the different activity sectors these nations specialised in and the policies in place at the time of transition. Additionally, the transition that former Soviet nations endured was both a political and economic one as opposed to a more strictly economic one on the Chinese front and it was one that had no intention of ever ending.

The next logical step would be to choose a nation, or collection of nations that shared the same policies and started their transition at the same, these criteria then, only leave the Soviet Union as the most adequate case to delve into. Given the number of countries that comprised the Soviet Union, it's important to point out that they were not all on equal standings upon achieving independence.

The main groups of countries that shared most similarities can be broken down into the following, the Baltics which includes Estonia, Lithuania and Latvia, the Caucasus which includes Georgia, Armenia and Azerbaijan, Central Asia which includes Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan, Belarus and Moldova should stand independently since they're specific circumstances are hard to group in with others and finally, what I call the Centre Group, Russia and Ukraine. These groups are split in a way that prioritises geographical location, sectors of activity and population density. Thus, as Russia and Ukraine have the same base characteristics and for all intents and purposes are currently more relevant on the world stage, this work is focused on them. This not to the detriment of the other nations as they will be routinely mentioned as comparisons, Estonia and Turkmenistan serving as good examples due to being on opposing ends of the spectrum when it comes to adapting a market economy and as such prove to be good points of comparison. Additionally, there is a possible argument to be made of how these groups, general as they might be, followed some similar policy decisions, though this is more likely to be coincidental.

The research question in behind this work is: "What caused two similar former Soviet countries undergoing economic transitions, Russia and Ukraine to diverge and how did their approaches cause two such different situations, State Capitalism and Competitive Oligarchy to emerge?"

This question emerges because by 2014, international organisations like the World Bank and the IMF both classed Russia and Ukraine as transition economies and continue to do so to this day, meaning that at some point some conscious decision was made to stop pursuing the outcome of a market economy or some hindrance has stopped them from achieving this goal.

Secondly, given the similar initial circumstances, how did these two nations manage to achieve such significantly different outcomes?
The need for this work originates in the fact that very little attention has been given to the reasons why these nations, with similar starting conditions and theoretically the same possibility to transition, failed to do so and adopted such different approaches. The objective is not to give any validity or praise to the systems that were adopted but merely to differentiate them while also explaining the root cause for their adoption in the first place.

The employed method of study is a comparative historical analysis which is a method that seeks to explain particular outcomes through a distinct set of methodological and theoretical tools. It is defined by a concern with causal analysis and an emphasis on temporally oriented analysis and the use of systemic comparisons. Its methods allow for an effective explanation of underlying economic and political transformations. As such this method offers a particular way to analyse these failed economic transitions.
This work aims to provide a syntax of the policy choices or lack thereof, of the economies in study and how these decisions impacted their initial plan to transition from a planned centralised economy to a more market oriented one, such as was the case with most former soviet countries. However, the conclusions from this work should also be at the very least partially viable for other nations given that some of the decisions made by these countries can be interpreted as a list of what a country should or should not do. Transitions from centralised economies are not limited to soviet countries and Eastern Europe, South America, Africa and Asia all have cases which could replicate these conditions and therefore make use of any conclusion drawn. The explanations for the failure to transition can be found in the policy decisions made and the economic effects they had.

The limits of this approach are of course that it is not a universal blueprint for any transition economy, specific requirements need to be met and even then the conditions in the country may not allow for these conclusions to be followed, there is simply too much that can vary, as such, the observations of this work are merely that, guidelines that could be followed but more than likely will not since they unlikely to fit the conditions. These are the limits, not to mean that the method does not have its merits, but it is limited by the object of its study, a specific point in time for which the conditions may not be applicable anymore.

The purpose of this work is to inspect in detail the measures implemented by the governments of both countries in order to transition their centralised and state-run economies to market focused ones, as well as the effects these decisions had on the nations. The data on which this work will be based on will come from various sources, official figures publicly available from the Soviet Union and the post-Soviet nations will be used, however, it is important to draw attention to the possibility that these figures may be somewhat inaccurate due to poor record keeping or purposeful misreporting (Shleifer and Treisman, 2005). That being said, this work will also employ statistics provided by international organisations, data made available by both the World Bank and IMF, works from several different authors that tackle the troublesome period in which these transitions were made as well as news and scientific articles that delve into the problem. To summarize the sources of information used, these include the aforementioned data hailing from international organizations, statistics publicly available and published by each nation, secondary literature including books and scientific articles that tackle this subject, opinion pieces from renowned economists and politicians as well as news articles from the time period that allow for a better understanding of the public perception of occurrences at that time.

The structure of this work includes an introductory section in which the reasons for this work are explained including the research question, the relevant methodological aspects of the work are provided, the explanation for the case selection will also be made clear with all the reasoning explained. A chapter on theory behind transition economies, its different approaches and the controversies that often mark will follow the introductory chapter, with a chapter on the historical path of both cases between 1991 and 2014 being the main component of this work, followed by a chapter comparing this historical period in both nations, ultimately leading to a chapter of the specific approaches of both nations, these being State Capitalism and Competitive Oligarchy and finally a conclusion with all the results.

2. The issue of Transition Economies

Transition economies have been a hotly debated topic for decades now, ever since these economic changes began to happen. Thus, they are a crucial part of this work, and some due diligence is warranted in delving into this debate. Establishing what constitutes a transition economy and if the cases in this work can even be classified as one are important parts of it as it is crucial to understand the circumstances surrounding the cases.

The transitions towards market economies have mostly been classified as either rapid or gradual, owing to the speed and degree at which the efforts to transition take place. Consequently, the debate between the rapid approach and the gradual approach are the main theoretical debate when it comes to the subject in question, as such an analysis of this debate will constitute the main theoretical background of this work.

Before delving into the debate itself, attention must be drawn to a fallacy that usually accompanies the discussion of transition economies, that being the assumption that the end result the country in question is aiming for is indeed a market economy as the theory behind this topic would suggest. While this is true for most cases, some do often aim for different results and remain in a state of incomplete transition on purpose, a hybridization of market economy with some other system, the stellar example being China (Stiglitz, 2017).

The choice between gradual and rapid transitions has been discussed at length several times, with the popular opinion being that rapid transitions are generally preferable to gradual ones, yet this ignores a significant amount of evidence that shows the flaws in a radical rapid approach. The Chinese case highlighted an option for significant growth without giving in to market forces, this case was the landmark example of a gradual transition, one that never ended, but gradual, nonetheless. The bottom-up approach let the economy build itself up naturally and competition, while conditioned, grew over the decades within the limitations and regulations enforced by the Chinese Communist Party. Simultaneously, this approach allowed for new private enterprises to be created rather than privatising existing ones (Kotz, 1999). Their success caused them to catch up to the biggest economies in the world faster than any prediction showed and eventually reached a point where the market had to once again be controlled by the State due to its growing power, right around the mid-2000s. This process was a slow one, but it also produced one of the largest economies in the world with a similarly large production capacity.

It has been established that China did indeed engage in some economic transformation, but the question is if a country can truly be recognized as a transition economy and if their intention is not to transition but just make adjustments to their current economic model. This case is one that can hardly be classified as a transition economy but in many instances has been. Their main proponent for their "transition" was further economic gains from integration into the global economy rather than leaving their centrally planned economy behind. The reversal of some of the measures that were implemented further proves that a transition to a market economy was not the goal. In another instance, Turkmenistan expressly stated that their intention was not to bring about a revolution but rather a slow and modest evolution, yet the transition economy classification remains (Amanov, 2022). Furthermore, given that in the Chinese case, there was never any intent to fully transition towards a market economy, any credibility a rapid approach has is instantly discarded in such cases that do not wish to achieve that end goal. Thus, forcing the need to ponder on the legitimacy of the subject when some of the main objects of study are simply only tangentially related in the sense of only applying some policies that are classed as being part of an economic transition process.

Having established these concerns as merely a warning when it comes to in depth analysis of transition economies, the information related to these somewhat *faux* transition economies[2] will still be used in the sense of gauging the merit of the policies themselves regardless of end goal.

Rather antagonistically to the former communist nations, rapid transitions were pushed as a preferable path by the world at large since that was the path that brought economies into the fold of the international market in the fastest way possible. Serving as a measure to stop the countries from moving back towards a centralised economy. The failures of rapid transitions were ignored in favour of drawing attention to the more successful cases, though the speed at which transition took place differed largely between each case. The desire to incorporate economies into the world economy at large is one that permeated most international organisations that dictated policy on the matter, with any aid being conditioned towards this goal. As Stiglitz points out, while this was being pushed on transitioning countries, existing market economies like the U.S. erected trade barriers against foreign goods, dooming the economic prospects of transitioning nations and going against liberal ideals (Stiglitz, 2017).

Poland is often mentioned as a successful case for a rapid transition, though there was a point in time when Russia was further along in its transition before reaching a breaking point during the 1998 financial crisis and moving backwards. This serves to illustrate that rapid transition cannot be too fast as that makes other considerable problems emerge, but a speed at which the transition should happen is not outlined. Furthermore, the Polish case is not of radical transition or “shock therapy”, while some measures akin to these definitions were used at the beginning in order to control inflation, the country soon adapted its own model of transition, much more similar to a gradual transition, hence why Russia, with its strictly radical approach was further along in transition (Stiglitz, 2017).

The Baltics were generally very successful in their transitions, particularly Estonia transitioned quite quickly and efficiently though a special attention needs to be given to the fact that the country lacked significant industries which, as other nations have proven, are considerably harder to privatise in a way that would not affect normal market functions. Conversely, a highly industrialised economy or a highly agricultural one is bound to be more

[2] Economies that do not wish to become market economies but are still described as transitioning economies due to the lack of a better definition for these hybrid systems

troublesome when privatisations take place as a drop in output is almost guaranteed to occur. Thus, the argument that rapid transitions were best suited for nations that did not possess a considerable amount of industry could be made, since the privatisation of these industries is likely to result in oligarchical or monopolistic tendencies in the market.

The argument between which approach, rapid or gradual, is most suitable is still an ongoing one, both arguments have their merits. If one were to look at Estonia and China, they can both be classed as successful though China is at most a socialist market economy (Kotz, 1999). These cases constitute examples of success in rapid and gradual transitions even if unfinished, but only one adhered to the usual recommendations and found success and the latter found success by going in a completely different route. The usual recommendations have been shown to not always work and need to be amended but they remain largely unchanged since their inception and their goal remains the same.

