THE CATASTROPHE OF UKRAINIAN CAPITALISM

HOW PRIVATISATION DISPOSSESSED & IMPOVERISHED THE UKRAINIAN PEOPLE

RENFREY CLARKE

Note: “Dollars” in this book refers to USD.

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Preface

This book was completed in its initial form in the early months of 2020. The Russian war on Ukraine has now made the work particularly relevant, and has prompted its publication. Oddly, perhaps, for a text that is being prepared for the press as Russian shells crash into suburbs of Kyiv, the focus is not on the international political manouevrings of the years that preceded the invasion. For that matter, the treatment of such pivotal events of recent Ukrainian political history as the Euromaidan revolt and the Donbas war is summary rather than detailed.

The focus instead is on the economy and general social system of Ukraine in the decades since independence, and in a more limited way, on the country's labour movement. The specific aim is to throw light on the reasons why, following independence and despite Western tutelage, the attempt to install capitalism in Ukraine has fared so badly. As is explained in the book, the causes relate in the immediate sense to the economic structures inherited from the USSR, to the mechanisms of managerial control, and to the closely associated political culture that became fixed in the country as it emerged from central planning. But Ukraine also shares in a wider fate: it has been turned into a broadly typical part of capitalism's world "periphery", ruled by a weak, often dysfunctional state apparatus and possessing an economy fitted to the needs of the "core" of the global system for a low-wage, semi-developed hinterland.

With the exception of the Baltic countries that have benefited from admission to the European Union, each of the successor states of the USSR has a post-Soviet history that is dismal after its own fashion. Ukraine, however, is unique in that it remains starkly worse off, in terms of real per capita GDP, than it was at the end of the Soviet period; a generation and more of development has been lost. This debacle is key to understanding the country's society and politics over the past decade, but mention of it has been scant in mainstream Western reporting. There, the concern has been largely to draw an antithesis between the politics of Ukraine ("democracy") and those of Russia and Belarus ("dictatorship"). As this book explains, the distance between the oligarchic pluralism on view in the Ukrainian state and the "consolidation of elites" around single oligarchic blocs found elsewhere in the post-Soviet world is not in fact so great.

In addition, Western reporting has persistently failed to acknowledge the scope of the economic ties that until the most recent years linked Ukraine with Russia. In Soviet times the two republics were closely integrated parts of a planned productive expanse. Following Ukrainian independence, output of countless manufactured goods continued to rely on a cross-border flow of raw materials and components, meaning that serious economic damage was inevitable if collaborative relations were not maintained. On a more abstract level, the fact that Ukraine and Russia shared a similar level of economic and technological development, and used often-identical technical standards inherited from Soviet times, meant that cross-border trade and investment could be conducted on a basis that was equitable and convenient. Retaining and developing ties between the two countries held major potential advantages for each.

For Ukraine, the fact that relations with Russia degenerated into open antagonism, not to speak of war, has been a disaster of the first order. Throughout much of its course, this process was not the result of any broad shift in popular sentiment. The feelings of Ukrainians for Russia and Russians (though not necessarily for the Russian government) remained generally benign until long after the Maidan events of 2014, the reincorporation of Crimea into Russia, and the Donbas revolt that followed.[1] Nor, until well into the process, was the shift to antagonism toward Russia a reflection of evolving ideas and allegiances within Ukraine's wealthy elite. Talk of a contest between "pro-Russian" and "pro-Western" oligarchic blocs finding expression in the Maidan revolt is essentially myth-making. Until late in 2013 few of the business magnates could have been identified as anything except pro-oligarch, and the West, though providing Ukraine's rich with a secure haven for looted wealth, had not inspired them politically. None of the oligarchs had an unambiguous stake in closer ties to Western institutions or capital, and whatever their regional base within Ukraine, the oligarchs had not been averse to cornering lucrative assets in Russia or to forging alliances with Russian counterparts.

To explain the Ukrainian "pivot to the West" in 2013-2014 one is obliged to focus on subjective and ideological factors that do not reflect the country's interests in any straightforward way, and that largely contradict its strict economic advantage. The years from 2010 to 2013, under the presidency of Viktor Yanukovych, were a time of relative prosperity for many Ukrainians, their incomes buoyed not only by the country's foreign borrowings, but also by strong trade with Russia. Further, the moods of anti-Russian nationalism that helped fuel the Maidan revolt were highly specific in both class and regional terms. If the oligarchs were not anti-Russian, the mass of working people were still less so. Nationalist sentiment had an important popular base only in Ukraine's largely rural Western provinces, with their distinct history, and as will be explained in this book, among elements of the urban "middle layers", especially those of Kyiv.

If the shift to antagonistic relations with Russia lacked an obvious basis in Ukraine's economic life, this does not mean that a material foundation for it did not exist, simply that this basis has to be sought on a much broader geostrategic and socio-historical plane. The present book is a study of Ukrainian capitalism, and for it to dwell at length on questions of hemispheric strategy would be out of place. The Russian invasion of Ukraine, however, has brought with it the need to set the scene more broadly. It is necessary to spell out, if only in a summary way, the thrust of Western policy toward the former USSR in the years since the Soviet era drew to a close.

Progressive commentators have often noted that ever since the USSR was dissolved the NATO powers, and particularly the US, have rarely sought to treat the Russian Federation as a partner in international relations, but rather as a defeated adversary.[2] Steps aimed at a balanced integration of Russia into Western economic, political and security structures have been shunned. Western objectives, it is fair to say, have included trying to keep the Russian state in a permanently weakened condition,[3] and strategic policy toward Russia has centred on increasing military pressures and threats, in particular through the eastward expansion of NATO. Reneging on a pledge in 1990 that it would not advance "one inch eastward",[4] the Western military alliance between 1999 and 2004 expanded to the point where, in Estonia, its border stood only 120 kilometres from the suburbs of St Petersburg.

The expansion would have been unthinkable if the underlying goal of NATO policy had been a stable, peaceful post-Cold War accommodation with Russia. In Western writings on Russian strategic thinking, a frequent theme is an almost obsessive Russian fear of being attacked across a North European plain that provides few obstacles to massed military assault. Given the vast preponderance of NATO military capabilities over those of Russia, the clear purpose of incorporating further countries into NATO was to subject Russia to maximal intimidation, ramping up tensions in the hope, no doubt, of inducing some fatal blunder on Moscow's part.

In the new structures intended by NATO for Eastern Europe, the planned keystone was Ukraine. At their Bucharest Summit in April 2008, leaders of the alliance declared their intention to expedite "membership action plans" leading to the accession of Ukraine and Georgia to the organisation. Ukrainian incorporation into NATO was being pursued by Western governments at this time even though survey results showed Ukrainians as being far more inclined to oppose inclusion in NATO than to support it.[5] For Russia, Ukrainian membership in NATO has been a uniquely explosive issue, carrying the promise that a hostile military alliance would abut directly on economically and strategically vital areas of the Russian heartland. Russian fears have not been assuaged in recent years by large-scale military exercises carried out by NATO forces on Ukrainian territory.

Since the early days of Ukrainian independence, a further significant factor serving to increase tensions between Ukraine and Russia has been a concerted intervention by the US aimed at moulding Ukrainian attitudes and directing them against Moscow. The meme that US agencies spent $5 billion on preparing support in Ukraine for the "Euromaidan Revolution" does not hold up to scrutiny;.the sum was a total spent from 1991, and included various categories of aid that were innocuous or useful.[6] There is no doubt, however, that US agencies such as the National Endowment for Democracy have been highly active in Ukraine, lobbying and bestowing grants on political parties, business groups, trade unions and other civil society organisations.[7]

The efforts of NATO governments to influence Ukrainian opinion in pro-Western directions would clearly have had less success had they not converged with the traditional anti-Russian thrust of certain currents of Ukrainian national feeling. Ukrainian nationalism is a complex phenomenon whose messaging and impacts have differed widely between regions in a country whose local histories are diverse. It has fed, however, on long-remembered grievances spurred by enforced Russification under the tsarist empire, and later, in the Soviet Union from the Stalin era. Adherents of the more radical strands of Ukrainian nationalism have characteristically formed their world-views around a conviction of the need to exclude or negate "Soviet" or "Russian" elements, to the point of championing the memory of Second World War Nazi collaborators.

Historically, most Ukrainians have clearly found the nationalist ultra-right repugnant, and except in the country's western regions, candidates of the movement have generally drawn little support in elections. Nevertheless, the sentiments of the extreme nationalists have had enough resonance that more mainstream oligarchic-capitalist parties have cheerfully embraced positions associated with the ultra-right. In recent years, Ukrainians have not needed to vote for the neo-fascist Svoboda party in order to endorse many of its stances.

A further cause of the widening rift between Ukraine and Russia extends back well before the Soviet period, to the "Westernising" tradition of the tsarist-era intelligentsia. To many younger, educated Ukrainians, as inheritors of that tradition, it has seemed axiomatic that meaningful progress for the country can only lie in disavowing any models that bear the taint of the Soviet heritage, of Russia or of left-wing political concepts, and of cleaving to the most "modern" ideas and models on offer from the West. Like their counterparts in Russia, the members of these "Westernising" middle layers tend to be naïve about the realities of Western society, and about what incorporation into developed-world economic structures means in practice for countries whose economies are far poorer and more primitive.

As this book relates, key hopes of Ukraine's "Westernising" middle layers were realised after the "Euromaidan Revolution" of 2014 when economic ties to Russia began to be systematically downgraded, and the process of negotiating an association agreement with the European Union, to include an end to most trade tariffs, was set in train. Readers who are familiar with the ideas of "dependency school" theorists will note the manner in which Ukraine's post-Maidan governments proceeded into a classic "development trap". Loaded with debt, the country was coerced by its lenders into applying austerity measures, at the same time as the freeing-up of trade with the EU allowed more efficient Western rivals to outcompete local producers on the domestic market. The years immediately following the "turn to Europe" were a period of crushing depression, barely relieved as the decade progressed by improved world prices for the basic, low-profit commodities on the exporting of which the country was now even more heavily dependent.

With this, we come upon what may be regarded as the central theme of this book: the inability of world capitalism to solve the economic and social problems of a country now very much part of the system's "periphery". Investment in Ukraine is weak, and productivity low, because the logic of accumulation within global capitalism is such that the most profitable functions come increasingly to be centred in the countries of the developed "core". The patterns of trade and investment in which post-Soviet Ukraine is entrapped systematically strip it of capital, and assign it a role as a cheap producer of unsophisticated, low value-added commodities, whether chicken wings or steel billets.

Needless to say, this analysis is contested by supporters of capitalism both internationally and within Ukraine itself. In the view of liberal orthodoxy, Ukraine's key maladies are social and institutional, consisting in the lack of a "civilised" business culture, the prevalence of corruption within state bodies, and the consequent weakness of the rule of law. This dysfunction is not regarded as reflecting anything essential to the capitalism of weak and impoverished states, but is ascribed at least in general terms to the lingering effects of Ukraine's Soviet (or "Russian") heritage. According to the liberal prescription, Ukraine's state dysfunction is to be countered by systematic reforms, and by maximum engagement with Western partners and models.

The persistent failure of this approach, which has never yet seen the power of

Ukraine's oligarchs challenged in any fundamental way, forms another theme of this book. The liberal nostrums meanwhile beg the question of which social force, massive in its numerical weight and cohesive in its politics, is going to force the oligarchs and bureaucrats to alter their ways. The country's small middle layers, in most cases either enmeshed with oligarchism through their employment or else directly part of the state apparatus, seem an unpromising candidate.

