

Ukraine's Poverty Jeopardizes Its Democracy

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The U.S. foreign policy commentariat was positively thrilled with the unexpectedly large victories rung up by pro-EU parties in Ukraine's recently concluded parliamentary elections. For the first time in its post-Soviet history, Ukraine's parliament would have a strong pro-Western majority.

Even more remarkably, political parties that had in the past done a great deal to stymie Ukrainian integration and cooperation with Europe, groups like the Party of Regions and the Communist Party of Ukraine, have all but disappeared. Some of this was due to the exit of Crimea and to the lack of voting in Donetsk and Luhansk, but a lot of it seemed to reflect a genuine change in public opinion.

From a political standpoint, then, Ukraine has clearly never been in a better position to follow the "European path" of democratic and liberal reform.

The triumph of pro-Western forces in Ukraine was also interpreted as a humiliating rebuke

for Russia in general and President Vladimir Putin in particular.

After all the time, money, and effort that the Russians had invested in protecting Ukraine's former president, Viktor Yanukovich, after the annexation of Crimea, and after fighting an undeclared war in Donetsk and Luhansk and in the process losing several hundred soldiers by most estimates, they ended up getting a Ukraine that was substantially more pro-Western.

If you're looking for an example of "the law of unintended consequences," you could do quite a lot worse than to look at Russian policy toward Ukraine over the past year.

On this particular regard, contrarianism isn't warranted: Russia's position in Ukraine is now weaker than it has been at any point since the collapse of the Soviet Union and, in all likelihood, quite a bit before that. Exaggerated historical comparisons aren't usually very helpful, but you would arguably have to go back several hundred years to find a time when the government in Kiev was so proudly and fiercely anti-Russian.

If Moscow is looking for someone to blame for this, it has only to look in the mirror: The turn in Ukrainian public opinion is a perfectly logical response to Russia's hyper-aggressive policy approach.

But the fact that Russia has failed doesn't necessarily mean that Ukraine has "won." While Ukraine's politics have it primed for a rapid push toward Europe, its economics could scarcely be in a worse state.

Over the course of 2014, Ukraine's economy has been shrinking at an accelerating rate. After a lousy 2013, when it experienced essentially no growth, Ukrainian GDP shrank by 1.1 percent in the first quarter, 4.7 percent in the second, and 5.1 percent in the third.

Keep in mind that even the 2012 and 2013 levels of GDP were still below Ukraine's pre-financial crisis peak. The gap between peak and current output is thus getting larger with each passing week, and Ukraine is essentially on pace to never regain the level it reached in 2008 — and even then it was not exactly anyone's idea of a powerhouse.

As bad as Russia's current economic situation is, Ukraine's is substantially worse. The hryvna has been the world's single worst performing currency in 2014, foreign currency reserves are in desperately short supply, and in order to avoid defaulting on its sovereign debt the government will need someone to bail it out. Inflation is spiking, unemployment has been increasing, the current account deficit — which was already unsustainably high — is getting even worse, and some of the country's most economically productive areas seem fated to become quasi-independent statelets like Abkhazia and South Ossetia.

The situation in the Ukrainian economy is so hopeless that even a normally sober and buttoned-down outlet like the Carnegie Institute for International Peace has called for impossibly risky moves like the EU taking over Naftogaz, the legendarily opaque, corrupt and inefficient Ukrainian natural gas monopoly.

It's anyone's guess as to how such a move could possibly function in practice — having worked in government I'm having a hard time even imagining the bureaucratic turf wars that would erupt in Brussels were it to ever attempt such a policy — but the simple fact that such

radical action is even being contemplated gives some indication as to the desperation of the situation.

Despite Ukraine's apparent political progress, it has been losing economic ground at an accelerating rate. "Reform" has been discussed everywhere and implemented nowhere. Eventually, the current economic slide will lead to political regression. As Russia's experience during the 1990s should have impressed on Western policymakers, democratic political reform — or the "European path" if you prefer more elevated language — simply cannot be squared with economic implosion.

Unless Ukraine is able to get a handle on its economy in the very near future, the current ebullient public mood will sour. Economic decline is poison for democratic governance, and a Ukraine that hobbles along at zero percent growth will see a re-emergence of those regressive political forces that everyone thought had been relegated to the ash heap.

So while it might seem as if Ukraine's pro-Western orientation is now set in stone, behind the scenes forces are already at work and could prove its undoing.

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