To the West, the goal was market fundamentalism in which institutions like the IMF and the World Bank believed in and supported. The theory behind this goal and the blueprint with which it is supposed to be achieved is dubbed the Washington Consensus, derived from the conclusions that economists came to after examining the results from the application of economic policies in South America during the 1980s. The Washington Consensus, first defined by the economist John Williamson in 1989, is a set of 10 policy recommendations outlined by Williamson which should in theory pave the way for a stable economy which later became associated with a neo-liberal economy and became standard policy for international organisations. These initial policy recommendations were fiscal responsibility, ending state subsidies, tax reforms, market mandated interest rates, competitive exchange rates, trade liberalisation, liberalisation of foreign investment, privatisation, deregulation and property rights. These then became the standard recommendations that international organisations would turn to, however they were developed under specific circumstances and in a specific part of the world, this being South America, which could in turn mean that they were unsuitable for other nations.

Joseph Stiglitz would praise what the Washington Consensus achieved in South America but would point out that such a system could not work as a universal rule (Stiglitz, 1998). Stiglitz argued that the Washington consensus was “highly risk-averse” and provided the foundations for a well-functioning market, however it was “incomplete and sometimes even misleading.” due to it assuming the market would function without the required institutions (Stiglitz, 1998). The perfect foil to what was promoted in the Consensus was the East Asian Miracle, by which the East Asian countries achieved considerable economic growth, development and stability without necessarily following the guidelines, meaning their success was not tied to macroeconomic stability or privatisation. This was a call for greater understanding when it comes to specific cases and highlighted a need for a post-Washington consensus (Stiglitz, 1998). The need for a greater role by the government in transition is highlighted by shedding light on facets that only the government can ensure will be enforced. The financial and education systems are some that should be spearheaded by the government since they are required to ensure the proper functioning of a market economy and to prevent eventual failures. This is one of the arguments that draws attention to the importance of institutions in situations of economic transition, with a poignant example being the need for an organism that can ensure proper privatisation and avoid a system of rent seeking. One of the main takeaways from this information is that less government is not necessarily a must when it comes to market transition and in fact can be a hindrance to transition.

Stiglitz would also reflect on what had taken place in Russia in the 1990s, the abysmal performance of the Russian economy up until 1998 had been devoid of growth and squandered the output that the nation had during Soviet times. These losses were largely attributed to the IMF's insistence on Russia not devaluing the ruble and keeping it dependent on imports and loans. Additionally, their ideological belief in their goal led to little care being given to problems in wealth distribution and market failures. The IMF programs and by extension the ideals of the Washington Consensus failed in Russia and promoted a climate where asset-stripping was encouraged (Stiglitz, 2003). The IMF would later recognize that privatisations are not necessarily a first necessity in transition but only after the failure in Russia had taken place.

The stance of the international economic community on the issue of transition economies is one that would change over time, Stiglitz had long warned of the dangers of rapid transitions after seeing the problems they had caused and the lack of adaptability of the theoretical base on which these policy choices were made. The decisions enforced by international organisations like the IMF, or the World Bank were stances which largely benefitted the financial community, since many of the members and leaders in these organisations were part of said community and would only implement policy that would benefit their interests (Stiglitz, 2017).

The debate on approaches is one whose lines were often blurred with economists on opposite sides often arguing for the same policies in the same time periods yet claiming that their specific field was correct, meaning that the manner and not speed were the distinguishing factors between the theories (Stiglitz, 2017). In many cases, radical transition was adopted to form a market economy in the quickest way possible, but these cases were often outperformed by nations that did not adapt the Washington Consensus. A critical issue with the "shock therapy" approach is that it did not require any prerequisites in terms of institutions, meaning that a country that has lacked the institutions required for a market economy cannot and will not develop them overnight. The banking sector must be able to support growing businesses and must be independent from the state in order to prevent any preferential treatment, the ideals of competition must be established, and regulatory agencies must be established and empowered, otherwise there is little that a fledgling economy can accomplish with the barriers that the lack of these conditions establish. The gradual point of view addresses these issues with sequencing, an order in which reform must be taken to make the next stage viable, as opposed to the rush that the radical approach would suggest. As such, the "shock therapy" approach is one that largely failed due to its ideological motivation, lack of adaptability and overall lack of structure, this led to disastrous consequences in cases like Russia, which advisors wanted to achieve results that China had not even reached over 20 years with its gradual approach but that Russia was somehow meant to accomplish in a period of 5 to 10 years, resulting in the quasi failed state in the late 1990s that bordered on being a failed economy[3] (Stiglitz, 2017). The idea that a rapid transition would turn former communists into fervent market appreciators by giving them assets did work but the resulting mindset was much more of a market Bolshevik one, meaning the end goal changed but the methods remained largely the same (Stiglitz, 2017).

Having established all this information, there is a need to establish what constitutes a transition economy for the purpose of this work. Since international organisations still hold a great deal of power when it comes to establishing what constitutes a transition economy, their guidelines will be employed since they are still in place for classifying which countries are still listed as transition economies. The classification for what constitutes a transition can be a somewhat contentious topic but according to the classifications put forward by the IMF, the World Bank and the UN, the cases discussed in this work and indeed all former soviet states are all classed as transition economies, barring the Baltic countries (UN DESA, 2020). As such, the definition that will be used for the sake of classifying these cases will be the following: A transition economy is one in which a formerly centrally planned economy changes into a

[3] Stiglitz would describe the Russian case as *ersatz* capitalism, meaning fake or replacement capitalism since it did not generate incentives for the market to function but instead made the market dependent on asset stripping and rent-seeking.

market economy, the processes which happen during the time of transition include liberalisation with regards to prices now being defined by the market and lowering of trade barriers, macroeconomic stabilisation by which the countries should control inflation as a response to the high increase in demand, strict control of fiscal and monetary policy, restructuring and privatisation with the goal of creating a financial sector and creating enterprises capable of producing and competing in a free market, and finally, legal and institutional reforms to redefine the role of the state and ensure proper functioning of the economy (IMF, 2000).

While being extensive, this definition encompasses all of the former soviet countries as well as many others in Asia, Africa and South America and when these transitions do happen, they tend to follow this characterization, and the measures indicated. It is also important to point out that transition economies to this day may be stuck with that classification for unknown amounts of time due to not accomplishing all of the measures that are included in the definition, being in a sort of status of limbo either because reforms have stopped or cannot continue. Yet the transition economy label remains attached to these cases which can seem somewhat disingenuous when considered that these nations may not want to proceed with the process of transition but since another label does not exist, they are still classified as being in transition by several international organisations.

It is important to draw attention to the occasional use of the transition economy label when it comes to countries that are undertaking macroeconomic reform in an attempt to alter the ways in which their economies are managed. This definition is slightly broader than the one previously mentioned, which is adopted by international organisations. The use of this latter definition has been mainly applied to cases in South America (International Encyclopedia of Human Geography, 2009).

3. Historical Path

3.1 Russia

The transition that the Russian Federation underwent, as disastrous as Stiglitz would argue it to be, is one that found much support in the West, as it saw the ideas on which western countries had built their economies attempt to thrive in the once extremely opposed to them

Russia. The rapid approach that was adopted, often referred to as “shock therapy”, planned to fully transition the Russian economy to a market one in the matter of a few years.

The new Boris Yeltsin led government distanced itself from the communist past of the country as best as it could, this did not mean that the Communist Party lost all their support as they still held power in various regions of the vast Russian Federation but also held a considerable amount of power within the government, leading to the constant fear that they might win elections during the 1990s.

Starting in 1992, the government adhered very closely to the “shock therapy” transition strategy, by which the state had hoped to transition the formerly planned economy to a market oriented one. To do so, the process of elimination of central planning which was started during the Soviet period between 1990 and 1991 was finished, along with the complete elimination of the central allocation of resources, price caps were removed on the 2nd of January and government spending was significantly decreased. These measures had the direct result of prices increasing substantially due to demand, leading to rampant inflation and diminishing purchasing power. They also resulted in goods finally being available in stores and queues for basic necessities being almost completely eradicated.

To comply with the chosen policy, a regime of free imports was established, the flow of international capital was liberated, and a free currency exchange was enforced.

Privatisation proceeded with relative ease and at a quick pace with a massive program of privatisation between 1993 and 1994 that transferred shares to managers, workers and the public. However, this was done with little institutional oversight and as a result these shares were distributed with little care or foresight. Private enterprises accounted for 78,5% of industrial output by 1994 owing to the measures taken, regardless of how the distribution took place. These numbers do not tell a full story with special care being needed in taking into account that industrial output was severely diminished compared to what it had once been and a lot of enterprises had failed completely or were on their way to do so since government spending had been significantly curtailed. Furthermore, managers no longer had the incentive to over report production numbers and in fact started to under report them since it meant paying less taxes (Shleifer and Treisman, 2005). The abrupt end of most government subsidies spelled the end for many companies that had relied on government support for decades, however this type of behaviour is not one that ended with the Soviet Union and government support would return to the new Russian economy (Kotz, 1999).

Companies that produced military goods rose to prominence during Soviet times but suddenly found themselves abandoned in the new Russia that sought to cut government spending which in turn led to military spending being limited to 10% of its former value(Shleifer and Treisman, 2005). This choice essentially doomed military companies which much like those of the West had other products for the civilian market, but the newly adopted free flow of goods and years of relying on government support meant these companies were not equipped to compete with foreign ones. The few companies in this sector that survived did so by selling modernization packages for old Soviet equipment, since several countries had adopted said equipment, these companies found a way to stay afloat. During the latter years of the Soviet Union under Gorbachev, knowing that a free market might be a possibility, several companies with government aid attempted to create products that would be able to compete with western products but most of the prototypes created were deemed unsatisfactory[4]. As such, bankruptcies ensued and once strategic companies significant to sectors such as the aviation, electronics and light industry disappeared (Akindinova, Kuzminov and Yasin, 2016). Though it came at the cost of national defence companies, during this time, Russia established friendly military ties with the U.S. and NATO as a whole, accepting the expansion of the latter and being a part of the U.N. peace effort talks during the Yugoslavian civil war. Though the direct military action of NATO in the form of bombing Serbian areas of Yugoslavia led to relations between Russia and the organisation to deteriorate since Serbia and Russia had long standing friendly relations.

In order to further his own influence, Boris Yeltsin, in a bid to extend the powers of the office of the president, triggered a constitutional crisis which greatly empowered his enemies in parliament, leading to a full confrontation between the forces of both parties. This ended in a direct attack of the parliament building and Yeltsin consolidating power, at the time this move was praised by U.S. President Bill Clinton[5], as a necessary one to ensure the democratic path was the one Russia would remain on, though this has been claimed to be the end of Russian democracy by some (Plokhy, 2022).