Liberals in most countries and epochs refuse to acknowledge that crucial to allowing robust representative institutions to function, corruption to be restrained and the rule of law to prevail is the existence of a strong labour movement and working-class political parties, holding the rich to account on behalf of a mass popular base. The efforts to build a labour and left movement in Ukraine, and the generally grim outcomes resulting from oligarchic co-option, state repression and neo-fascist violence, make up a further important theme of this book.

Of course, the historic tasks of the labour movement and the political left do not end with curbing the power of capital to the extent that elected legislatures can provide a formal simulacrum of democratic rule. Genuine popular power, and an end to the poverty and dysfunction of countries such as Ukraine, requires the dominance of private capital over society, the economy and the political system to be decisively broken. If that seemed even remotely likely in Ukraine, the country would be at risk of invasion not only by Russia, but by NATO as well.

As explained earlier, the main content of this book was completed in 2020. The last economic and social statistics cited in the body of the text derive for the most part from 2018, and a degree of updating, both of the statistics and the processes, will be provided here The main trends of 2018 can be seen to have persisted through the following year, before Covid-19 struck in 2020. The virus was not kind to Ukraine, causing more than 105,000 deaths by the time of the Russian invasion,[8] and the onset of Covid was swiftly followed by the impacts of international recession. After recording growth of 3.2% in 2019, Ukrainian GDP fell by 4% the following year.[9] As a high point of recovery following the post-Euromaidan slump, 2019 thus provides a vantage point for assessing the state of the country's capitalism after almost three decades of independence. Also, some trends were apparent by this time to indicate the effects on the country of association with the EU.

Ukraine's population continued to decline after 2018, to a figure in 2020 of 43.73 million, more than 15% below the 1991 peak.[10] GDP in constant dollars in 2019 was still down by 5.5% on the pre-Euromaidan 2013 level, and was a startling 36.6% below the figure for 1990.[11] Gross fixed capital formation in 2019, at 17.6% of GDP,[12] remained gravely inadequate. Investment levels were arguably insufficient to allow the country's ageing infrastructure and productive plant to be maintained, let alone modernised.

For the well-being of a population, a basic indicator is GDP per capita at purchasing price parity;.measured, that is, on the basis of what incomes can actually buy within the country. In these terms, Ukrainians in 2019 were not on average significantly better off than they had been in 2013, and poorer by 19% than at the end of the Soviet period.[13] Many millions of citizens in 2019 remained in acute want. In 2013 the proportion of households receiving less than the "subsistence minimum" income had stood at 22.1%. After rising to well over half of households during the post-Euromaidan recession, this figure declined only slowly. In 2019 it was still 37.8%, and an estimated 44.5% for households with children.[14] "Subsistence" that year was assessed as a per capita average equivalent money income per month of 3661 Ukrainian hryvnias,[15] about US$142.

If the Association Agreement with the EU that came into force in 2016-2017 was going to transform the Ukrainian economy, this had not yet appeared by the end of 2019. Ukraine's total foreign trade turnover that year was up by 9% over 2018,[16] and the overall deficit had shrunk. The proportion of foreign trade in goods conducted with the EU countries was now over 40%,[17] and dwarfed goods exchanges with Russia, which shrank in 2019 to 9.2% of the total.[18] The trade with the EU, however, was marked by large and increasing deficits; the growing exchange was clearly proving much more advantageous to the EU than to Ukraine.

Moreover, the expanded trade with the EU was preserving and exacerbating key structural weaknesses of Ukraine's economy. As late as 2021 Ukraine's main exports to the EU would be listed as "iron ore, vegetable oils, cereals, iron and steel". Imports from the EU, by contrast, featured motor vehicles, electrical apparatus, pharmaceuticals, agricultural machinery and fertilisers.[19] In 2019 the proportion of high-technology goods among Ukraine's manufactured exports stood at just 5.5%, only just above the UN's "least developed countries" classification.[20] Under the impacts of EU association, the primitivisation of Ukraine's once sophisticated and broad-based manufacturing was not being reversed but intensified.

The bankruptcy of the "dependent development" strategies into which association with the EU was locking Ukraine is shown by the evolution of the country's net barter terms of trade. This index is occasionally explained as "the number of sacks of coffee a poor country has to sell abroad to import a tractor", and points up the vulnerability of developing countries in global markets. During the present century, Ukraine's terms of trade have been highly variable;.reflecting the gyrations of world prices for metals and grains;.but the general trend has been markedly unfavourable. Association with the EU has not altered this pattern, and since 2015 Ukraine's terms of trade index has been persistently adverse. Using a base figure of 100 in the year 2000, the 2019 value was 84.3.[21]

Entry by Ukraine into the EU structures was also touted as promising a boom in foreign investment. Capital inflows, however, have remained slight, and in 2019 cumulative foreign direct investment in Ukraine remained below the figure for Bulgaria, which has an economy less than half the size.[22] Notable areas of foreign investment in Ukraine have been in low-tech, low-wage categories such as electronics assembly and furniture production.[23]

Ironically, some of the better news to affect Ukraine's economy in recent years has had nothing to do with the EU. This has been the emergence of China as the country's largest single trading partner, outstripping Russia. Ukraine's 2019 trade with China remained highly unequal, with imports from China far exceeding exports, but over the next two years major Chinese grain purchases brought the exchanges into rough balance. Ukraine, however, was buying from China largely high-tech manufactures, while its sales consisted almost exclusively of iron ore, grains, vegetable oils and ferrous metals.[24] Meanwhile, Chinese investment in Ukraine was not taking on important dimensions.

As will have been gathered, Ukraine is in dire need of a thorough reorientation of its economic strategies. Further development of trade links with Western Europe is desirable and necessary, but the mechanisms involved need rigorous re-examination; they must not impede Ukraine's reindustrialisation. The need to rebuild advanced manufacturing implies a focus on expanding ties with industrialising countries whose general level of economic development is not dramatically different from Ukraine's own, and with which trade can be conducted on a reasonably equal and non-exploitative basis. These countries include, in particular, Turkey, Egypt, Iran and India. However improbably, they also need to include Russia. The political corollary of reindustrialisation for Ukraine is thus geostrategic neutrality; if the country wants a future as part of the modern world, it can have no thought of NATO membership.

Rebuilding modern industries in Ukraine will need to rest primarily on the value created by the country's working people. But there is no reason to expect these savings to be sufficient; major outside finance will be essential. This will not come from Western lending agencies, in the quantities or on the terms needed. The only likely source is China, and such institutions as the Asian Infrastructure Investment Bank.

Such shifts in Ukraine's domestic policies and international orientations will, of course, require a fundamental transformation of the country's political life. The obstacles to this are formidable, with the most obvious of them the fact that Ukraine is currently fighting off an invasion by a neighbouring state that does not, in principle, accept its right to exist. Seeking an alternative to dependency and de-development is, however, indispensable.

Meanwhile, it is necessary to puncture some of the myths propagated by the Western media, especially during the past few years, about the character of Ukraine's governance. According to Reporters Without Borders, Ukraine in recent years has held a "problematic" middle ranking among the world's countries with respect to its observance of freedom of expression.[25] Political activists who have tried to question Ukraine's basic social system and international allegiances have been blocked by legal moves, and have risked being beaten up by balaclava-wearing thugs who may, or may not, be agents of the state security forces.

The country's parliament remains a nest of oligarchic deal-making. In 2019 President Volodymyr Zelenskyi's hastily assembled Servant of the People party won a resounding majority of seats. But in May 2021, a Western report noted of the 244 MPs who remained in the presidential faction:

> It is estimated that Servant of the People currently includes at least 30 pro-Western MPs, at least 10 pro-Russian ones, around 40 controlled by oligarch Ihor Kolomoisky, around 30 controlled by businessman Ihor Pavliuk, who is associated with Ukraine's largest oligarch Rinat Akhmetov, at least 10 controlled directly by Akhmetov, around 15 controlled by Interior Minister Arsen Avakov, and a little over 100 with neither specific allegiance nor clear agenda.[26]

Supported by international lenders, Ukraine's reformers have continued to make gradual progress against oligarchic abuses. On the 2021 Corruption Perceptions Index drawn up by the organisation Transparency International, Ukraine advanced to a ranking of 122nd out of 180 countries assessed. Improved by eight places since 2017, this was better than Russia in 136th place, but well behind Belarus in 82nd.[27] Of the post-Euromaidan reforms, the most successful has undoubtedly been the decentralisation program designed to increase the decision-making powers of municipalities and strengthen their finances. A side-effect, however, has been a strengthening of local oligarchic machines. Following municipal elections in October 2020 an Atlantic Council posting noted that the elections saw "a vote in favor of local strongmen", and remarked: "Incumbent mayors look to have won virtually everywhere, regardless of whether they are considered corrupt or not."[28] The extreme nationalist Svoboda party, meanwhile, won re-election for its mayors in the important western cities of Ternopil, Khmelnitskyi and Ivano-Frankivsk.

During 2018 and 2019 modest gains were recorded with implementing the first stage of the health care reform adopted in 2017. Massive corruption in the procurement of medicines and other health supplies was circumvented, by handing the relevant functions over to international agencies while new procurement institutions, independent of the health ministry, were constructed. Changes that allowed patients to choose their own general-care physician were popular. Nevertheless, public health provisions remained severely underfunded.

Then in 2020 the health system was overwhelmed by the Covid-19 pandemic, and further stages of the reform effectively ceased to be implemented. Preventive care began to break down, and the anti-Covid vaccination campaign proved largely ineffective. Poliomyelitis, long considered eradicated in Europe, made a reappearance. As the pandemic continued, earlier reform impacts began to unravel. In many areas, informal payments by patients and their families to hospital staff again became an expected norm. The health ministry began reasserting control over medical procurement, and corruption underwent a resurgence. Ill-paid and demoralised, health workers began leaving the field in significant numbers.