On the financial and monetary aspect of the measures implemented, by 1993 the government had largely resorted to printing more money to cover government debt due to deficits that amounted to one fifth of the GDP, the ruble zone which largely existed to promote trade between former Soviet Republics had to be disbanded due to each nation printing rubles

[4] The civilian motor industry received a substantial amount of interest in order to compete against foreign competition. Years of technological delay and outdated practices led to the subsidised projects being deemed

[5] Yeltsin received wide support in the West due to the belief he would comply with the international pressure to transition the Russian economy, as such, many of his shortcomings were largely ignored.

while also getting loans from the Russian Central Bank leading to even more inflation. This decision contributed to the former republics in Central Asia being largely cut off from the rest of the world. By 1995, monetary policy resulted in money supply(M2) going from 100% in 1990 to only 16% in 1994 (Åslund, 2008).

Arguably, the state of the Russian economy by the end of 1994 could be considered to be a market economy by some definitions, though not the ones employed in this work (Åslund, 2008).

In 1995, two significant events happened that shaped the Russian situation for years to come, a loan from the IMF allowed for the stabilisation of the ruble, though it was short lived, allowing for more investor confidence, however this was based on the sale of natural resources which would slowly turn into one of the main industries that the Russian economy focused and depended on. The other significant measure was the loans-for-shares program introduced by Yeltsin as a way to secure funds to balance the government budget and avoid losing the coming elections, this program essentially translated into the emerging "oligarchs" in the country providing loans to the government in exchange for shares in government owned natural resource companies, leading to their position in the economy being further fortified at the expense of the common people and the power of the State. This support from the oligarchs was also translated into news networks, which up until that point were the main source of wealth for these individuals, publicly supporting Yeltsin.

By the end of the decade, the decline experienced by Russia was devastating in most aspects, GDP and industrial product were halved, investment was down to a third of what it was and agricultural output was down by a third. The damage done to the industrial sector was so apparent that the formerly diversified economy that was once in place was being replaced by one centred around the extraction of resources, something that clashed with the well-educated and mostly urbanised Russian population (Kotz and Weir, 1997).

At the same time, death rates rose with the collapse of the health system and suicides as long as crime related deaths were all increasing, and their root causes could be traced back to economic decline caused by the neoliberal approach (Kotz, 1999). An opposing view regarding the excess death is that the increase is due to higher purchasing power when it came to vodka, this is meaningful when taking into account that the excess death was mainly evidenced in working age males while other statistics regarding the health sector remained largely the same (Shleifer and Treisman, 2005). Regardless of the root cause, declines in the quality of life and health services were evidenced.

Finally in 1998, the Russian government became unable to make payments on its debt, resulting in a financial collapse, the value of the ruble was crushed, major banks were driven into insolvency and Russian consumers which relied on imports saw their living standard once again diminished. The crash of 1998 has many reasons behind it but some that can be pointed out are the effort of the Russian government to prop up the economies of former Soviet nations by trading with them with little control and the over reliance on natural resources as the main funding for the state, which saw their prices fall after the Asian Financial Crisis of 1997. The Russian state as well as several non-state institutions were unable to pay wages on time, even when these were reduced, half the population had to resort to subsistence farming and around 70% of all transactions were based on barter and other substitutes. However, the recovery from the crisis was a somewhat fast process with figures recovering in a span of approximately two years.

In 1999, Yeltsin appointed Vladimir Putin as his successor, this involved an official pardon being issued by Putin once he had taken office, in order to prevent any prosecution Yeltsin may face but also allow Putin to gain public support from Yeltsin and consequently, his voter base. Under Putin the economy continued to grow at a steady pace, always related to the price of natural resources and depreciation of the ruble, which allowed the Russian government to be able to borrow in world markets at an interest rate of 7% by 2003, which in turn, indicated significant investor confidence (Shleifer and Treisman, 2005). This growth can, at first glance, be attributed to a sharp rise in oil prices, beginning in 1999 and lasting until its peak in 2014 with obvious decline due to the effect of the 2008 financial crisis, prices have since dropped but recovered. This growth is not only attributed to this increase in prices but as it has been presented, the Russian economy relies heavily on the sale of natural resources.

The Putin years, as they have come to be referred to by some authors, are marked by the adoption of a paternalistic model which aims to make up for some of the functions provided by the State that were lost when the Soviet Union collapsed. This translates into the provision of social goods regardless of need but with low quality associated. Along with this, a flat income tax rate was imposed and as a result removed many of the barriers the lower class might have faced and as such, the amount of people in Russia which make up the middle class increased (Akindinova, Kuzminov and Yasin, 2016).

In 2001, along with the income tax reform, corporate profit tax was reduced, contributions to social security were decreased, ordinary business costs became tax deductible, tax collection was unified into a single agency and small tax violations were decriminalised.

Additionally, a judicial reform took place in order to strengthen the courts and the rule of law (Åslund, 2019).
The following year, 2002, the last blow to the vestiges of communist ideology came in the form of the privatisation and sale of agricultural land, communist controlled regions took longer to implement it but as a whole the measure was implemented with little resistance (Åslund, 2008). Starting in 2003, reform essentially stopped, and a wave of re-nationalizations took place mainly targeting oil and gas companies. (Åslund, 2008). This marks the end of the liberal phase of Vladimir Putin's time in office.

By the mid-2000s, several measures were implemented to ensure the plans in place could proceed, in order to stop businesses leaving the country and foment the creation of new ones, the legal protections for property and transactions were improved and bureaucratic barriers were removed. In order to prevent opposition to this, the oligarchs which had been allowed to run free and unchecked, had to be reined in. Measures to deprive oligarchs of their political power were enforced, followed by the removal of what had allowed them to hold considerable power during the previous decade, their mass media holdings. Finally, the re-nationalization of natural resources so that the State could continue to fund itself and its projects delivered a lethal blow to the once powerful oligarchs, resulting in many fleeing the country and seeking refuge in the West. When it came to political power, to prevent what had happened during Yeltsin's time, that being political turmoil, executive powers were reformed, restoring each branch's function with a specific focus on law enforcement. The funding for social programs was increased as well as the minimum wage and reserve funds dedicated to the modernization of the economy and to serve as a buffer in case of falling revenues in natural resources were established, this last measure accounts for the consistent budget surplus Russia has presented over the years (Akindinova, Kuzminov and Yasin, 2016).

During his first years in power, Putin showed himself to be amenable to the West, seeking cooperation with NATO and Western nations, however his opinion on the relations with the US and NATO soon soured after the US exited a treaty prohibiting the construction of Ballistic Missiles, invaded Iraq and in his view, aided the Orange Revolution in Ukraine. Thus, by late 2004, Putin had become more openly antagonistic of the West (Åslund, 2019).

By the end of Putin's second term in office, 2008, the initial liberal reforms he had implemented which had garnered him the liberal vote, resulted in a real income increase of 250%, while wages had tripled and unemployment and poverty had been halved (Djankov, 2015). Additionally, a lesson from the 1998 crisis that continued to be applied during Putin's tenure is that financial stability and fiscal conservatism are needed to maintain economic stability (Åslund, 2019).

The end of the process of transition to a market economy, can be pinpointed to around 2003, at which point the government embarked on a journey to switch from crony capitalism to state capitalism. This change in course came due to popular discontent from a population that had soured on the experiment taking place within the country. The privatisation process which was supposed to keep companies in the hands of the Russian population and generate considerable revenue for the state had failed and the with mounting government debt, the people found themselves turning against Yeltsin's allies that held most of the newly privatised companies and benefited most from the process, the birth of the so called "crony capitalism" (Djankov, 2015).

This state of "crony capitalism" left the government being subjected to the whims of oligarchs who amassed increasing revenues and held considerable amounts of power, given that most powerful oligarchs were allies of Yeltsin who were specifically favoured, this was not a problem during his time in office. When Putin came to power, he enacted his initial liberal reforms and then proceeded to essentially stop the transition towards a market economy, this was marked by the re-nationalization of companies in the natural resource sector, as it was one that proved strategic and particularly profitable. The owners were urged to fall in line and turn over their companies to the government but while some did, others refused to, and many fled to exile with the help of assets that they had extracted from the country during the 1990s. This re-nationalization changed the role of the state, since it started to run these companies in a way in which it sought to profit, giving rise to the use of the label of "State Capitalism", this meaning that the state was now a more active market actor. The label of "State Capitalism" is one that has seen extensive use and in very different settings since it has been used to describe instances in both the U.S. and China. The usefulness of this move proved invaluable to the Russian State, these companies became a tool for diplomacy, offering price cuts to friendly nations and they brought considerable profits with which the State freed itself from the need of increased taxation to realise its projects and policies. This added revenue also allowed for the government to avoid certain reforms that would have proved unpopular or quite straining on the economy. This last boon to the State is also one of the reasons why further reform was not undertaken, in a simplistic way, there was no need to reform if it could be avoided.

When the 2008 crisis hit, the Russian government dedicated itself to ensure that what had happened a decade prior would not happen again. The reserve funds established in 2004 had grown substantially and were used to fund Keynesian measures to maintain stability in the market. Though these measures were somewhat successful in saving companies, productivity collapsed and so did GDP growth in 2009, studies also proved that much of the stimulus given by the government was taken out of the country in one of its biggest instances of capital flight, something that Russia has tried to combat for years. This fund would once again be prominently used during 2014 when the Russian economy was subject to western sanctions (Åslund, 2019).

This model that the Russian government adopted seemed to prove itself in a trial by fire during the European crisis from 2010 to 2012, when the Russian economy continued to grow at a decent rate while the neighbouring Eurozone presented stagnant growth rates. Despite not fully transitioning, the model adopted by the Russian government continued to achieve growth and was seemingly acceptable enough for Russia to finally join the WTO in 2012.

Arguments for why the transition could not have proceeded in a different manner include the fact that the communist elite still held a considerable amount of power within the country and as such resisted the reforms of prime minister Yegor Gaidar leading to his government not lasting very long. The abundance of natural resources in the country gave the government the option to use these revenues to cover inefficiencies of other sectors, this made it so decisions regarding these sectors had a much higher propensity for corruption (Shleifer and Treisman 2005).

The attempt to transition essentially ended with the adoption of the state capitalism model, since any effort to continue towards a market economy has ceased since that point, this is not to disqualify any future attempt to continue this transition though it seems unlikely. The reasons that led to this abandonment of the effort to transition are plentiful, a major one would be the lack of public support for the measure since the "shock therapy" approach that was adopted caused a massive decrease in quality of life and a population that was used to government subsidies and the lack of unemployment was suddenly subject to it. Besides the transition being particularly rough on the population and the economy, one of the main driving factors for the support was the fact that at the time of the start of the transition, the Western world was experiencing a boom, which seemed very appealing to the Soviet population, however, in the years since then, these Western nations have started to slow considerably in growth and both internal and external problems have become more accentuated, something that may taint the vision that was once held.

In summary, the Russian approach during their effort to transition was one that mimicked those that happened in most of Eastern Europe, with an emphasis on succeeding as fast as possible. Unlike Eastern Europe, Russia lacked the clear institutional oversight required to proceed with this process, as Estonia is a clear example of, an institution that oversees the privatisation efforts with independence from the government itself facilitated the process, even though there was more European direct interference in this case (Mongardini, 2001). The process for Russia might not have been as straightforward though, the existence of a high number of industrial facilities complicated things as some went immediately bankrupt since State demand and subsidies ceased and the fact that industrial businesses seem to have proven themselves harder to privatise overall and more subject to corruption, as was the case in natural resource extraction.

The existence of a well-established communist network facilitated election results for the former leaders of the country, and while this did not amount to any wins, it did allow for complications in passing reforms, especially land privatisation. The way around this obstacle were presidential decrees issued by Yeltsin that did not last eternally nor were made into law, thus complicating matters further and only allowing superficial reform. When laws were indeed passed, they had to be altered to accommodate for Communist demands, making them less effective in achieving their overall goal. Additionally, the fear that too much public dissatisfaction could result in a Communist victory and as a result the backtracking on any implemented measures meant the government was afraid of meaningful change.

On the topic of governance, the abrupt nature of the end of the Soviet Union meant that the plans in place for a gradual and smooth transition were scrapped and the country and thrust into political and economic chaos, Gorbachev's plans were thrown away and Yeltsin took over in a state of political turmoil. The new president's instability was not an unknown fact as was his penchant for drinking, his repeated attempts to increase his own power at the cost of that of the parliament led to instability, both political and social. Furthermore, his favouritism was known when it came to political office and high notoriety privatisations.

Many companies could not hope to survive this chaos, as they had not been prepared for this beforehand, and the fact that state subsidies dried up in a matter of months meant doom for many, the losses suffered by the Russian economy due to this are untold, since not only were they major producers, but they were also major hubs for innovation in the civilian and military markets.

The attempt to maintain the ruble zone was wise in the sense that it would facilitate trade and give Russian producers an expanded market and the Russian government a larger sphere of influence, however, once again the lack of institutional oversight led to the amount of rubles issued and loans given out to not be subject to any control, ending the ruble zone with a worrying case of hyperinflation.

Finally, the decision to make the Russian economy over dependent on natural resources is one that has brought short term gains, and the establishment of a fund to keep these gains for when necessary was a sound decision. However, the fact the economy is so dependent on one sector is cause for worry due to low diversification and could result in an economic crash should prices crash. This decision is also one that has generally improved quality of life and brought stability to the country and represented a conscious move away from market transition by the Russian leadership. Thus, the "in transition" moniker for Russia comes from the initial dissatisfaction with the poorly managed transition leading to a choice to proceed with a different approach by Putin.

3.2 Ukraine

The Ukrainian case is one that I would argue was even more fraught with issues and instability than the Russian one. After the collapse of the Soviet Union, most countries started their transition process barring a few, the most notorious would be a country like Turkmenistan that simply refused any attempt to do so, and for the first few years after the collapse that is exactly what the Ukrainian government chose to do.

Upon the dissolution of the Union, Ukraine was in a very good place when compared to other eastern European countries, it inherited a considerable amount of the Soviet industrial might, it was one of the richest republics within the Union and even outside, with estimates placing the Ukrainian GDP per capita above that of Poland in 1990. Unfortunately, this higher standard of living meant that there was a lot more to lose than if they had started with lower conditions. The standard of living in Ukraine would begin to decline at an alarming rate after the collapse of the Soviet Union since the reforms needed to adapt to the new economic situation kept being delayed (Åslund 2009). For the duration of this initial government, not a lot was accomplished regarding the economic situation, but the political one did evolve.

The need for economic transition was put off in favour of pursuing nation building policies. Given the fact that Ukraine is a country with a distinct division between the west and centre and the east and south of the country, there was a general push for the need to create a national identity to provide stability. As such, the new government under President Leonid Kravchuk went about establishing Ukraine as a successor state to the Ukrainian Soviet Socialist Republic, with a civic and political identity and not an ethnic or linguistic one, due to the prominence of Russian speakers within the country and the wish to not alienate them. This government did little when it came to economic reform or any other substantial reform, it focused on creating a national identity to prevent the country from falling apart which found appreciation in the west and centre, however, the industries that were focused on the east and south did not appreciate the years of decline, nor the focus on flag and anthem rather than the economy (Åslund, 2009). While economic measures were not mutually exclusive with nation building ones, the government opted out of them with a system of blame shifting between the President and Prime Minister due to a disinterest in economic reform, owing to the fact that ideologically communism still gripped the country (Åslund, 2009). The decline, while severe, was softened by the fact that like all other former Soviet states, Ukraine started out with no foreign debt since Russia volunteered to take on all the debt held by the Soviet Union in exchange for their then devalued foreign assets, all countries agreed to this, even though Ukraine initially resisted the deal. Additionally, natural gas sales continued to be heavily subsidised by Russia and as such Ukraine, could continue to purchase it at a much lower rate than the international market (Åslund, 2009).

The transition of power was a relatively smooth one, the Communist Party of Ukraine was outlawed, and its property turned over to the state, though the party quickly reformed and continued to hold a considerable amount of power. President Kravchuk, a former communist, headed the country with a national communist ideology, with support from communists that had no interest in reform and the nationalists that supported his project of nation building. This government that lasted until 1994 and the years it lasted allowed former communist officials becoming entrenched in their former enterprises, keeping companies for themselves and becoming some of the first industrialists and later oligarchs in the country. The government accomplished many things on the diplomatic front, among those was an agreement with Russia regarding the borders of Ukraine, the Russian Black Sea Fleet and the remainder of the Soviet Army still in the country. These agreements were beneficial since separatist movements began during this decade but since Russia had no interest in welcoming them, there was little threat.

The economic system remained largely the same, with ministers still travelling to Moscow to order goods for the countries, something that the other republics had realised was a thing of the past. The little economic reform that did take place was due to the reform taking place in Russia, since the Ukrainian economy was largely dependent on Russian goods and aid, they needed to copy some of their decisions, resulting in some prices being deregulated in early January 1992. As the Ukrainian economy continued to flounder, the need for reform was still something that had yet to occupy the mind of politicians, they held little interest in the matter since the new system of rent seeking that was established kept them wealthy as well as in power. There was also a distinct lack of openness to economic discussion as well as those proficient in it (Åslund, 2009).

The public was also disinterested during these initial years, with the radical transitions that were taking place in neighbouring Poland and Russia being looked at with great distrust, this even stretched to the popular thought that the agreements with Russia being harmful to Ukraine, despite foreign economists stating the opposite was clearly evident (Åslund, 2009).

In 1992, a new prime minister took power, Leonid Kuchma, a former director of an industrial facility that now controlled it and ran it for profit, a so-called "red director"[6] that hailed from the east of the country and sought reforms to stop the decline in GDP and industrial output. For his efforts he was sacked and replaced with someone that kept the same system in place. The economy was in a state in which the Central Bank gave out loans that amounted to subsidies and debt was routinely higher than predicted while budgets were approved far later than they should.

These conditions also contributed to the hyperinflation experienced in 1993 due to the collapse of the ruble zone, owing to the Central Bank in each country in the ruble zone printing money and providing loans with little coordination or oversight. This year also brought an increasing amount of social strife as strikes became commonplace in the industrialised east of the country and tensions flared up with Crimean separatists.

The lack of clear of an economic system whether that be a market one or a planned one led to a decrease of the country's initial GDP of 48% by 1994 and with only 15% of production coming from the private sector, along with this an underground economy was established but the exact value it held varies greatly with each estimation, up to about half of the country's GDP. This situation allowed for Leonid Kuchma to run in the presidential elections of 1994 and win against the incumbent and popular Kravchuk who never formalised his national communist ideology into a party but remained well-liked in the centre and west of Ukraine as well as with the diaspora that seemed more concerned with state symbols and language. Kuchma ran on a platform of moderate economic reform, not radical like that of Russia, rebuilding the relationship with Russia, cracking down on corruption which had become endemic at that time and addressing the economic issues in the country, a platform that gained him support in the east and south of the country that had suffered with the lack of reform (Åslund, 2009).

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[6] Red directors became some of the first industrialists in Ukraine that proved capable of utilising its industries rather than strip them of their assets for profit, later building large and profitable industries.

The slump in reforms was now over and with Kuchma now in power, his program for reforms was to be implemented but due to the power still held by the communists within the parliament, these reforms were often blocked much like what had happened in Russia. The old communist leadership still held a considerable amount of power and preferred the transition to be as slow as possible in order to maximise their rent seeking profits, shifting blame for any economic problem to Russia (Åslund, 2009). While the communists did lose a considerable amount of support in the 1994 elections, they still held a blocking minority in parliament, a minority that was bolstered by the number of businessmen in parliament that held a fifth of the seats and shared the same interest in keeping the system of rent seeking in place. There was little that could be done in terms of laws due to the opposition, as such, much like Boris Yeltsin had done in Russia, Kuchma employed the use of presidential decrees as a way to enforce his program for reforms. These reforms started with measures to reign in government spending and achieve a sound budgetary policy, with expenditures being limited to urgent matters, this in turn led to pensions and wages not being paid by the State, something which some of the private enterprises emulated when it came to wages, citing a larger cause. Additionally, subsidies that much of the Ukrainian industry ran on were cut, leading to a situation like that of Russia, in which strategic industries were lost due to a desire to cut subsidies completely.

The decrees Kuchma presented address many factors, including a reform of the tax system, resulting in a progressive income tax and reform of corporate taxes, however, the new tax system sometimes reached 90%, a level at which the tax is nothing but confiscatory, leading to many seeking ways to evade it and succeeding, owing to massive loopholes in legislature. The direct response to combat rampant tax evasion was the establishment of a new tax agency, with agents numbering around 70000. This did little to combat the issue and the agency became exceedingly corrupt and a major impediment to business. Among the reforms pursued by the President was an agreement with the IMF with the intent of achieving financial stabilisation as well as full price and trade liberalisation. The agreement was achieved owing to the reforms Kuchma managed to pass and the IMF agreed to grant financing to Ukraine.