An even greater test of reform;.and a disappointment for the reformers;.has been the struggle to change the structures and ethos of law enforcement and the justice system. By July 2021 Zelenskyi felt himself in a position to sack long-standing Interior Minister Arsen Avakov. Installed soon after the Euromaidan "Revolution of Dignity", and benefiting from close ties with Ukraine's nationalist ultra-right, Avakov as minister had placed numerous veterans of the nationalist militias in police and security posts. Despite cosmetic reforms to the police under Avakov, critics spoke of a persistent "culture of impunity" in the ranks, with one expert stating: "Corruption, violence, manipulation of statistics, covering up crimes by people in uniform;.there have been no radical changes."[29]

Avakov was replaced by a relatively junior Servant of the People MP with a reputation as a Zelenskyi loyalist. Often, however, vacancies in top-level posts have been filled through a process described in one account as "the endless recycling into positions of influence of officials steeped in the bureaucratic malpractices of the past".[30] Senior bureaucrats have continued looking after their own, even in scandalous cases. "The current government interferes in anti-corruption investigations when their person is under suspicion," a Transparency International Ukraine posting noted late in 2021.[31] A report the same year observed that the state prosecution system was still regularly being utilised by the ruling elites to undermine anti-corruption leaders.[32]

Though forced to concede ground in some areas, the plutocrats and their bureaucratic allies still fight tenaciously, and with extensive success, to defend key positions. The cornerstone of Ukraine's corruption, a reformist source argued in November 2021, remained the failure to remove corrupt judges, seen as crucially responsible for the fact that "none of the top officials suspected of corruption" had been convicted since 2016.[33] From 2020 the struggles around the judiciary lay at the heart of a constitutional crisis that saw the whole of the anti-corruption apparatus constructed since the Euromaidan under threat. As investigators probed the affairs of a number of judges of the country's supreme legal body, the Constitutional Court, a finding of that court ruled that the state body conducting the inquiries, the National Anti-Corruption Bureau of Ukraine, had been set up under unconstitutional legislation. The English-language *Kyiv Post* fulminated:

> A recently-formed core group of judges of the Constitutional Court are trying to destroy all the anti-corruption gains of recent years. The judges are doing this because their political protectors want it that way;.and also because that is the only way for the judges themselves to escape prison.[34]

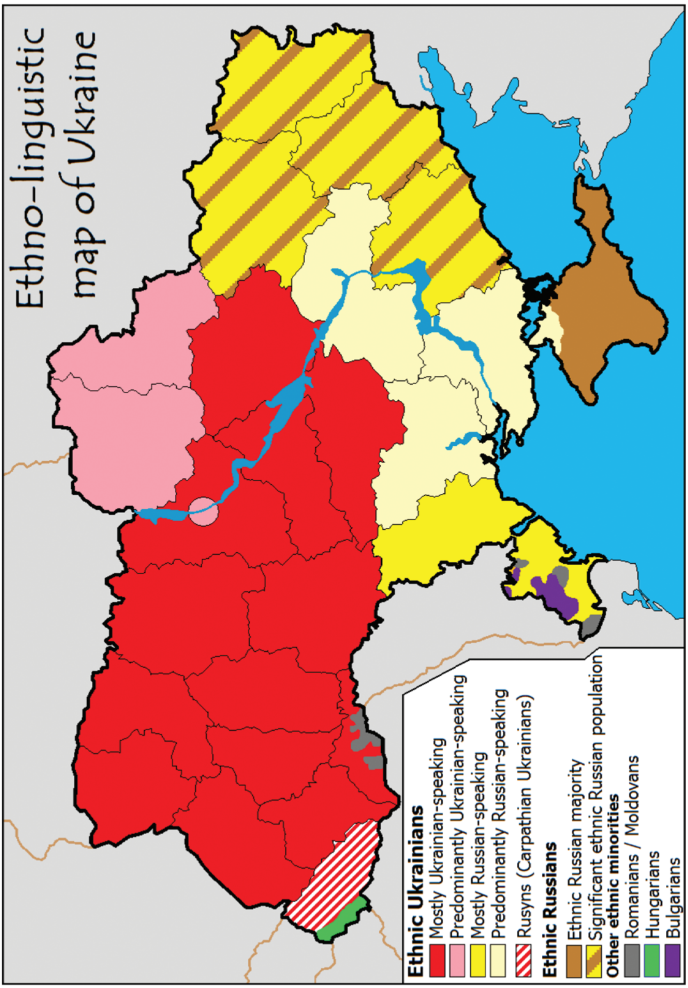
Zelenskyi responded by drafting legislation, later withdrawn, to sack all the Constitutional Court judges. But protected from dismissal by the Constitution;.which they themselves were entrusted with interpreting;.the judges remained defiant. As of the end of 2021 the fight remained deadlocked.

In the course of 2021 Ukraine slipped back into the state of political *anomie,* marked by a broad loss of faith in all institutions and ideologies, that had allowed Zelenskyi to be elected two years earlier. A nationwide survey in March 2021 found that 68% of respondents believed the country was "heading in the wrong direction". Overwhelmingly, Ukrainians now viewed the reforms in key areas as having failed. Only 16% of respondents to the survey saw the reforms to the police as in some degree successful, while in the area of education and science the corresponding figure was 13%. For healthcare it was also 13%; for the anti-corruption drive 7%; and for reform of the judiciary, just 5%.[35]

Widely regarded now as unable or unwilling to deal with the country's problems, Zelenskyi in the course of 2021 saw his approval ratings fall steeply. In a survey conducted in January 2022, just 17.6% of respondents indicated they would vote for him if an election were to be held shortly thereafter. His Servant of the People party would have attracted the votes of 11.6%. The neo-fascist Svoboda had the backing of 2.6% of the electorate, and Ukraine's best-known liberal formation, Holos ("Voice"), of an almost-negligible 1.3%.[36]

Bizarrely, Zelenskyi was to be saved from political oblivion by Vladimir Putin. However the war now concludes, the Russian invasion has recast Ukraine's social and political destinies, almost certainly in ways that will add to the terrible burdens being loaded onto the country's population. For progressives in Ukraine and beyond, the setbacks from the war are monumental. The ugliest forces of the ultra-nationalist right, the Azov Regiment and its confederates, have been refurbished as defenders of the homeland. NATO has been legitimised in the perceptions of millions of once-sceptical Europeans. The Western powers whose domination and pillage of poorer countries is a matter of systemic compulsion now appear to Ukrainians;.and not only to Ukrainians;.as potential saviours.

The war has diverted Ukraine's history into new, unpromising channels. But even if the effects last for decades, history also provides hope that struggles for national self-determination, equity and social justice will triumph in the end.■



Introduction

In 1992, a Deutsche Bank study concluded that of the states that had come into existence following the dissolution of the Soviet Union, it was Ukraine that had by far the best prospects for economic success.[1] When it declared independence in August 1991, Ukraine had been among the most developed and economically diversified areas of the USSR. Heavily industrialised, it was a key centre of Soviet metallurgical, machine-building and aerospace production, also possessing large expanses of exceptionally fertile farmland. The population was well educated, with mean years of schooling in 1990 greater than in Germany.[2]

In 2018, Ukraine was ranked by the International Monetary Fund as the poorest country in Europe.[3] Once-important industries such as aircraft and passenger car production effectively no longer existed. Gross Domestic Product per capita at Purchasing Price Parity, expressed in constant international dollars of 2011, had stood in 1990 at US$10,464; in 2017 the corresponding figure was US$7907, a drop of more than 24%.[4] According to a report in late 2016 by the European Bank for Reconstruction and Development, no stratum of the Ukrainian population apart from a minuscule group of the very rich had seen its real incomes improve compared with 1989.[5] From being essentially part of the developed world, Ukraine had regressed to less-developed status. Ukrainians in 2018, according to IMF figures, were a little more prosperous on average than Guatemalans but not as well-off as citizens of Bhutan or Paraguay.[6] Early in 2019 the United Nations World Happiness Report, combining a range of indices, ranked the well-being of Ukrainians in 138th place out of 156 countries, below India and amid a group of developing nations mostly from sub-Saharan Africa.[7]

For Ukraine, the return of capitalism has been a disaster. The country's economic and political elites have seized on the opportunities for self-enrichment furnished by private property and the market, creating a system that is both dysfunctional and at the same time extraordinarily resistant to change. Nor has the fiasco been turned around by the "Euromaidan Revolution", whose fifth anniversary Ukrainians celebrated — with varying degrees of enthusiasm — in February 2019.

The "turn to Europe" of the years since the Euromaidan has not addressed the causes of Ukraine's decline. To the contrary, it is seeing the country driven further into a trap of Western-enforced marginalisation, dependency and de-development. In a process whose causes include Western pressures and enticements, economic ties between Ukrainian and Russian industries — a nexus that persisted after independence and that continued to underpin broad areas of Ukraine's material output — have been broken or drastically downgraded. Exports to the European Union are not making up the resultant losses, and despite promises, investors from the West have not trooped in to refurbish Ukrainian industrial production.

Modern European capitalism, it is fair to say, has no place for Ukraine as an advanced, highly productive industrial society. That is not to say that the European Union is uninterested in incorporating Ukraine into its trading structures. But this incorporation is occurring on terms that are much more advantageous for the EU than for Ukraine. The thrust of Western actions since Ukrainian independence has been to turn the country into a low-wage, semi-developed appendage, a consumer of EU manufactured goods and an exporter of cheap generic commodities — metal ores, steel, basic chemicals — to the EU and to a range of purchasers largely in the developing world. The Ukrainian exports concerned here are ones whose production within the EU itself is an increasingly marginal, low-profit proposition; opening up the EU market in these goods to free trade with Ukraine thus implies no particular losses for European capital. Meanwhile, the response by EU policy-makers to the prospect of effective Ukrainian competition in the field of raw and processed foodstuffs — a conflicted, politically sensitive area of the EU economy — has been to open the free-trade door by only a grudging crack.

Above all, European capital has no reason to foster the rise of Ukraine as a competitor in the sophisticated, high-profit areas of production that are central to the EU's own hopes of long-term prosperity. This is especially so under conditions where the European economies have ceased to thrive; between 1996 and January 2019, average annual GDP growth in the EU was a lacklustre 1.79%,[8] with the trend decidedly downward. Far from being inclined or able to pour money into creating an advanced, robustly functioning economy in Ukraine, European capitalism can no longer lift even its core economies out of near-stagnation.

It is true that for Western capitalism, incorporating Ukraine into its camp has never been simply an economic project; it is also, even primarily, a geo-strategic one, forming a key part of intensified US and NATO military pressures and threats against Russia. In parallel with the opening of free trade between Ukraine and the EU, close collaboration has been instituted between the Ukrainian military and NATO, to the point where large-scale NATO military exercises are now mounted regularly on

Ukrainian soil.

To the extent that Ukraine becomes locked more tightly into the role of an economic and strategic vassal of Western capitalism, its ability to pursue its own advantage and optimise its forms of development is crippled. Unless the bonds of this politico-economic subjection are broken, Ukrainians effectively have no chance of reversing their country's long-term decline and of achieving prosperity and meaningful independence. Finding a solution to Ukraine's dilemmas, however, involves far more than seeking new international alignments.

Even before being shaped by decades of marginalisation within the international capitalist economy, Ukraine's incipient capitalism bore the stamp of the country's Soviet legacy — which along with advanced industry and education included the social forms and administrative culture of the Soviet elite. The people who continued to control the productive assets and wield political power after independence were, substantially, the same enterprise managers and state bureaucrats who had hobbled and distorted the Soviet-era economy. The choice made by the members of this elite to pursue the "capitalist road", featuring broad private ownership, hegemonic market mechanisms and political rule by the owners of capital, meant that their characteristic bureaucratism and corruption were reproduced within the new capitalist forms. The effect, when combined with peripheralisation within the capitalist world-system, was to consign Ukraine's economy to a radical primitivisation and de-development.

Well before the turn of the century, structures had evolved in the country that in their essentials were those of the global periphery of modern capitalism, the "developing world". It should surprise no-one that today's Ukraine is marked by weak investment, poorly functioning institutions of government, chronic balance of payments difficulties, and a heavy burden of international debt. These and many other baneful phenomena are classic features of peripheral states. The causes of regression stemming from Ukraine's specific Soviet heritage have been added to, or overlain, by others typical of marginal status within the capitalist world-system.

No more than a tiny handful of countries have ever made the transition from the periphery to the "centre" of world capitalism, and those in circumstances that deserve to be viewed as highly exceptional. As one of the poorer and more chaotic of the world's large developing states, Ukraine has no chance. Its only possibilities for real economic and social advance lie in making a fundamental break with the capitalist order.

In analysing the capitalism that has grown up in Ukraine and that exists there today, this study will make extensive use of the concept of "oligarchism" The term is not especially satisfactory, for a number of reasons. Capitalism in almost all of the countries where it prevails is oligarchic in that it concentrates wealth and power in the hands of a strikingly small number of super-wealthy individuals. "Rule by the few" is an inherent (and increasing) feature of the prevailing system in the US, Germany and Japan just as it is of the capitalism of Russia and Ukraine.

In the former Soviet Union, and in the usage of journalists who write about this expanse, "oligarchism" has nevertheless acquired a particular meaning. It relates to a degree of concentration of wealth that is exceptional even amid the inequalities of the modern capitalist world. At the same time, the power of the super-rich in countries such as Russia and Ukraine is promoted and shored up through an unusual degree of interpenetration of private wealth with the apparatus of the state.

That the state power in capitalist countries implements the will, in the final instance, of wealthy elites is of course no novelty. In the "oligarchic" context of the former USSR, however, this function is not just a general serving of the collective interests of the super-rich, but is highly personalised. Individual business magnates cultivate mutually advantageous relationships with particular state employees. The networks are cemented by corrupt pay-offs, and extend throughout legislative organs and the administration of justice. The state to a large degree has been privatised — "captured", in a remarkably personal way — by the wealthiest entrepreneurs.

These features of "oligarchism" apply within the context of a high degree of monopolism, inherited directly from the structures of the Soviet state. Business chiefs in the post-Soviet countries thus have exceptional power to defend the existing economic and administrative forms and practices — which for those who benefit from them, can be extraordinarily profitable — against competition from foreign interlopers, and against local proponents of reform and the rule of law.

The "oligarchism" of the post-Soviet world thus has enough features distinguishing it from the "modern", "civilised" capitalism of the West for the term to be meaningful and useful. ■

I. Building the Oligarchic Order

The Ukrainian catastrophe began soon after independence with an economic collapse whose scope and duration have no peacetime parallel in the history of modern industrial society. The country's Gross Domestic Product did not "bottom out" until 1999, by which time output in the economy, as measured by official figures, was close to 60% below the level at the beginning of the decade.[1]

Ukraine was by no means the only country of the former Soviet bloc to undergo severe and prolonged economic depression in the 1990s. As previous forms of social and economic organisation were abandoned, every country in Eastern Europe and especially, the former USSR saw its productive output drop sharply. In Poland, real GDP in 1991was down by almost 18% on its 1989 figure, and the earlier level would not be regained until 1996.[2] In Romania the decline between 1989 and 1992 was 19%, and the 1989 level was not to be exceeded until 2004.[3] Proponents of the "choice for capitalism" had accepted that a period of disruption and lost growth would follow the onset of "reform". But few of these liberal theorists, if any, expected that the losses would be so massive; that functioning capitalist economies would take so long to cohere; and that in most cases, particularly in the countries of the former USSR, the new order as it reached some kind of stability would be notably lacking in dynamism.

The generally poor economic results of "transition" need, however, to be weighed against the success of the more fundamental process under way at this time in the societies concerned. To employ a phrase that was current among left activists in Russia during the early 1990s, the process was one of "exchanging power for property". The senior party-state officials and industrial managers who for many decades had wielded control in the countries of the Soviet bloc now resolved to turn their authority, insecurely based on their hold over posts from which they could be arbitrarily purged, into the solid legal entitlements of asset ownership. Whether their achieving this purpose would create prosperous economies was not the point, and whether it would improve the living standards of the mass of citizens was still less of a consideration. The goal of the former Soviet-bloc elites was to make their privilege unassailable, fixed in law and able to be transmitted to their heirs. This concealed agenda lay behind the shoddy and expedient nature of various "transition" strategies, and the shallowness of the rationalisations presented to explain them.

In pursuing the status of proprietors, the party-state and managerial elites in various countries pursued distinct lines of march. In Russia, a declared need to act swiftly to make reform "irreversible" in the face of an essentially fictitious threat from Communist hold-outs saw the quick implementation from early 1992 of price liberalisation, voucher privatisation and "loans for shares". In Ukraine the transforming of property relations was more confused and drawn-out, slowed by divisions and hesitations within the ruling stratum. But whether the changes were swift and ruthless or haphazard and slow-paced, there is little to show that the impact of these differing policy choices on eventual outcomes was fundamental.[4] In Russia the post-1990 slump lasted almost as long as in Ukraine, and the collapse of officially calculated GDP, at well over 40% by 1998,[5] was only somewhat less drastic. Far better pointers to the relative severity of the post-reform crash in various countries than the "determination" or "irresoluteness" of reform strategy are provided by specific national and historical factors, ranging from prior experience of developed capitalism to the implicit bail-outs provided in some cases by oil and gas export revenues. The salient fact, meanwhile, is that the neoliberal strategies of price liberalisation, deregulation, privatisation and austerity brought severe losses in all the countries of Eastern Europe and the former USSR where they were applied. This relatively uniform outcome is strong evidence that the transformation engineered by the elites, while it achieved its central goal of securing them as property-owners, was deeply flawed as economic policy.

In formulating their strategies around the beginning of the 1990s, the party-state and managerial hierarchs drew on an alliance, that a few years before would have seemed impossible, with proponents of capitalism from the liberal intelligentsia. These new advisors and ideologues were guided by a view of capitalism that was both idealised and naïve. A prime assumption among them was that capitalist forms were "natural" to modern industrial economies. Once enterprises were privatised, this assumption proceeded, and once planning constraints and price controls were lifted, workable capitalist mechanisms and institutions would — as befitted natural phenomena — take shape swiftly and semi-spontaneously, called into being by the necessities of the free market.

More a political stance than the result of serious analysis, this view ignored the complex processes that had underlain the rise of capitalism in its heartlands. There, the mechanisms of governance of capitalist economies — systems of property ownership and commercial law, labour codes and numerous others — had been constructed over centuries, and less through genteel compromise than through fierce struggles between sectoral and class interests. From this historical viewpoint, capitalism emerges as a system marked by barely-contained contradictoriness and unruliness. The hope that workable capitalist institutions could arise quickly and painlessly in the former Soviet bloc was thus improbable at best, especially since the societies and economies concerned were not empty spaces. Complex social institutions, technological and organisational structures, and power relationships existed there already. Even if some of these forms could be adapted to new purposes, the people who worked within them could not be replaced immediately; their habits, attitudes and general ethos would remain powerful factors. In these circumstances, the supplanting of the earlier social order would not proceed in even or linear fashion. Syncretic elements would emerge, and relatively "pure" capitalist forms in some areas would for years coexist with barely altered structures in others.

The program of the reformers — freeing prices, privatising enterprises and marketising the relations between them even though the legal and organisational infrastructure for capitalism was barely inchoate — therefore guaranteed that a multitude of hindrances would retard and distort the new system's development. The inevitable continued reliance, over many years, on survivals from the old order would also foster the rise of hybrids with — as witnessed in Ukraine — the vices of both systems, and the virtues of neither.

A key structural obstacle to the success of the reform project, an obstacle that was to have especially widespread and lasting effects, was analysed by the British economist John Ross as early as 1992.[6] Ross's central observation — obvious in retrospect, yet all but ignored by liberal strategists — was that the formerly planned economies of Eastern Europe and the ex-USSR were quite unlike those of the capitalist world. The economies of the former Soviet-bloc countries, Ross pointed out, had been structured deliberately so as to expedite central planning. Production in sectors such as large-scale manufacturing tended to be concentrated in massive plants that produced not only finished goods, but also a range of the necessary inputs. Once the system of planning and allocation was dismantled, these enterprises typically exercised monopoly power over the supply of their products, at least on a regional basis, and since the monopoly was of physical plant as well as ownership, it could not be broken down by privatisation. At the other pole within these economies, smaller enterprises in sectors such as light manufacturing and food processing were dispersed in geographical terms. When central planning and allocation were ended, enterprises of this latter type became subject to competition.

The countries of the former Soviet bloc, Ross explained, thus entered the era of reform with what were, in effect, dual economies, divided along the lines of their monopoly and non-monopoly sectors. So long as the prices charged in the monopoly sector remained fixed by the state, enterprises had an incentive to maximise their output in order to fulfil plan targets or secure profits. But in the absence of price controls, the reflex of monopolists is to seek to maximise profits first by cutting production, and then by taking advantage of the resulting scarcity in order to raise prices. Non-monopoly producers, subject to competition, are meanwhile forced to sell their output for whatever price the market allows.

In the economies of the former Soviet bloc, economic liberalisation unleashed a vicious dynamic outlined by Ross as follows:

> (i) output in the monopoly sector declines while its prices rise (ii) the rise in monopoly prices relative to non-monopoly prices crushes the non-monopoly sector — creating a mechanism sucking resources out of the non-monopoly sector.[7]

This dynamic could be broken by the exposure of monopolists to international competition. But in the context of the former Soviet bloc in the early 1990s, such competition was rarely possible; exchange-rate uncertainties, border hold-ups and other dislocations of reform impeded trade and strengthened the hand of the monopolists.

As Ross predicted, the ending of state controls and the liberalising of prices throughout the former Soviet bloc set off a process that was nothing like the rapid economic "bounce back" anticipated by the reformers. What invariably followed was quite different: a persistent, downward economic spiral. Prices increased rapidly for industrial goods produced under monopoly conditions. But light consumer industries, competing with one another in local markets, faced a "scissors crisis" as the rise in the cost of inputs outstripped the prices that the firms involved could obtain for their products. Agriculture took especially heavy blows, as the cost to farms of requirements such as fertilisers and machinery rose steeply in relation to food prices. Meanwhile, the rising prices in the monopoly sector were among various factors boosting inflation, with which wages rarely kept up. Falling mass demand from increasingly destitute populations then deepened the overall crisis, and national economies went into profound and lasting depression.

The Soviet roots of capitalist oligarchism

It was in this context, of misconceived strategies and plummeting output, that the social and economic order now known as "oligarchic capitalism" became cemented in place during the 1990s throughout most of the former Soviet Union. Growing out of the structures and mechanisms of Soviet power in its final phase, this system allowed large fortunes to be appropriated by new business magnates, the so-called oligarchs, even as production collapsed.

Under perestroika in the USSR, deliberate moves to dismantle the centralised planned economy had begun in January 1988, when the new Law on the State Enterprise came into effect. Detailed annual state plans were eliminated; enterprises were granted extensive control over their production mix, their transactions with suppliers and customers, and their internal financing. As well as expanding the formal prerogatives of enterprise managers — who, in a culture where questions were rarely asked of superiors, had already ruled over their subordinates as near-autocrats — these changes also legalised a great deal of existing informal practice. Enterprise managers had long circumvented the rigidities and unrealistic demands of the planning system through under-the-table deals with other state-owned firms.

In May 1988 came a new Law on Cooperatives, allowing non-agricultural cooperative firms to be set up and to enjoy the same rights as state-owned enterprises. Further liberalisation meant that these cooperatives could approximate to privately owned companies. Senior executives of state enterprises, who already controlled the internal cash flows of their firms, were now able to set up "cooperatives" under their personal control. Few obstacles existed to the bleeding of enterprise money into these new private entities.