During this time, the problem of divisions within the nation started to flare up again when Crimea pushed for independence in 1994, besides the already existing tensions, the poor economic performance of the country led to the Crimean Peninsula voting on independence from Ukraine and drafting a new constitution of their own. The Ukrainian government invalidated their constitution and soon moved troops in, there was little in the way of resistance since Russia refused to support their cause and the economic situation in Crimea was considerably worse than in the rest of the country and made them unable to arm a significant force.

Privatisation efforts began at the start of Kuchma's administration but were very superficial, with only small enterprises being properly privatised and even with that being the case, problems often arose.

Only a year after the start of the new government, reforms started to slow, with Kuchma not sounding as resolute as he once did, this is due in part to his lack of conviction to a market economy and a desire to not further alienate the left. Most industry was at this point held by their former managers or former officials of the Communist Party, these forming some of the first oligarchs of Ukraine and being averse to reform that would deprive them of their income through rent seeking (Åslund, 2015).

By 1996, not much economic reform was done, a new currency had been introduced, the hryvnia, which was not immediately circulated, and a new constitution was put into effect as a way to get rid of the old Soviet one, resulting in a new system that allowed for more presidential power, something Kuchma needed to continue with any meaningful reform. A 1996 World Bank report blamed Ukraine's poor economic performance on excessive bureaucracy, best exemplified by the fact that there were 10000 private enterprises in the country and an average of 7 tax inspectors for each of them. This contributed to an excessive amount of corruption wherever possible, with bribes being required for the simplest of actions and government often being populated by members with criminal ties. (Åslund, 2009)

A significant move towards a free market was attempted in 1997, by buying gas from Russia at market value instead of the subsidised price with which the Russian government had provided the gas. However, the original goal was unable to be met and the only agreement was on the payment for the arrears of the Ukrainian government which were paid by transferring gas infrastructure in Ukraine to Russia and the gas continuing to be provided at a subsidised price since Ukraine could not afford the market rate. The state created a company to hold a monopoly on this trade, Naftohaz Ukrainy, which became a source for rent seeking and many lost millions (Åslund, 2009).

The elections during this time became increasingly less transparent with broadcasts being banned, opponents prosecuted, media being repressed, and backers being killed, this allowed for things to remain the same and for Ukraine's parliament to become known as a "millionaire's club", being populated by businessmen and oligarchs. This was not a completely negative outcome since oligarchs proved to be the most capable to reform former soviet industries due to their knowledge of the industries and having the means and know-how to manoeuvre with or around the government (Åslund, 2009).

Up until 1999, parliament was very combative of any new measure for reform that was attempted, with this being the case, Kuchma became disillusioned with economic reform and turned to focus on foreign policy during these years. This translated into a constant output by both state and private enterprises, meaning the private sector continued to be a shell of what it could possibly be, being stuck with a limited output while new measures could not be approved.

The 1998 Russian crisis came as a wakeup call to many within the Ukrainian leadership, without change they could see their fortunes disappear in an instant as had just occurred with their Russian counterparts. Along with the IMF freezing transfers to Ukraine due to the refusal to enact the measures they had agreed to, change was needed. To this end, future president Viktor Yushchenko was brought in as PM to make reform happen and as fast as possible. In 100 days, he enacted a considerable amount of reforms since he was aware that support for his measures that directly harmed the oligarchs would quickly run out and he would be ousted. In cooperation with a German delegation, the reforms formulated, covered the government, state finances, energy trade, agricultural land privatisation, large privatisations and deregulation of small firms, resulting in a growth of 6% in 2000. To contextualise this information, the year 2000 was the first in which the independent Ukrainian economy achieved growth but sat at only a third of the Russian GDP and a seventh of the Polish one, both of which were originally lower than the Ukrainian GDP in 1990.

As was to be expected, due to his policies, Yushchenko was ousted and replaced with some less radical, however, Kuchma would continue Yushchenko’s reforms in a much softer way after 2000, with his interest in reform returning since parliament was now more amenable to it. His new program had the objective of creating new tax, criminal, housing and land codes, the latter being the most significant since it allowed for the Ukrainian grain production to once again thrive. A program similar to the loans-for-shares implemented by Yeltsin in Russia was tried with the intent of transforming oligarchs from rent seekers to industrialists, the effectiveness of which can be debated though.

Kuchma’s reputation would begin to decline, as in 2000, a scandal regarding the death of a journalist in which Kuchma was implicated as well as his attempt to make an ill-advised deal to provide military equipment to Iraq left the Ukrainian President largely ostracised by the Western world, with the only option for foreign policy being closer ties with Russia and other former Soviet Republics. This put a halt to much of the good will in terms of help with economic transition and closer ties with the West.

The 2002 parliamentary elections largely mimicked the previous ones, with fraud being rampant and evident and political opponents being actively targeted by those in government since the power of the oligarchs and businessmen that constituted the government continued to grow (Åslund, 2009).

After the elections, future president Viktor Yanukovych was appointed Prime Minister and implemented several liberal reforms that echoed the measures Vladimir Putin implemented during his first years in power, mainly a 13% flat income tax, a decrease in corporate taxes and in the bureaucracy required to create and maintain companies. New civil and economic codes were adopted, however these had conflicting legislation, leaving cases fully at the will of judges that had to decide which code to use (Åslund, 2015).

By 2004 these measures had proven themselves, economic growth was steadily increasing, thanks in part to an increase in international steel prices, since steel continued to be Ukraine's main export. The same year, Kuchma's presidency ended, and presidential elections took place, with Yanukovych being backed by the east and south of the country as well as by the Russian government itself, running against him was the liberal Yushchenko with support from the rest of the country. The initial result of the election was a win by Yanukovych, but international observers confirmed widespread fraud in his favour, upon which popular masses gathered and called for fairer elections. This became known as the Orange Revolution, which led to another election confirming Yushchenko as the winner and giving way to a government led by the Orange Coalition that included many of the parties in parliament that wanted to stand against election interference and souring relations with Russia.

This government was expected to bring stability, but the expectations were not met, parliament continued to be deficient with a dire need for elections to better represent the will of the people, but these could not be held due to constitutional inconsistencies. When elections were finally held, the results gave the orange government more power and Yulia Timoshenko, a long-time ally of president Yushchenko took power as Prime Minister. Her goals included the promises that Yushchenko made during his presidential campaign, such as re-privatisations and nationalisations, akin to what Putin's government had just in Russia to combat the corruption involved with the initial privatisation in the 1990s. These policies eventually led to economic growth declining as enterprises simply switched hands between favoured oligarchs, corruption became once again apparent and reprivatizations remained a subject that would harm any politician as smear campaigns would commence from the vast media empires that oligarchs possessed. These measures were not popular and as such Timoshenko was ousted and later reinstated but with a more conciliatory position, this time aiming to pursue more privatisation and at last, land privatisation now that the communists held considerably less power. However, little was achieved as president Yushchenko routinely vetoed the prime minister, blocking much legislature unexpectedly and leaving the country in a state of limbo but with continued economic growth. The Orange Coalition fell into disarray and eventually broke apart with little having been accomplished in terms of meaningful reform, with not even corruption being impacted significantly. Successive governments came and went and even though little to no reform was achieved, economic growth continued on the back of what had already been done and owing to those previous reforms. Ukraine was officially able to join the WTO by 2008, but the blunder of the Orange Coalition was one that doomed much of the hope for meaningful reform within the country.

By the time the financial crisis of 2008 hit Ukraine, the country was in a precarious position, with an over reliance on the steel exports and little production capacity by the rest of the industrial base. Ukraine was able to weather the crisis thanks to an IMF loan, which stipulated strict reform that should take place, along the lines of the Washington Consensus, but ended up not happening.

The 2010 presidential election gave the victory to Yanukovych, mostly due to the public disillusion with the Orange Revolution, Yushchenko and the resulting government due to their inability to rule or to produce meaningful change. A new economic reform plan was once again presented and succeeded in securing an IMF loan to continue reforms. Privatisations began once again but it was clear that they were already decided through back channels and the sales were all but fair, akin to what had already happened during the first rounds of privatisations. The little economic reform that had taken place essentially stopped by November of that year. This in turn resulted in the IMF aid being cancelled (Åslund, 2015).

It soon became clear that like many governments before, this one pursued a goal of self-enrichment with little policy in mind. The only meaningful reform that the president bothered to pursue was a program for European integration which had long been an ambition of successive Ukrainian governments. However, when a further step towards this integration was supposed to take place, Yanukovych backed out and instead went with a Russian deal that provided a significant loan that was desperately needed to balance the Ukrainian budget. This move was massively unpopular and the social unrest in tandem with poor conditions led to public demonstrations and eventually revolution, culminating in the EuroMaidan in 2014.

To summarise, Ukraine’s future prospects took a massive blow with their initial delay to transition, the preoccupation with national symbols and national identity by Kravchuk is one that essentially caused the loss of GDP to be considerably more acute than in comparable cases, Turkmenistan for instance, essentially refused to transition and kept the Soviet practices in continuance but completely, resulting in a lesser amount of GDP loss, but considerable gains since then owing to the extraction of natural resources. Ukraine’s delay resulted in massive losses in not only GDP but industrial output, as industries went bankrupt and floundered as the government saw no interest in the economy, the lack of reform and funding led to general unhappiness in the industrialised east and south of the nation.

Subsequent governments attempted to remedy the situation with economic reform, but these attempts were routinely blocked by communists and oligarchs in parliament that would lose in the eventuality of a market economy, preferring instead to maintain the system of rent seeking. The fact that businessmen routinely made up a considerable chunk of Ukraine’s government led to their interests being protected and in turn, reform being avoided. Additionally, when reform was possible it was not undertaken, as was the case of the Orange Coalition and the Yanukovych governments, adding to the high suspicions of corruption and confirming the high government instability.

The initial passive approach to transition, resulted in losses in the industrial sector and GDP, worsening the economic conditions for several years to come, leading to the industrial fabric that is mainly composed of oligarchs that were uncompetitive at first and required subsidies to stay in business, only later was this situation resolved.

As some reform did take place and government programs to increase privatisations began, oligarchs that had acquired significant wealth due to their initial rent seeking practices of the 1990s, were able to purchase an industrial base that had floundered in the hands of others. The oligarchs proved themselves capable of revitalising industries and increasing the private output in the country. As more and more oligarchs changed from rent seeking to production they began to compete with others in the same sectors, and while this competition is a far cry from that of a free market, it did drive economic growth, becoming the main driver in the country (Åslund, 2015). These oligarchs maintained their positions in parliament or government and much like the Communist elite had done before, pursued a policy to maintain the status quo that was beneficial to them. In a way, they controlled the state because of their position in it and perpetuated this position, limiting any new entry into the market.