By the last years of the USSR, numerous managers of state enterprises in Ukraine and other Soviet republics thus commanded substantial personal assets. Within a Soviet economy in which collective ownership remained heavily dominant, a class of private capitalists was coming into being. This new bourgeoisie was sharply distinct from its counterparts in countries where capitalism had evolved in organic fashion over centuries. The members of the Soviet industrial *nomenklatura,* now adding the rights of ownership to their administrative authority, retained their habits and practices essentially unaltered. Their focus was not on investment to create new productive capacity, but on securing additional control over state-owned resources, and not on competition, but on winning advantage through cultivating and influencing contacts in the state apparatus.

As the end of the USSR neared, and the planning and allocation system variously fell apart or was dismantled, overarching controls on enterprise managers grew steadily weaker. But numerous coordinating and expediting functions of state officials remained, as did a range of regulatory requirements, meaning that even relatively minor officials retained extensive leverage through their administrative posts. Soviet laws had routinely been kept vague, to allow for changing interpretations as needs shifted, and officials had fostered a tradition of arbitrariness. For the new capitalists in the late perestroika years, doing business successfully required maintaining tight, reciprocally advantageous relationships with a range of public functionaries.

For that matter, people from the political, administrative and legal spheres figured in the new business world as direct participants. As private capital burgeoned in the late perestroika period, the opportunities for officials to demand bribes, and the accepted scale of the rewards for their services, grew apace. In the legal system, prosecutors and judges took advantage of the extensive discretion that poorly-drafted laws allowed them, and charged steeply for favourable rulings. Accumulating their own capital, state functionaries went on to found private businesses. A further important locus of private capital accumulation in the final Soviet years was the money hoards of outright criminals. Small-scale private enterprises were vulnerable to racketeers, and paid large portions of their takings to secure the "roof" needed to shield them from violent attack. Swiftly-made criminal fortunes required legitimation, and for this purpose numerous businesses, often fictitious but in a growing number of cases real, were set up.

The culture pervading the new capital that arose during this period reflected the interests, methods and perspectives of the people who were now enriching themselves. To embezzling managers and corrupt judges as well as to more obvious low-lifes, the rule of law was not a condition for profitable long-term investment, but an obstacle to be circumvented in the hand-over-fist misappropriation of public wealth. While the mechanisms of this plunder might have been concealed, the lavish consumption of the newly affluent was often on open display, and the nascent capitalist class enjoyed little in the way of popular legitimacy. To be visibly well supplied when most Soviet citizens suffered from acute material shortages was to be assumed guilty of large-scale fraud, abuse of office, bribe-taking … or worse.

Among the republics and regions of the dying USSR, it was Ukraine with its exceptional concentration of desirable assets that offered some of the greatest scope for the swift, illegitimate accumulation of private wealth. An informal alliance joined Ukrainian nationalists, committed to winning independent statehood, with apparatus chiefs and industrial magnates anxious to assert control over the republic's economy and secure its riches against predation by outsiders. In July 1990 came a Declaration of State Sovereignty, and in August 1991 the legislature in Kyiv declared independence from the Soviet Union.

With the coming of self-rule political power did not fall far from the social strata, and even individuals, who had exercised it in Soviet times. The parliament or Supreme Rada remained dominated by former Communists and especially, by directors of large state enterprises and collective farms. The country's first president, elected in December 1991, was Leonid Kravchuk, former Chairperson of the Supreme Soviet of the Ukrainian republic and until 1990, head of the Communist Party of Ukraine's ideological department.

Forging capitalism

To a largely sceptical and bewildered population, Ukraine's elites declared at the time of independence that the country's future lay with "the market" and with the private ownership of productive wealth. It was clear that in Ukraine the transition to capitalism would be more painful than in countries further west. In states such as Poland, Hungary and the Czech Republic, membership of the then European Economic Community — and with it, large-scale aid and investment — was a serious and reasonably near prospect; formal negotiations on Polish "association" with the EEC had begun in 1990. For Ukraine, the likelihood of Western largesse was remote. The expansion of the EEC (soon to become the EU) to include the former Soviet-bloc states of Eastern Europe would clearly impose huge strains on European capital for decades to come. Ukraine was a step too far, and at least during the 1990s, its formal incorporation into Western politico-economic structures was a dream the European authorities did not encourage.

A variety of historical and socio-economic factors also made installing a functional capitalism far more challenging in Ukraine than in states such as Poland and Hungary. Modestly developed parts of the capitalist world prior to 1945, the latter countries retained memories of how the system worked. Indeed, a range of market functions made up part of citizens' everyday experience. Polish agriculture had never been extensively collectivised, and in 1989 the country's private sector comprised as much as 25% of the economy.[8] In Hungary from 1968, market exchange had been a key feature of the New Economic Mechanism. Few parallels to this situation existed in Ukraine. Except in the mainly agricultural western provinces that had been part of pre-1940 Poland, direct memories of life under capitalism were almost extinct. Few people in Ukraine had more than a sketchy grasp of how the system might be made to function. Basic market institutions, as explained, were lacking, and Soviet-era managerial skills often had little application in the new context. No parallel existed for the closely-woven fabric of commercial norms and accepted legal restraints that had evolved over centuries in the capitalism of the West, and that allowed the system to operate there.

Meanwhile, Ukraine was entering the post-Soviet era with its economy in crisis and shrinking fast. Enterprise-to-enterprise linkages, that had been counted on to take the place of the central allocation system, were doing so only inconsistently. With demand declining and supply chains often broken, output plunged. In 1991 the fall in GDP was 8.4%, followed by 9.7% in 1992, 14.2% in 1993 and 22.9% in 1994.[9] As output and sales plummeted, enterprise directors lobbied for state production orders, and where their revenues did not cover costs, pleaded for government subsidies and National Bank credits. The parliament, top-heavy with people from the old industrial *nomenklatura,* passed legislation expediting handouts to otherwise insolvent firms. In these circumstances the new administration of President Leonid Kravchuk quickly lost control of its fiscal policy, which was reduced to a succession of ad-hoc, sometimes contradictory measures designed to placate one or another source of elite pressure. In 1992, subsidies and quasi-subsidies to enterprises reached 28.2% of Ukraine's GDP, and the consolidated state-sector deficit, 27.8%.[10] Credits to enterprises that year reached 65% of GDP.[11]

A major problem afflicting the government was that its financial commitments were not subject to unified oversight; as late as 1999, Ukraine did not have a fully functioning treasury.[12] Still more fundamental was the lack of a developed tax system. The funding of the state in Soviet times had been an accounting procedure between the government, its ministries, and the enterprises they controlled; now, as tax payments from independently managed enterprises were evaded, or became impossible for lack of cash flow, the income of the state ran far behind its outlays. Without developed banking and securities exchange systems, covering the gaps in budget revenues through domestic borrowing was impossible. To keep the state apparatus functioning, Kravchuk and his government relied on unsecured monetary emission, supplemented as time went on by foreign loans. The resulting explosion in the money supply brought wild levels of inflation; in the course of 1992 consumer prices rose by 2730%, and in 1993 by no less than 10,156%.[13] The country's new interim currency, the karbovanets, quickly became almost useless as a store of value, and the savings of millions of Ukrainians were wiped out. The main response by the authorities to hyperinflation was a belated attempt to impose price controls on a range of basic industrial commodities and food staples. The controls, however, did little to reduce inflation; their main effects included ravaging the balance-sheets of the enterprises subject to them, sending the directors to lobby for subsidies and credits.

Compounding the home-grown economic problems were external shocks. World markets in the early 1990s were plagued by recession, and demand for Ukrainian exports was weak. In other states of the former Soviet bloc, crises had broken out in parallel with Ukraine's own, and cross-border trade underwent steep falls. The deepening slump in Russia's economy — the Yeltsin administration's "shock therapy" notwithstanding — brought cuts in Russian demand for the metals and machine-building products in which Ukraine had specialised. Meanwhile, the decline of finished goods production in Russia freed up Russian raw materials and intermediate goods for export, glutting still further the world markets on which Ukraine relied. Difficulties in coordinating Ukraine's pricing policies with neighbouring states impeded trade. In Russia, most price controls had been abandoned at the beginning of 1992, at a time when Ukraine's borders with other countries of the former Soviet Union remained substantially open. Russian traders took advantage of the chance to buy price-controlled foodstuffs and raw materials in Ukraine for relatively tiny outlays. The Ukrainian authorities responded by setting up customs barriers, levying export taxes, and requiring raw materials exports to be licensed by the Economy Ministry. The customs checks, involving long queues and widespread corruption, became a major restraint on the exchange of raw materials and components between enterprises on opposite sides of what had once been a purely administrative border.

Simultaneously, household consumer demand in the Ukrainian economy dipped steeply as real wages, poorly protected against inflation, fell to abysmal levels. In 1993 the official increase in average wages was less than 40% of the rise in consumer prices,[14] and an IMF study indicates that by 1997 real wages had lost as much as 80% of their value at the time of independence.[15] In addition, wage payments were often months in arrears, or were paid in physical goods that employees had then to try to barter. The actual fall in household incomes was, however, less than the official data suggest — as was shown by the physical survival of the wage-earners and their families. Numerous Ukrainians were by this time supplementing their wages with part-time work in the untaxed "shadow economy". Jobs in the informal sector also allowed large numbers of workers to survive periods of open or disguised unemployment; a survey in March 1993 showed 14.6% of workers as having been placed on long-term leave, with the level in some regions and sectors exceeding 44%.[16]

Though disastrous for Ukraine as a whole, the policy flounderings of Kravchuk and his economic strategists in the early 1990s aided the accretion of money and assets by the country's elites, and especially by the "Red directors" who controlled important state enterprises. Even as output plunged in wide areas of state-owned production, new channels opened up for bleeding value from the public purse in order to speed the rise of private business empires. The methods used were diverse and ingenious, but were aided by the haphazard character of state financial accounting that resulted from hyperinflation.

In March 1993, as the pleas of failing enterprises for credits and subsidies became incessant, the government ordered a huge emission of funds that resulted in the karbovanets losing half its value against the dollar in the space of a week. The sudden flush of money allowed enterprises to wipe out their debts to one another, and made the task of government officials charged with identifying firms that were unviable —

and hence, undeserving of further credits — next to impossible.[17] Using such devices as overpayments for services or materials, enterprise managers diverted huge amounts of the new funding into private firms under their control. Because the interest rates payable on the new credits were far below the level of inflation, the loans when they fell due could be paid back with relative ease in heavily-devalued currency. A further gift to the "Red directors" was the system that required export licenses for almost all raw materials. As explained by the economist Anders Åslund, these goods in 1992 made up about 40% of Ukraine's exports, and their controlled local prices averaged only about 10% of the corresponding prices on world markets.[18] When officials could be convinced or bribed to issue export licences, the exporters — including some of the country's most powerful enterprises — stood to make staggering gains.

By 1994, the usefulness of the economic mayhem to Ukraine's elites was coming to an end. The primitivisation of exchange, the chaos in government finances, and depleted material output now presented obstacles to further private enrichment. The time had come for stabilisation. Reflecting this new orientation was the rise to the presidency of Leonid Kuchma, who defeated Kravchuk in elections held in July 1994. With Kuchma's victory, power stayed firmly in the hands of the established ruling stratum; a leading figure among the "Red directors", Kuchma until 1992 had headed the giant Yuzhmash machine-building complex near Dnipropetrovsk. After then serving for a year as Kravchuk's prime minister — and overseeing much of the worst government dysfunction — Kuchma had resigned in September 1993, complaining of the "slow pace of reform".[19]

With a self-declared reformer now in the presidency, Western financial institutions that had refused earlier to lend to Ukraine grew more sympathetic. Loan agreements were reached late in 1994 with the IMF and the World Bank. From October that year the Kuchma administration applied conventional neoliberal policies that included enforcing strict austerity. Export and import restrictions were annulled, differential exchange rates were unified, and most price controls were lifted. A tight rein was placed on government disbursements, allowing a cut in the overall budget deficit from some 15% of GDP in 1994 to 5% the following year.[20] With consumer demand still minimal, inflation ebbed from about 400% in 1994 to 180% in 1995, and eventually to below 10% in late 1997.[21] A new currency unit, the hryvnia, was introduced in September 1996, and was made convertible. Circulation of foreign currency, which in the form of packets of US dollars had been required for sealing almost any large private transaction, was banned.