Much like Russia, Ukraine remained highly dependent on one of its exports, that being steel, something that became their primary market and consequently made their economy highly dependent on it. As evidenced with the loss of GDP when steel prices crashed.

Thus, Ukraine’s case is one of staying the course with very little drastic reform that was not immediately undone. Instability led to these conditions and personal interests permeated them. While reform did happen, it was driven mainly by external factors, the main ones being demands from the IMF or reactions to changes that happened in neighbouring countries. This slow reform allowed for the system described above to flourish and take hold of the nation, with that same system likely being the main culprit for the lack of continued reform.

4. Comparative Historical Analysis of Russia and Ukraine

These two cases, as the need to compare them might suggest, have a lot in common, including before and after the fall of the Soviet Union. Their similar characteristics are the reason why this comparison is taking place, though whether fortunate or unfortunate their path after the end of the Soviet Union is one that is also fraught with similarities.

Russia and Ukraine both experienced a complete change in their way of life, the system to which they had adhered for the better part of a century had ended abruptly and the echoes it felt behind were more than evident in every imaginable aspect. Political and economic aspects routinely drew parallels between both cases, and as such provided continually bleak outcomes. Their problems included unstable governments, unfinished reforms, deindustrialization, corruption, over reliance on specific industries and numerous smaller issues.

In aspects regarding the government and the economy there were some initial differences, however the problems that plagued both countries were all too similar. While neither country had a clean break from communism, with institutions and parties still holding significant power, Russia moved away from it, only being hampered by the communists' significant power in parliament and pre-established infrastructure in rural areas that led to decent results in elections. Ukraine on the other hand was still ruled by communism in one way or another, thus Russia's initial problems with transition came due to opposition while Ukraine struggled due to lack of interest from their leadership. Ukraine was initially ruled by a national-communist ideology spearheaded by President Kravchuk, averse to transition and wishing to continue some Soviet practices, this ideology was largely to blame for the initial delay, with it focusing on the nationalist part of their ideology and undertaking a process of nation building.

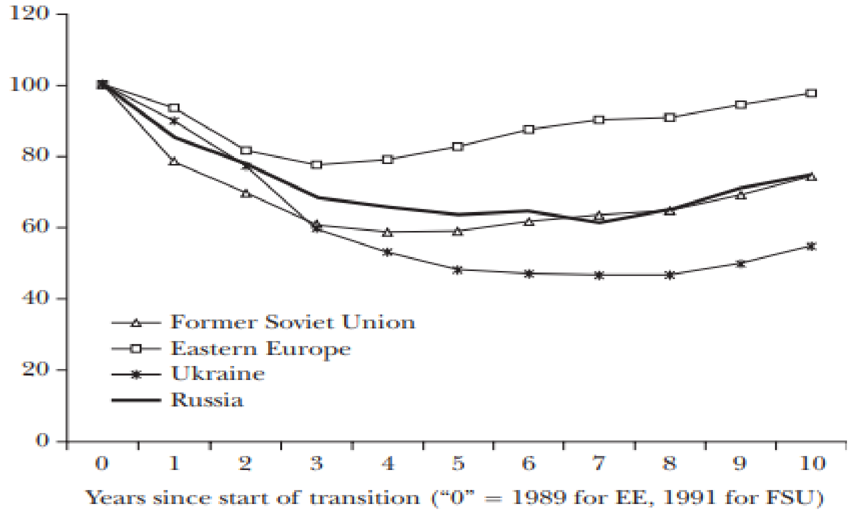
Problems with legislation and leadership plagued both countries but under Yeltsin, Russia started to move towards market reform while Ukraine under Kravchuk only adapted to the changes that happened in Russia, taking an official stance of reaction rather than any initiative. This initial delay is one of the few reasons why GDP loss in Ukraine was more severe than in Russia, the amount by which the loss was more severe is debatable since figures vary greatly according to different sources, with Ukraine losing close to double than Russia or just slightly more. It is also prudent to point out that Ukraine had a starting GDP per capita that was among the highest within the former Soviet Union and even Eastern Europe, with values higher than Poland and Russia (Åslund, 2012). GDP values can vary greatly according to the metric used, whether it be data from the IMF and World Bank or Soviet statistics adjusted to better represent the true values, as such, figures regarding GDP should be viewed as a general trend rather than exact values. Additionally, both countries had a particular issue of reform starting and then stopping or being outright undone when decrees and laws were repealed.

Yeltsin, while pursuing a market transition, was notoriously unstable, due to both personal issues and private motivations. The way in which political problems were solved left much to be desired, with conflicts even escalating to full blown military confrontation, much of it arising from Yeltsin's attempt to further increase his power as a way to circumvent Parliament. While trying to ensure his hold on power and prevent Communism from returning to the Russian Government, deals made with the burgeoning oligarchs provided aid but also gave them more power which would create a protected class that had direct ties to Yeltsin. Ukraine has some leaders that draw parallels to this, for example Yushchenko's time as President which saw him become combative of the legislature for reform with little to no apparent reason, severely diminishing the momentum and good will that the Orange Revolution of 2004 had accomplished.

However, the decisions made by Yeltsin did have some adverse effects, the creation of strong oligarchs that could in theory oppose the government with some efficiency, as well as the loss of strategic industries. His policies did accomplish something important which was bringing a sense of stability, the economy was doing poorly, and people were unhappy, but the government had become stable enough to implement change, the devaluation of the ruble for example after the crash of 1998, proved the government could challenge the IMF while maintaining stability (Stiglitz, 1998).

During the same time, Ukraine switched from President Kravchuk to Kuchma, with economic conditions still being very poor and reform coming at quite a late stage, the country was fraught with instability as government became increasingly populated by businessmen that simply wished to keep reform from happening and keep the system of rent seeking in place. As a result from this situation, Kuchma was locked in a constant power struggle to increase his own power to enact reform while parliament was combative of his measures, stability suffered as a result of this and remained wanting in later years.

Figure 1- Official GDP Per Capita in Postcommunist Countries, First 10 Years of Transition (at constant prices)



Source: Shleifer and Treisman, 2005

As the losses in GDP shown in Figure 1 illustrate, the lack of action on the part of the Ukrainian government resulted in extreme economic woes, even though the country had started in a better position than the other countries represented. Eastern Europe performed considerably better due to its different economic sectors and direct intervention from the European Union. The delay to begin economic reform in Ukraine resulted in loss of GDP that could have been avoided but as the graphic shows this loss led to Russia performing considerably better in economic terms, begging to recuperate GDP at a faster rate.

The clear lack of any economic plan in Ukraine led to disastrous fallout which was only worsened by the continuation of Soviet practices, like ministries that acted in the same exact way as they had done before. The impact partially softened by generous subsidies Russia provided to the former Soviet countries either directly or indirectly in trade as well as the fact that Russia took on all foreign Soviet debt, allowing the former Republics to get international loans. This in part, is one of the main reasons that prevented a complete collapse of the Ukrainian economy during the initial years. Political instability would be a mainstay in both cases, Russia with Yeltsin's insecure rule and rampant corruption granting boons to family friends and Ukraine with governments that were short lived and filled with instability as well as growing corruption scandals turning the nation's Parliament into a "millionaire's club" (Åslund, 2009).

Both countries suffered greatly from the loss of industries, as outlined in the Russian chapter, the Soviet economy was highly focused on military goods for domestic use and export, however, these military companies also provided considerable civilian services, mainly in areas such as aviation, electronics and transport. The loss of state subsidies and the domestic military market doomed these strategic industries, which ceased operations completely or were bought by outsiders that sought the technology. An example of this would Russian military companies openly selling designs to American ones[7]. This simply serves to show the lengths to which companies had to go to save themselves from bankruptcy and unfortunately this was something that happened in both Russia and Ukraine. Along with the overreliance on natural resources and excessive rent seeking behaviour, deindustrialization was a severe problem for both countries, with Russia focusing on exporting natural resources and Ukraine focusing on steel production, both highly volatile markets that are subject to constant change but necessary as a result of the asset stripping that occurred in several industries. In later years this began to be resolved especially in Ukraine as their oligarchs began to compete with each other and drive industrial and economic growth (Åslund, 2015).

The continued use of the ruble by many countries in the former Soviet Union led to disastrous implications due to the poor control and as such both cases were subject to hyperinflation until the ruble zone was finally dismantled, although the warning was heard, and measures were drawn up they failed to implement them until the damage had already been done. Although the use of the ruble was deemed to be a strategic boon when it came to trade between the former Soviet Union, due to the lack of regulation and institutional oversight, it ended up becoming a drain on economic growth and one of the main causes of instability. Attempts to remedy this were certainly made, Ukraine adopted a new national currency, but delayed its circulation and continued using the ruble for years, not only due to lack of political will but also due to the importance of trade with Russia and other former Republics. Additionally due to the continued inflation caused by maintaining the ruble and lack of paid wages, barter was a mainstay when it came to trades, whether these be between people or between states, further pushing away the idea of changing the currency since it already saw diminished use. This then constitutes an error on both parts and even on the parts of the other former Republics due to the unsupervised issuing of credit on all parts.

The privatisation process was one that produced a considerably problematic economic landscape for years to come. The lack of institutional direction or even the institutions themselves coupled with a wish to transition in the fastest way possible led to favourable conditions being given to a chosen few people, these included those with ties to government or

[7] The Russian Yakovlev company sold its designs for the Yak-141 vertical takeoff setup to the American Lockheed Martin that would later use it in the development of the F-35 jet.

those in the government themselves, leading to the creation of the oligarchs that routinely make up a significant part of the post-Soviet economic fabric. This is true for both Russia and Ukraine, as Russia attempted to transition quickly while Ukraine delayed its reforms and when it finally decided to transition, it did so in a similarly rapid manner, especially when regarding privatisation, with some cases garnering attention from both the public and subsequent governments. With legislation lacking in several key aspects, these businessmen took the opportunity to profit due to loopholes or willing ignorance by the government, resulting in an extensive period of rent seeking and purchases for enterprises for motives of asset stripping. The high prevalence of the industrial sector led to plant managers taking over the industries as their own since they held control of them as they had done during soviet times, resulting in several factories being scrapped for profit or several non-competitive industries only existing due to reliance on state subsidies. Their often-ineffective management led to companies being bought out and adding to the ever-expanding power of the oligarchic class, an economic class that would come to hold considerable political power. This situation was common in most of the post-Soviet states but considerably more evident in Russia and Ukraine. This was part of a long problem with political corruption that plagued both countries, resulting in routine political scandals, arrests, faulty privatisations and very little change. One jarring example would be Ukraine having a prime minister with alleged ties to organised crime[8] (Åslund, 2008).

On the subject of oligarchs there is a difference between their actions in both countries, in Russia, oligarchs largely extracted wealth from rent seeking that was then channelled out of the country and used to make deals with individual officials to keep their business going, however, in Ukraine oligarchs resorted to becoming active in the political field, actively protecting their interests, mainly maintaining the standard of rent seeking, even if that required supporting communist initiatives which would in theory be paradoxical to their position. This is one of the key differences that can be identified and one that can help justify the diverging path between both countries, that being besides the initial Ukrainian hesitation to transition.

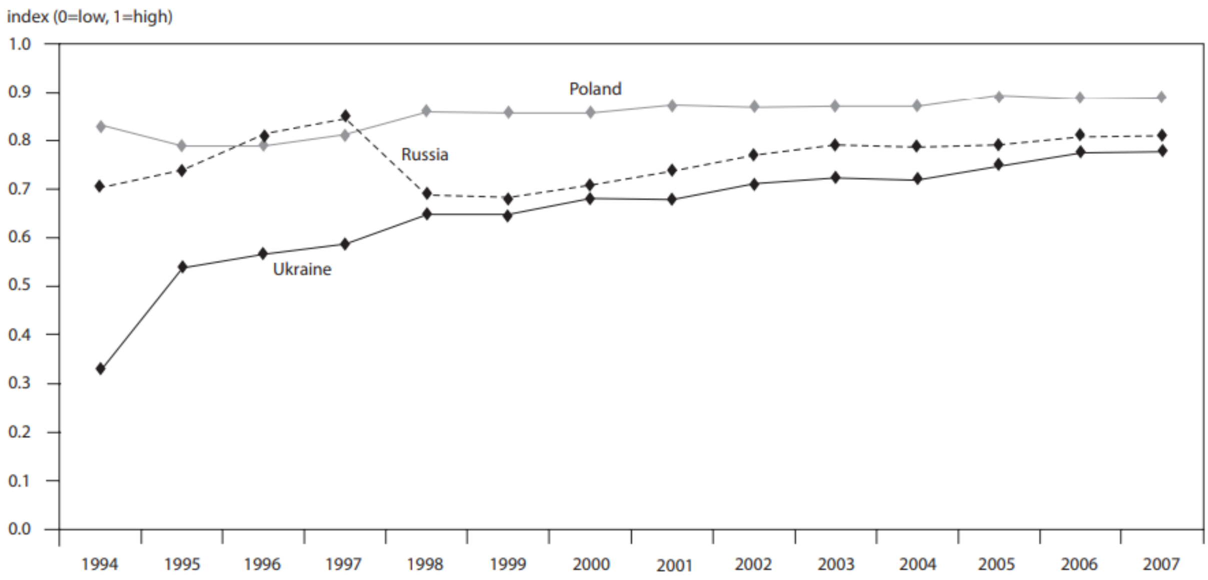
When Vladimir Putin took power, he went about wrestling power away from oligarchs which he had deemed to be too powerful, popular support allowed him to this as well as the fact that the oligarchs themselves did not tend to hold office, there was not much that could be done as they were deprived of their main methods to sway the public, those being news outlets.

[8] The PM in question was later arrested and fled the country but Aslund uses fact that the day his cabinet took office, all the cars in front of government buildings switched from old Ladas to new Mercedes to poke fun at the situation

This marked a turning point in Russian economics, as the State clawed back power and made sure enterprises were subservient to it and by extension the oligarchs as well. In many ways it can be compared to the trust busting that took place during the early twentieth century in the United States. That came at a time when the U.S. Government had recovered from a debt crisis and was bailed out by a private corporation, given their momentary stable position, a choice was made to combat the oligarchical and monopolistic industries that plagued the nation[9].

The stability the Russian government enjoyed allowed it to do this with relative ease, even with some opposition, this would be a step in a new round of privatisations if it were to take place, but this time with more oversight and transparency ideally. The same was discussed in Ukraine, with Timoshenko routinely advocating for re-privatisations and re-nationalisations, however the instability of the Orange Coalition, arguably the government which had the best possibility to accomplish this, made it unable to achieve her desired goal. As a result, oligarchs maintained a significant amount of power within the country, a significantly higher amount when compared to their Russian counterparts.

Figure 2 - ERBD Transition Index, 1994-2007



Source: Åslund, 2009

As exemplified by the graph above, Russia's economic transition was proceeding at a steady pace, passing even Poland with its mix of a gradual and rapid approach to transition that

[9] Often referred to as robber barons, these industrialists were known for their predatory ways of business and their routine offences to the free market, often creating monopolies through illegitimate means

yielded great results, however, the 1998 Russian Financial crisis brought this impressive development to a halt as policy needed to be changed in order to maintain stability. The subsequent gains to transition happened during Putin's initial years in office but as mentioned previously, when the renationalisations began in 2003 and the adoption of the "state capitalism" model began in earnest, transition stalled due to there being no political or public will to continue. Ukraine on the other hand, started considerably worse due to delaying transition for so long, but made considerable strides when the political will to transition was found, however due to the way the Ukrainian economy is structured and how it interacts with its political power, the transition did essentially stall at a similar level to Russia. The years represented are the most significant ones since these are when major reforms took place in both nations, the years since have remained uneventful when it comes to the topic of market transition, as evidenced by the current classification of both nations as transitioning ones.

One of the possible reasons for this stagnation can be explained as differing approaches that yielded similar results regarding the transition to a market economy.

The main takeaway from this comparative process and the historical cases presented throughout this dissertation is in part to draw attention to the governmental stability of each nation and by extension societal stability itself. A nation in turmoil cannot expect to implement meaningful change, especially when it comes to a complete change of economic, political and social system.

As pointed to several times, the initial delay in Ukraine to begin to transition led to significant economic losses, but as the attempt at Crimean independence showed, the country was deeply divided with regional differences being evident. Had President Kravchuk not gone on his crusade of nation building and appealing to nationalism, the region might have been successful in breaking away from Ukraine. Additionally, as elections in the decades since have shown, the country is distinctly divided when it comes the west and east of the country, with these sides often being antagonistic and voting in opposing ways. This justifies the lack of transition initially observed but cannot justify later inaction but certain governments, especially when these enjoyed wide support and favourable ratings throughout the entire country.

In the same vein, Russia had significant problems with separatist movements during the same time, Chechnya being the main example, however due to its limited size and the relative wide support Yeltsin enjoyed both in and outside of Russia, the government was able to restructure itself and establish new institutions to allow for meaningful reform during that period, culminating in Putin's reforms being widely supported by a population that had grown dissatisfied with Yeltsin and the failures of capitalism in Russia, allowing for Putin's measures to be so easily passed, on the back of wide spread support, meaning stability.

The argument I present is that Ukraine could have undertaken similarly significant reforms after the wake of the Orange Revolution, with society being supportive of a popular revolution that drove away foreign influence and empowered a government that seemed capable on account of previous achievements by certain key members within it. This is when Ukraine was at its most stable point and consequently it was when the people were the most receptive to drastic and even radical reforms to the systems within the country.

5. The emergence of State Capitalism and Competitive Oligarchy

Before approaching discussion of these two types of government, there must be an effort to first define them in order to truly understand the differences between them and why these two terms mean such a world of difference in the two cases in question. The labels in question come as logical conclusion to the historical path that these countries followed, regardless of how well they may fit these definitions, they merely serve as labels to understand the conditions and choices in each case, not being political statements or erroneous classifications.

Firstly, state capitalism is a system in which private capitalism is modified by a varying degree of government ownership and control. However, the term can be applied to a myriad of different regimes in which the state manages assets in a way to seek profit. State owned enterprises in strategic sectors are typically the main giveaway that a system of state capitalism is in place, although, public-private partnerships, state-dominated corporatized government agencies and public companies with state control can also be classed as examples of state capitalism. Under state capitalism, resources and industries gain a second purpose as tools of diplomacy since the state can directly influence prices to foreign buyers and use profits to directly influence internal policy. This constitutes a system where the economy is subservient to the state due to its control of key industries. The use of this term has a long and varied history with the aforementioned definition being the general definition of State Capitalism, however the term has been used in a variety of different ways to describe several different regimes. Perhaps more pertinent to this case in question, Andrei Illarionov, former aide to Vladimir Putin, resigned in 2005, over the adoption of the State Capitalist model in Russia (Illarionov, 2006). Indeed, the argument could be made that Russia has a long tradition of State Capitalism, given that the Imperial family long held monopoly and the production and sale of vodka and used the profits to run the state[10] (Herlihy, 2002).

The term has also been applied to the Great Powers during WWI and most belligerents in WWII, given the repeated control of production by the State in both instances (Schmidt, 2003). Though more controversial, the term has been used to describe the modern U.S. system due to the government actively protecting the interests of large corporations, a good example would be the previously stated erecting of trade barriers while also promoting the abolition of foreign

[10] The Russian Imperial family held a formal monopoly on all vodka production and sale, formally since 1649 and informally for longer, serving as an important source of revenue for the state which ran the industry to maximise profit

ones in the context of the Washington Consensus (Chomsky, 2005). In the simplest of manners, State Capitalism has the state as an economic actor seeking profit and using its industries as a tool for diplomacy while taking control of most of the nation's economy, all non-state economic actors are subject to state.

Secondly, the definition of what a Competitive Oligarchy is, can be somewhat difficult to establish due to its vagueness and its novelty. As the typical definition of oligarchy would suggest, it would suggest direct control by few, meaning a relatively small group of people. With the nature of this work being in political economy, the economic part needs to be considered, thus the concept of an oligopoly must also be mentioned. An oligopoly represents a situation where few producers have a direct influence but not complete control of the market. The concept of a competitive oligarchy in the context of this work, appears when oligarchs have moved past an initial rent-seeking phase and acquire means of production by which they transform themselves into industrialists or other major producers, competing with other oligarchs in the same situation and driving economic growth, barring situations of collusion between oligarchs. This system usually involves oligarchs exerting influence over the state, directly or indirectly to maintain their situation of limited competition. This illustrates what Åslund described as being a Competitive Oligarchy (Åslund, 2015). This definition can also be applied to Russia prior to the election of Vladimir Putin and the subsequent renationalisations, in the same vein this system, while taking some liberties, can be applied to the U.S. prior to the trust-busting measures of the early twentieth century that severely diminished the power of private businessmen[11]. To put it simplistically, the state serves private interests and as such perpetuates the will of industrialists, acting in accordance with what will generate the best result for said businesses.

These two approaches to the political and economic fields can be summarised in a rather crass but humorous manner. Russia, much like the West, has a system where the politician can be bribed or lobbied to by the businessman to yield favourable decisions of policies, while in Ukraine, the businessmen cut out the middleman entirely and run for public office themselves to accomplish the same results.