As subsidies and credits came to an end, firms that could not export became chronically short of money. Large inter-enterprise debts emerged, and barter deals, with all their inefficiencies, became a commonplace resort as plant directors sought to keep production minimally under way. Like the hyperinflation of preceding years, Kuchma's reforms of the mid-1990s hit with devastating force at working people. With countless firms now at least episodically illiquid, and the managerial looting of enterprise funds by no means at an end, millions of workers waited for months to be paid.

The question arises of why organised, nation-wide protests against mass impoverishment and oligarchic plunder did not become salient features in Ukraine's political life. The reasons do not have to do with a lack of militancy in key sectors of the working class; the 1990s in Ukraine in fact saw labour struggles on a titanic scale. The industrial combat had its origins in the late perestroika years, and was centred in the coal industry of the Donbas region in the country's south-east. During the summer of 1989 workers at 173 of 226 Donbas collieries were recorded as having gone on strike.[22] A further outburst occurred in the spring of 1991, with the miners now led by elected enterprise and city strike committees and voicing openly political demands, including for the resignation of the Soviet president and government. The greatest eruption of all took place after independence. During the summer of 1993, in what amounted to a regional general strike, more than 300 mines and other major enterprises in the Donbas were shut down over some ten days.[23] By this time the strike committees were standing institutions, and throughout the rest of the decade miners engaged in large recurrent struggles that centred particularly on the demand for the payment of back wages. The ferment on the coalfields only abated in the years of partial economic recovery after 2000, when remonetisation of the economy allowed the wage backlog to be reduced.

Despite their combativeness, the miners and their strike committees failed to build a mass-based political opposition that could contend for power against the oligarchs and their parties on a national level. In part, this failure reflects the strategic weakness of the Ukrainian working class as its living standards collapsed and its members grew preoccupied with the individual struggle for survival. A more fundamental problem, however, was a deep-rooted political confusion. Worker activists, however militant, rarely had much ideological schooling aside from memories — now tinged with scorn and bitterness — of the Soviet version of Marxism. Contributing to the confusion was the fact that in many enterprises, the antagonism of interests between labour and capital was not especially clear-cut. Most coal mines, for example, remained state-owned, and in many cases depended on state subsidies to keep operating; consequently, their directors might well make common cause with strikers in the hope of extracting concessions from the government. Enterprise executives fostered a patron-client relationship with their work collectives, presenting themselves as defenders of worker interests against an uncaring state. Local officials and oligarchic factions also offered themselves, opportunistically, as allies. Adding to the ambivalence of class relations was the fact that workers in large enterprises also depended on their employers for a broad range of social services, in part dispensed via the management-friendly "official" union body, the Federation of Trade Unions of Ukraine (FPU).

In 1992 a section of the coal industry workforce broke with the "official" trade union to form the Independent Miners Union, that eventually became the core of the new Confederation of Free Trade Unions of Ukraine (KVPU). But despite its militant traditions and a growing record of defending workers in conflicts with employers and the state, this current shared in the broader failure of the Ukrainian labour movement to develop a characteristic working-class program, spelt out in demands that distinguished it clearly from the positions of large-scale capital. Vulnerable to co-option, the KVPU drifted into long-term alliance with the political projects of the gas-marketing oligarch Yuliia Tymoshenko.

The failure of austerity

The austerity measures initiated by Kuchma from late in 1994 brought macroeconomic stabilisation, but economic activity continued to contract. It was not that Ukraine's main exports were uncompetitive. Though productivity was low, wages were at starvation levels or were not being paid at all; as a result, the country's trade offerings could generally be supplied at prices attractive to foreign buyers.[24] But the products concerned — largely metals, basic chemicals and agricultural produce — were subject to recurrent gluts on world markets, and also faced anti-dumping suits and other protectionist barriers; as a result, profits were unpredictable and often slender. Meanwhile, austerity was cutting deeply into effective demand from the population. Firms might be buoyed by monopoly positions in the domestic marketplace — in 1990 the share of Ukrainian industrial output produced by monopolists was a remarkable 67%[25] — but any enterprise that depended, directly or indirectly, on local consumption faced a perilous future. In an especially bad situation were firms that served the consumer market while also being subject to meaningful competition. Ukrainian consumer manufacturers lost market share as the few members of the new moneyed strata sought the higher quality and more alluring features of imported goods, while small privately-owned service businesses failed in large numbers.

The year-to-year shrinkage of the economy also reflected a range of structural difficulties that, like the effects of monopolism, the theorists of austerity had never taken seriously into account. Of these, the most crucial included severe shortages of finance, especially for non-exporting firms; the dysfunctional nature of state institutions; and the generally wayward, anti-economic nature of the new capitalist elite as it cohered out of its Red-director, state-bureaucratic and mafia components.

Despite the quelling of inflation, the economy in the mid-to-late 1990s remained severely demonetised, as the state authorities refused to loosen their restraints on credits and subsidies to industry. The use of barter deals between enterprises thus abated only slowly; as late as 1999, an IMF study reports, such deals still accounted for 33% of industrial sales.[26] Meanwhile, and despite their acute need for finance, enterprises tended to be wary of taking out loans from private commercial banks, which were poorly developed and often criminalised. Most of these institutions were small "pocket banks" set up by wealthy entrepreneurs; lending mainly to their owners, they served also as mechanisms for expediting money-laundering and capital flight. Within the private banking system, interest rates were kept high by the primitive state of related legislation, that lacked effective mechanisms for enforcing credit agreements. Throughout the Ukrainian business scene, payment of debts could often be secured only by resort to underworld enforcers.

Among the state institutions with which enterprises had to deal, the tax system as it had evolved by the mid-1990s presented a particular obstacle to efficient operation. The result of successive improvisation, tax laws were bafflingly complex and often contradictory, while enforcement practices were capricious. Only through keeping tax officials paid off could entrepreneurs secure any real guarantee against investigation and perhaps, prosecution. At the same time, evading taxes was rarely difficult for enterprises that exported goods using barter deals, or that were able to shunt income into shadowy subsidiaries. The scale of the malfeasance meant that avenues of revenue-gathering that yielded well in other societies provided only poor returns in Ukraine; consequently, the government multiplied its imposts to crippling levels on economic functions — in particular, the employment of labour — that could be reliably taxed. Meanwhile, an ill-conceived system of special economic zones, planned to encourage investment and enhance exports, provided tax concessions and tariff preferences to selected companies. The main effects, however, were to foster tax evasion through transfer pricing; to encourage smuggling; and to swell capital flight.[27]

The impact of high taxes, especially on smaller private businesses, was often to make them abandon attempts at legal operation and retreat to the "shadow economy". Building on its Soviet-era roots, Ukraine's informal sector swelled as the 1990s progressed, until guesses at its size ranged as high as 60% of total economic activity.[28] The "shadow economy" provided employment, relieved bottlenecks through supplying petty goods and services, and provided a medium in which new businesses could arise and grow. Nevertheless, it deserves to be seen as a long-term drag on economic growth. Its methods were backward, investment was almost certainly minimal, and productivity within its bounds was clearly low. The culture it propagated was one that Ukrainian society needed desperately to surmount.

Together, the primitive state of the banking sector, the inequities of the tax system and the country's general economic malaise provided a powerful deterrent to firms tempted to put money into restoring their production. World bank and OECD figures show that after collapsing in the first post-independence years, investment in the Ukrainian economy remained throughout the rest of the 1990s at less than a fifth, in constant prices, of the levels in the final years of the Soviet period.[29] The comparison with investment under the Soviet regime needs to be made with caution, since the use of investment funds in the USSR was exceedingly wasteful, with huge sums stolen or otherwise misapplied. Nevertheless, the resources allocated to maintaining and expanding production had been real, and in post-Soviet Ukraine, for the most part, they were no longer being assigned. Investment in light manufacturing effectively ceased.[30] The situation in heavy basic industry, especially metallurgy, was less dire; producers who could export had an inducement to maintain their plant, though only rarely to upgrade it. But even in these areas the rising oligarchs tended to find better-paying ways to employ the funds they administered than on productive investment. The sums involved could be spent on the bribes and other operations needed to win control of additional assets. Or, if the prime consideration were to secure personal fortunes from risk, funds could be dispatched abroad. Although capital transactions were in theory strictly controlled, estimates in the late 1990s put the cumulative sum held abroad by Ukrainian citizens at $25–50 billion,[31] similar to the annual GDP during these years of $40–50 billion.

The mentality and habits of the new Ukrainian capitalist class thus came to pose an additional — and exceptionally potent — obstacle to recovery from the 1990s crisis. Meanwhile, Western owners of capital had little inducement to put money into an environment where foreign investors swam with sharks, where their commercial skills were largely inapplicable, and where even their superior financial resources would not necessarily be decisive. Foreign direct investment at the end of the 1990s stood at a cumulative figure of no more than $2.81 billion,[32] smaller by an order of magnitude than the estimates of capital flight.

For productive plant to be restarted, let alone being upgraded or replaced, major new demand needed to appear. For practical purposes, this additional demand in the mid-1990s could only stem from an economic revival in other post-Soviet states. But the analogous collapse in Russia had yet to reach its nadir; this arrived only after the ruble devaluation and debt default of August 1998. In Ukraine, the slide of economic output continued. By the time the low point was reached, in 1999, the real value of industrial production was less than 30% of its level before independence,[33] and of agricultural output, little more than half.[34]

The decline, as noted earlier, rates as undoubtedly the worst economic disaster ever suffered by a modern nation not at war. To focus solely on the implications of this catastrophe for the future of Ukrainian capitalism would be to ignore the myriad personal traumas that the return of the system inflicted on the country's population. Political economist Hans van Zon provides this passage:

> In 1998, 80% of the Ukrainian population was insolvent and the majority of the population spent most of their income on food. The calory intake per capita … dropped from 3597 kilocalories in 1990 to 2567 kilocalories in 1997, while protein consumption fell in the same period from 105.3 grams to 75.4 grams … According to the World Bank, in 1997 about three-quarters of the Ukrainian population were living below the poverty line (on a purchasing power parity basis). The poverty line was fixed at US$4 per day.[35]

Mass immiseration had cost the new social order much of its democratic legitimacy. The American political economist Robert Kravchuk notes a SOCIS-Gallup survey from mid-1998 that recorded 33% of Ukrainians favouring a return to central planning, compared with just 25% who preferred a market economy.[36] Nevertheless, the socio-economic basis for capitalism was by this time in place; the bulk of productive wealth had passed into private hands.