[11] These measures had to be implemented due to the high number of monopolies that had formed in the U.S. during the nineteenth century, in industries such as oil, power, railroads and banking. The problem can be best highlighted by the fact that a single man, J.P. Morgan was able to finance the U.S. government after it had gone bankrupt.

Considering what took place in Russia, the article “Russia’s economy: Before the long transition”, puts forward two scenarios for the Russian economy, the oligarchical path, in which the power of the oligarchs is never diminished by the renationalizations undertaken by Putin’s government and the Putin path which equates to what happened when the Russian Government took back control of natural resource extraction. This then represents a situation where an economy led by oligarchs faces off against one led by the State.

The original version of this theory is one that only encompasses Russia and simply speculates of what could have happened had these specific reforms not happened. Having established my reasoning for my case selection, I argue that owing to the similarities between Russia and Ukraine, their cases are alike enough to the point where values developed for a case study on the Russian Federation, can also be applied to a case study about Ukraine. These of course only work when the values examined are percentages and not absolute values since the difference between the two nations is far more considerable in that sense.

The hypothesis that I suggest that fits these two countries is one of a model of State Capitalism in Russia and a model of Competitive Oligarchy in Ukraine. The former is largely already attributed to Russia, with even former Prime Minister Yegor Gaidar, retracting his support for the once liberal Vladimir Putin after his policies turned towards those of a State Capitalism model. The latter is a term coined by the economist Anders Åslund, who dubbed the Ukrainian economy as a Competitive Oligarchy, arguing that after the oligarchs were forced out of the system of rent seeking, their ability to reform the former soviet industries allowing them to compete with each other, developing and growing the country’s economy. This fits into the definition of having an economy led by oligarchs whose power was not diminished by the intervention of the State. As such, Ukraine will be presented as a proxy for the oligarch led hypothetical economy of Russia within the original requirements outlined in the article, while Russia represents the historical path it took, that being one that saw the State removing power from the oligarchs and moving from a state of crony capitalism towards a State Capitalism system as opposed to the Competitive Oligarchy one used in Ukraine.

This choice to apply these labels to each of these nations is not unfounded, for instance I would argue that Russia followed a Competitive Oligarchy model during Yeltsin’s tenure, or an Oligarchical one at the very least since there is little evidence the oligarchs were competing for anything except rent-seeking. The reforms undertaken by Vladimir Putin and the use of the state-run natural resources companies to accumulate funds for Keynesian measures and other unforeseen circumstances are one of the main indicators of the State Capitalism model within the country, seeing as all evidence point to the companies being run for profit and occasionally being used for diplomacy.

Ukraine is the perfect example of the Competitive Oligarchy model, as Åslund points out, the oligarchs in Ukraine eventually moved away from rent-seeking and asset stripping and started to generate value, with the steel industry being the main example of a functioning industry leading the country's economy. This industry was one that was able to be established through manipulation of the government privatisation efforts, but it did indeed manage to establish a functioning economy capable of economic growth.

While the values presented in the original article are somewhat speculative since exact numbers on something that did not happen are hard to establish, they can be used to analyse what is factual. What I put forward is that one of the main diverging points in the Russian and Ukrainian cases, is the amount of power that oligarchs held, and the path chosen by the government due to this. The choice to head down a path of re-nationalisation is directly tied to government stability and as a consequence the power the government has to take certain measures, the stability the Russian government had at the start of the century allowed it to head down this path, while Ukraine arguably had the same opportunity at the time of the Orange Revolution but could not do so due to political infighting diminishing the capacity for such an undertaking to happen. In the case of the State taking away industries from oligarchs and monopolists, it can then privatise again in a much more orderly and law-abiding way, paving the way for a true market economy, though this clearly did not happen.

For the purpose of this work, Ukraine will be the hypothetical oligarchical case and Russia the historical one, the numbers may not be entirely accurate due to the fact the hypothesis was intended for the Russian economy. Furthermore, values for Russia can be highly volatile, the country has been subject to sanctions over the years and as such their currency has regularly been devalued, resulting in values in foreign currencies going down while increasing in the national currency.

The hypothesis states that minimum wage values would be lower by 20 to 30%, while competition in the economy would be more effective, technological competitiveness would be higher owing to stronger foreign demand and at the expense of the internal market, households would be poorer, and the middle class would account for no more than 25% of the population. In a way these are an extension of the conditions Russia experienced up until 1998, when the approach started to change after the financial crash.

On the first matter, according to data from the IMF, at 2013 values, to avoid the massive drop in the Ukrainian economy after the loss of Crimea in 2014, Ukrainian GDP per capita at current prices, sat at a value that was approximately 75% lower than that of the Russian one, while this is certainly a bigger value than the theory states meaning households are considerably poorer, it is still in line with the general idea that households would be poorer in the oligarchical scenario.

Taking into account the minimum wages figures available for 2013, the Ukrainian minimum wage was roughly 7% lower than the Russian one, measured in dollars at the conversion rate at the time, while not as large of a difference of 20 to 30% as the original theory would dictate, there is clear evidence that the minimum wage is lower in Ukraine. Additionally, the Ukrainian economy was growing at a steady pace during the early 2010s, something that can be attributed to competitive oligarchs, growing the economy and promoting technological progression through imports to make their industries more competitive (Åslund, 2015).

Lastly on the topic of the middle class, Ukraine has a figure between of between 12-15% (Aleksandrova, Dodonov and Vinnikova, 2019) while the middle class in Russia was around 42% of the population in 2014 (ISRAS, 2014), so the numbers once again agree with the original theory.

The original hypothesis is based on generalised numbers hence why there is a certain amount of leeway when it comes to the percentages presented in the hypothetical case. With that being said, it does however, give a gist of the difference in approach in each country. In the Ukrainian case they did not take away power from the oligarchs and had them lead the country and the economy through their direct influence in government. While the Russian case took back power from the oligarchs and left it with the State. Furthermore, the numbers in the original theory are estimates meaning they are not exact and have some room for error, especially since my hypothesis differs in the sense that two countries have been analysed instead of a single one. The metrics analysed are the ones that can most easily be associated with concrete values, though as Åslund referred, the Ukrainian economy has developed more technology while the Russian economy has fomented a higher amount of internal demand due to stronger internal industries, a higher amount of income and a system of import substitution.

This results in the only logical outcome being that the theory is indeed correct, Russia and Ukraine, despite their considerably similar initial positions and similar choices in path, have arrived at very different outcomes. The economic systems in place come from the same origin but diverge on account of what I consider to be the crucial aspect of this theory, that being the stability that allows the state to engage with oligarchs. In the Russian case, their higher stability allowed for the oligarchs to be controlled while also maintaining a strong industrial fabric with competitiveness, while in Ukraine, the state had to privatise more industries to oligarchs, to allow them to become more competitive, further worsening the condition of the state in being subject to them. Thus, the two systems are adopted out of what was possible for each nation, and the differences in their current standings being directly influenced by these decisions.

6. Conclusion

The two nations examined have been proven to have gone through a significant turbulent period resulting in the states we can find today. Through the examination of the historical path of each of the countries, a clear picture of what conditioned the progression of each nation can be established and further contribute to the comparison and the hypothesis formulated on the economic models chosen.

Each case started with clear instability and outside pressure to adapt their economic system by performing a transition to a market economy, along the lines of what economists had established and praised in the Washington Consensus. However, this model proved to be ill equipped to deal with the systems that had been in place in some parts of Eastern Europe and most of the Soviet Union, as the transition process was one that was fraught with issues. The failure of the Washington Consensus and by extension the rapid transition approach led to many countries choosing their own path with alterations to what the reigning theories in Economics might consider orthodox. These problems can be mainly attributed to the lack of market institutions and institutional oversight when it came to most actions, in part due to the speed with which the countries aimed to accomplish their transitions. The theory behind transition economies can be somewhat disingenuous due to the assumption that any economy stuck with that definition is headed for that end goal, as explained in the theoretical chapter that is something that has caused considerable problems in the study of these topics.

Russia attempted to follow the orthodox path but was met with far too many issues for its population to deal with, growing discontent with the market failures culminated with a sharp departure from the path that had led them to the 1998 Russian Financial crisis. Boris Yeltsin's government had accomplished many things when it came to transitioning but that was not enough to make up for the poor living conditions and evident corruption, there was however, some government stability which allowed for change. This change came with Vladimir Putin and his adoption of the State Capitalism model after a final round of liberal reforms to the economy.

Ukraine, with its delay to begin a transition and reactionary stance suffered significant losses, much more than most former Soviet states, but enjoyed a period of relative stability under Kuchma, however this was not something that the government capitalised on and consequently badly needed reform did not take place, further hampering any hopes on a successful transition. Reform was put forward and pushed back, the last hope for meaningful reform came at the time of the Orange Revolution of 2004, where there was both political and public will to enact reform, the government failed to achieve this and therefore the state of Competitive Oligarchy continued and was further reinforced, being what enables the Ukrainian economy to thrive.

This then leads to my main answer to the research question, that being that economic systems used in Russia and Ukraine are a direct consequence of the stability their government enjoyed. Yeltsin, while enacting unpopular policies and being regarded as inadequate with the benefit of hindsight did rule for a considerable amount of time that did cause the country to experience some stability, along with an increase in the prices of natural resources allowed for the country to strip oligarchs of their power and make them subservient to the State. On the other hand, Ukraine also had similar times of political stability under Kuchma but due to opposition, such changes could never be made even when an increase in steel prices gave the country better conditions. Stability, in all aspects, but mainly governmental and societal, is one of the main aspects in analysing the path of these incomplete economic transitions.

On further research on this topic, there is a clear benefit to further development in economic theory on the topic of economic transition, there is also a distinct benefit to any quantification of the societal well-being as a consequence of government policy during this period. Lastly, further values on the theory of State Capitalism and Competitive Oligarchy, to distinguish them more could prove beneficial in establishing a better thought-out definition for these types of economic models.

Finally, for what I would argue is the best contribution made by this work as well as its logical conclusion, the theory of State Capitalism and Competitive Oligarchy stands as a defining aspect of the differences in both Russia and Ukraine. State Capitalism makes for a far better classification due to its storied history and the clear advantages it has presented to developing nations over the years. A Competitive Oligarchy on the other hand, is a rather novel concept with little background, though it has a fair bit in common with the former economic model, it stands on its own mainly due to the fact that the roles between state and businessmen are reversed and consequently, the effect on society at large are also opposite. This neither detracts or praises each approach but distinguishes them for the viable economic models they are, especially considering the conditions which led to their development and adoption in these nations.

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