Privatisation: the initial moves

It was through the takeover of collectively-owned assets during the mid-to-late 1990s that Ukraine's economic elite transformed itself from a loose array of ambitious individuals, their power based on industrial overlordship, lucrative public posts, and criminal takings, into a distinct social stratum – the owners of large capital, the oligarchy. Moves toward privatisation had begun before independence, with the handing over of mostly small enterprises to their work collectives on leasehold agreements. Early in 1992 privatisation legislation was adopted by parliament, and a rudimentary program was drawn up. By late in 1993 the majority of small-scale enterprises, primarily shops, restaurants and other service establishments, had been leased. In many cases the agreements included buy-out provisions under which the employees — or more realistically, the managers — could acquire equity in exchange for profits that the firms generated. As inflation rates soared, the privatisation authorities failed to adjust the asset valuations to take account of the devalued currency. Even if profits were small in real terms, they soon outstripped the valuations, allowing the enterprises to be privatised in quick time for a fraction of their real worth. By mid-1997 the privatisation of lesser enterprises was essentially complete.

Larger enterprises, especially in industry, were privatised much more slowly. Often operating at a loss, and with their machinery ageing, most state-owned industrial firms in the 1990s were not enticing targets for capitalist ownership, even for the managers who controlled them. So long as the enterprises were formally in public hands, their directors had a claim on subsidies and National Bank credits; privatisation promised to make access to this easily-misappropriated finance more difficult. Demonstrating the reluctance of managers of large state-owned enterprises to accept the sell-off of their firms was a moratorium placed by the parliament in July 1994 on the privatisation of large assets; this was ended the following November only after the government announced that more than 6000 enterprises would be excluded from privatisation due to their "national significance and value to the state".[37] The sale of large firms began on an important scale only in 1995, with a program launched by the Kuchma administration. Bailouts of loss-making enterprises were by this time being restricted much more tightly; it could thus make sense for managers to try to secure their existing positions through taking formal ownership.

In privatising large enterprises, the Ukrainian elites faced a major socio-political obstacle. The capitalist "transition" required creating a distinct class of owners of capital in whom title to the socially-created means of production would be vested. There was no way that ownership of the former "property of all the people" could be alienated from the population through fair purchase, at least by Ukrainian citizens; the money hoards in the hands of would-be purchasers did not remotely approach the value of the assets concerned. In any case, for capitalism to function the mass of Ukrainians, assigned the role of a proletariat, needed to be reduced in wealth to the point where their only significant saleable asset was their labour power. A just division of society's riches, through removing the lash of impoverishment, would weaken the compulsion to labour, undermining the whole capitalist project.

If the expropriation of the masses were to be carried through, privatisation thus required that a profound confusion, atomisation and demoralisation should prevail. Here the "actually existing socialism" of the late Soviet era, followed by the suffering and despair of the early 1990s, provided a big start. But more was needed: there had also to be an array of immediate distractions and subterfuges. Answering this need were the bewildering multiplicity of forms that the theft of public wealth in Ukraine assumed — at least eight distinct privatisation pathways were eventually legislated — and the fiction, taking a variety of shapes within the privatisation laws, that the masses were being meaningfully compensated.

Promoting the illusion of compensation were several variants of "voucher privatisation", resting on certificates that were issued, in theory, to the whole population. These certificates could be invested in licensed trust funds, that in turn could bid at auction for shares in firms subject to privatisation. Theoretically, the program would create a new category in Ukrainian society: a broad stratum of small equity-holders who would act as a force compelling enterprise managers to enact reform and modernisation. But the members of the industrial *nomenklatura* were intent on ensuring that when the enterprises they commanded were privatised, effective control would fall to them and their placemen.

Crucial for turning the privatisation process to the advantage of the "Red directors" was the parliament, the Supreme Rada. Where the Rada deputies were not themselves powerful industrial managers, they routinely owed their posts to people who were. Using their influence in the parliament, the industrial chiefs blocked provisions that might have allowed large outside investors to gain important stakes in major firms. Meanwhile, any possibility of the "voucher funds" ever controlling desirable assets was thwarted by ensuring that as adopted, the privatisation measures lacked a legislative or institutional basis remotely adequate for securing equitable outcomes. One commentary remarks:

> There were almost no practical regulations in place for securities trading, transfer of ownership, registration of shareholders and the activities of intermediaries. The protection of the rights of minority shareholders of joint stock companies was also virtually non-existent.[38]

In these circumstances, the privatisation certificates being handed to the masses had little value. Though supposedly non-negotiable, the "vouchers" soon came to be bought and sold, and despite having a nominal worth when issued of some \$1500 each, they eventually changed hands for as little as \$10.[39] Packaged together by sharp dealers, they were bought up by companies controlled by enterprise managers, or served as a vehicle for entry into the privatisation process by criminal operators. There was no way that the trust funds, despite holding the privatisation certificates of millions of citizens, could match the networks of reciprocal favours and pay-offs at the disposal of the enterprise chiefs and their bureaucratic allies. The assets of the funds went mostly into dispersed, ill-defended minority shareholdings. There, the popular entitlements they represented were effectively annulled.

As well as exploiting the easily-subverted mechanisms of the official privatisation process, the executives of state enterprises employed a wide range of malpractice as they manoeuvred to privatise their firms, to their own advantage and at least cost to themselves. Production would be run down to deter rivals and depress the purchase price. The economist and politician Volodymyr Lanovyi speaks of "the fake bankruptcy of state-owned companies accompanied by illegitimate court verdicts to transfer ownership to private companies that covered commitments to pay their debts which, for the most part, were significantly lower than the cost of the respective assets."[40] As a matter of course, the private bidders concerned would be shadowy outfits owned, often via multiple shell companies, by the existing enterprise hierarchs.

On the whole, existing managers faced little competition for the takeover of their firms. An IMF report from 1997 records that as many as 85% of shares were finishing up with incumbent managers or (in practice, usually the same thing) with enterprise workers.[41] Privatisation battles, however, were not rare, and when they occurred, were liable to be decided through escalating pay-offs to politicians and state officials, with the services of criminal gangs as a back-up. The ill-regulated power over the privatisation process exercised by the State Property Fund, the body charged with implementing privatisation, was an open inducement to bribery and influence-trading; one source observes that the fund's managers "systematically [gave] the tastiest morsels to those who agreed with senior political leadership."[42] Official malfeasance was central to the process through which the holders of newly-minted fortunes were granted radio and television broadcast rights, and licences to exploit mineral resources.

With the privatisation process deeply corrupted, the state authorities were rarely able — or, it appears, anxious — to maximise the flow of revenues to the budget. In many cases, the logical course for the privatisation authorities would have included formally declaring loss-making state enterprises bankrupt; unencumbered by debt, the assets might have been expected to fetch much better prices. Instead, firms tended to be sold as equity, together with their debt and other liabilities. Enterprise managers were often in a position to profit twice from the privatisation of their firms; after first running up enterprise debts through using crooked deals to bleed the firms of value, they could then use their advantages as insiders to secure the purchases for themselves, at low prices due to the firms' weak financial state. Returns to the government budget from such sales were minimal.[43]

Alongside the privatisation of productive enterprises, another key element in the formation of the Ukrainian oligarchy was the ceding to ambitious *nouveaux riches* of control over commercial and financial functions exercised formerly by the state; Lanovyi mentions "the trade of imported gas, oil, nuclear fuel, coal and grain" and "the servicing of tax, customs, pension, police, budget, social and other contributions and benefits."[44] Even amid the economic distress of the 1990s, the holders of these dispensations could make fortunes with astonishing speed. In 1991 Yuliia Tymoshenko, later to become prime minister, had been among the founders of a modest fuel supply business financed out of the profits of a family video distribution firm; four years later her conglomerate United Energy Systems of Ukraine was the country's largest marketer of natural gas, with an annual turnover of $10 billion,[45] and Tymoshenko was among Ukraine's richest citizens.

Land privatisation

Capitalist forms came to the Ukrainian countryside amid a crisis of production only marginally less catastrophic than that afflicting industry. Throughout the 1990s the rural sector suffered from a classic "scissors crisis" in which the prices obtained for its produce rose much more slowly than those charged for industrial goods needed as farm inputs.[46] Between 1990 and 1999 value added in the sector, expressed in constant dollars of 2010, fell from $13.2 billion to $6.8 billion.[47]

Private agriculture reappeared in Ukraine during the late perestroika years as individual farmers became able to lease land from state and collective farms. Then from 1992 a flurry of legislation brought an end to most state ownership of farmland. The country's 12,000 collective farms were transformed into "collective agricultural enterprises" (CAEs) owned on a shareholding basis by their workers, active or retired. Ukrainian citizens also received the right to purchase agricultural land to a maximum of 50 hectares, on advantageous terms though subject to a moratorium on its further sale. Most state farms and CAEs possessed large expanses of idle or little-used land, but the pace at which individual private farms were established remained glacial. The American researcher Jessica Pisano records that in 1994 the proportion of gross agricultural output produced by private farmers was just one-third of one%.[48]

For rank and file CAE members, the inducements to try individual farming were weak. Such people almost never possessed significant personal capital, and resorting to loans from the banking system was effectively ruled out; the ban on reselling land meant it could not be used as collateral, and rates of real interest were in any case prohibitive. Along with the lack of finance, numerous practical considerations kept farmers inside the collective structures. Peasant families usually had no way of substituting for the wide variety of economic and social welfare functions carried out by the CAEs. Using their administrative ties, these bodies were able — though with difficulty, and often inadequately — to secure supplies of seed, fertilisers and fuel, and to arrange the marketing of crops. Meanwhile, the CAEs played a vital role in sustaining production on the household plots that provided collective members with much of their income, and that weighed heavily in the national output of meat, eggs, dairy products and vegetables. It was the CAEs that supplied inputs such as fodder, and services such as ploughing.

Also slowing the spread of private farming were obstruction and foot-dragging by established rural hierarchs. In a study of land privatisation in Kharkiv Province, Pisano found

> … consistent, widespread and explicit resistance to decollectivization throughout the 1990s on the part of managers … farm managers who publicly claimed to support privatization frequently acted privately to stymie land individuation and distribution.[49]

In these circumstances, the few rank-and-file collective members who obtained allotments tended to be village "outsiders", granted land by officials as a way of demonstrating formal submission to legal requirements, or to show through negative example that decollectivisation was unworkable.[50] Without credits or easy access to machinery and commercial supplies, private farmers in this category usually operated on a semi-subsistence basis. Anyone passing by the fields of such farmers in early spring was liable to be confronted by a sobering spectacle: "men driving massive machinery literally were replaced by men pulling wooden ploughs."[51]

In a quite different category were individuals from various elites who set out to turn their capital and connections into private farming enterprises. Here, Pisano lists

> directors of agricultural collectives, people with high or prestigious positions within collectives, state officials at village council, district or regional level, [and] retired army and security services personnel, often with peasant origins.[52]

Even people such as these often needed extraordinary persistence and resourcefulness if they were to acquire allotments. On the other hand they might succeed, through "cashing in" prior favours, in being assigned landholdings well above their legal entitlements. With their material advantages and ties to local influence networks, such people tended once in business to establish successful commercial farming operations. An IMF report in 1997 put the share of private farms in total agricultural land at about 14%, with collective enterprises accounting for 67% and state farms for about 18%.[53]

The IMF, showing scant grasp of the social realities of the Ukrainian countryside, meanwhile applied pressure for land ownership and management to be brought into closer alignment with idealised Western models. Late in 1999 the Kuchma administration launched a program aimed nominally at dividing the CAEs into small-scale farming operations. Under an executive decree, the collectives were to become joint-stock companies, and the shares that members held in them were to take on a concrete existence as specific tracts of farmland. The difficulties in the way of this scheme were formidable; ground surveys would have to be performed for the allotments, averaging 4.1 hectares each, of some seven million landowners, and registers of land ownership would need to be prepared. Local and provincial officials were broadly hostile to the decree, and even if they made a show of implementing it, in many cases did their best to stop its provisions from taking effect.[54]

Both Ukrainian reformers and the IMF clearly looked toward the eventual creation of a mass of commercially viable peasant smallholders. In this vision, one may surmise, the role of a stratum of small farmers would not simply be to improve land use; its members were foreseen as bonding together politically to offset oligarchic control of the parliament, while in the longer term acting as a conservative political counterweight against any rise of the labour movement. For viable smallholdings to arise, and for this French or German model of rural politics to apply, a substantial depopulation of the countryside would need to take place. Large numbers of former collective members would have to sell their allotments, once the legal conditions for this were in place, to more affluent neighbours, and to depart for urban areas. But for village-dwellers to migrate to the cities in pursuit of economic opportunities was not an attractive choice at a time when the urban economy, too, remained deeply depressed. As the allotments began to be assigned, even owners who might have dreamt of expanding their holdings and becoming individual farmers generally found that this option was blocked by their lack of access to finance. The result was that with few exceptions they chose to lease out their holdings, usually to the former collectives for which they continued to work.

The late 1990s: oligarchic entrenchment

By the end of the 1990s private capital was broadly hegemonic across Ukraine's productive economy. The proportion of GDP created in the private sector, however, was still only about 55% in 2000.[55] As well as retaining ownership of basic infrastructure, the state formally controlled the coal industry, the mining of metal ores, and the extraction of oil and gas. The state also retained blocking shareholdings in numerous privatised firms, particularly in cases where central or regional officialdom had important interests at stake. In manufacturing, the enterprises still under state ownership tended to be ones whose size, potential profitability or strategic role made their privatisation especially contentious; the battles for possession of these firms were postponed while likely contenders gathered resources and support. Meanwhile, informal control by particular oligarchs over state-owned enterprises, through mutually beneficial alliances with the managers, was widespread.

In the conventional neoliberal scheme, privatisation should by this point have improved enterprise governance by giving the new owners a direct personal stake in ensuring that their firms operated efficiently, sought new opportunities, and competed vigorously against rivals. On the whole, however, the way that privatised firms were run changed little. Management style remained autocratic, and processes opaque.

Minor shareholders, along with work collectives, received little information and were shut out of decision-making. Even where enterprises appeared prosperous, dividends were rarely paid.

Instead of coming under the control of dynamic, open-minded entrepreneurs, large privatised firms remained almost invariably beneath the sway of "big insider" managers, often the same individuals who had run them in Soviet times.[56] Together with the persistence of Soviet administrative habits, immediate material factors also deterred such people from altering their practices. Domestic competitive pressures on major firms, weak in the early 1990s, were almost non-existent later in the decade; the proportion of Ukrainian industrial output produced by monopolies was put at 90% in 1997.[57] To expect private ownership to impel a shift to Western-style business methods was also to mistake the fashion in which profit in Ukraine in the 1990s was typically secured. In the manufacturing sector, this relied heavily on turning cheap raw materials, poorly and infrequently-paid labour, and underpriced energy into low-value industrial commodities destined for export. World prices for these commodities fluctuated widely, largely destroying any nexus between good enterprise practice and likely returns.

More specialised areas of manufacturing were generally in extreme decline, and here the struggle for immediate survival tended to force the question of improving management methods onto the sidelines. Hans van Zon records that Ukraine's iconic machine-building industry suffered a fall in output of 90% between 1993 and 1999.[58] In such areas, even a thorough transformation of managerial culture and practices would not have improved financial outcomes unless large-scale export sales could be made. The products of Ukrainian machine-building, however, attracted only limited interest from buyers outside the post-Soviet expanse — and in the latter, the collapse of demand was almost as far-reaching as in Ukraine itself.

As the increase in monopolism in Ukrainian industry suggests, large numbers of weaker enterprises had effectively ceased to operate by the late 1990s. In these circumstances, a good deal of oligarchic profit-getting had nothing to do with creating new value, but rested on the plundering of wealth created mainly in Soviet times. In Ukraine as in other countries of the former USSR, anecdotes and journalistic references pointed to rising capitalists building their fortunes by privatising or purchasing Soviet-built industrial assets for trivial prices, turning the machinery into scrap metal, and selling it to metallurgical plants. The people who carried out this asset-stripping had no use whatever for innovative practices, or for business transparency.

With fiscal stabilisation in the mid-to-late 1990s, a partial consolidation of oligarchic structures took place. Local business alliances evolved into a system of regional "clans", based on industrial interests but also on influence networks and personal ties dating back to the Soviet era. The most important clans are usually identified as having been based in Donetsk, Dnipropetrovsk, Kyiv and Lviv. Especially in Donetsk and Dnipropetrovsk, the clan networks evolved into what one observer was to describe as "an informal governance system, managing interactions between business and politics."[59] The clan structures included bureaucratic allies of the business leaders, and also elected politicians at national, regional and local levels. Through enlisting in one or another of these networks, a leading entrepreneur could hope to ensure

> … "protection" of his business on a national level; obtaining of exportation quotas; hidden support in privatizations; subsidies for the branch encompassing his business; a recapitalization by the state of his bank; [and] the harassment of his competitors.[60]

With commercial success depending on the ability to influence official decision-making, campaigns for elected office understandably became awash with private money. For aspiring politicians, victory at the polls was almost inconceivable without support from particular magnates or their networks. Meanwhile, business chiefs set up political parties, to which their enterprise employees, who might number tens or even hundreds of thousands, were pressured to give their votes. Without important exception, political parties regardless of their programs and rhetoric came to be recognised as speaking for particular oligarchic groups. At times, oligarchs arranged to have themselves elected personally to parliament, gaining close access to ministers and state officials while also securing immunity from criminal prosecution. Control over political decisions also required access to a powerful media machine; television licenses, as a prime source of public influence, were fought over ferociously.

It is notable that none of the oligarchic groupings ever achieved unrivalled national dominance. The regional complexes of economic and political interests were too discrete, the hold of individual oligarchs on their assets tended to be too insecure, and the general situation within Ukraine was too unstable for enduring alliances to take shape on the scale of the country as a whole. Unlike its counterparts in Russia and Belarus, the oligarchic system in Ukraine remained fluid and pluralist. Importantly, there was to be no Ukrainian Putin or Lukashenko, able or willing to impose a degree of centralised order, however illiberal, on the country's wayward plutocrats.

Windfall growth

When a country has lost close to 60% of its economic output, "growth" becomes a highly relative concept. In Ukraine in the first years of the new century, economic growth consisted largely of enterprises buying raw materials and restarting equipment that had been idled years before. In nominal terms, though, the Ukrainian economy underwent relatively strong recovery; annual growth between 2000 and 2007 averaged 7.4%.[61] From barely 40% of its 1990 level, real GDP as officially calculated rebounded to about 75% in 2008.[62] Perhaps a third of the Ukrainian population still lived in dire poverty, but oligarchic rule, for those who profited from it, was for the time being highly lucrative.

The revival in the economy was closely tied to the similar process that had begun in Russia during the final months of 1998, some 12 months earlier than in Ukraine. In US dollar terms, the value of Ukrainian exports grew by 26% in 2000 alone, with Russian buyers accounting for almost 40% of the increase.[63] Russia was again in the market not just for large quantities of Ukraine's iron, steel, aluminium and food products, but also for the output of its engineering and machine-building works.

There was no question, though, of Ukraine's oligarchic capitalism acquiring real dynamism. Evidence that the growth after 1999 was a windfall, based on external and transient factors, is provided by a striking example: while the returns from steel exports more than quadrupled between 2000 and 2008, the actual tonnage sent abroad grew only marginally.[64] Amid boom conditions in the West, export prices had surged for Ukraine's metals, chemicals and grains; against an index of 100 for the year 2000, data for the country's terms of trade show a figure of 111.35 in 2008.[65] The favourable international conditions were nevertheless allowing domestic demand to recover strongly as speculative foreign cash flooded in, drawn by high interest rates. The economy became remonetised; barter retreated, and inter-enterprise and wage debts were paid off. At the same time, the economic growth was linked only weakly to investment, which until 2006 showed only a gradual upward trend in relation to GDP.[66] In absolute terms, real gross fixed capital formation at its peak in 2007-2008 was still less than half of the level recorded in 1990.[67] Throughout the industrial sphere, replacement of worn-out plant was minimal. Foreign direct investment remained minor; at the end of 2006 its cumulative total in Ukraine was less than a quarter of the sum in Hungary, with its economy of comparable size.[68] Confounding hopes that foreign investors would modernise the country's industries, the bulk of the funds were not going to production but to sectors such as financial and retail services, and to real estate.[69]

As economic activity revived, the incentives grew for Ukraine's wealthy elite to take state assets into private ownership. Major firms were now regularly offered in privatisation auctions. In a rare case of large-scale Western investment in a Ukrainian industrial complex, a 93% stake in the giant Kryvoryzhstal metallurgical plant in Kryvyi Rih was privatised in October 2005 to the Dutch-based firm Mittal Steel for $4.81 billion. This was the second attempt at selling the plant; an earlier deal in June 2004 —

more typical of the privatisations of the period — had seen the complex awarded for a mere $800 million to a consortium including Donbas steel magnate Rinat Akhmetov and fellow oligarch Viktor Pinchuk, the son-in-law of then-President Leonid Kuchma. A huge outcry then led to the 2004 sale being overturned. Boosted by the new privatisations, the proportion of recorded economic activity in Ukraine that derived from the private sector rose by 2007 to 65%.[70] Only exceptionally, however, were the privatisation sales followed by significant new investment. A 2006 study found that privatisation to domestic owners in Ukraine was not bringing the promised leap in productivity, but a near-negligible increase of about 2%.[71]

If the lack of productive investment pointed to the oligarchic system being unviable in the longer term, the oligarchs themselves do not seem to have regarded this as cause to alter their methods. Most if not all had acquired their holdings through ruthless sharp practice, and knew that a hostile raid by a competitor, backed by a finding from a bribed judge and enforced by paid-off police, could cost them prime assets at any time. Investing and innovating, by increasing the profitability of assets, would simply increase the likelihood of such attacks. Funds that might have modernised production were thus spent on buying insurance in the form of assets held abroad. As the economy revived, capital flight grew in parallel, with one source estimating the sums departing Ukraine during the 2000s at about 10% of GDP.[72] Internal cash flows diverted from privatised firms — and from state-owned enterprises — vanished into opaque holding companies, on their way to an "offshore cloud" of shell firms registered in jurisdictions such as Cyprus or the British Virgin Islands. There, the funds would be laundered before being stowed in Western portfolio shareholdings or real estate.

Typically, another part of available funds would go to finance the oligarch's own raiding operations, aimed at using force and fraud to acquire assets for a fraction of their value. With the prospects before them of spectacular enrichment in the case of continuing success, or well-heeled exile in case of failure, oligarchs had little incentive to alter practices that offered far larger and quicker returns than the Western business orthodoxy preached by would-be reformers. Only the frankness is therefore surprising in the conclusion, voiced by Kuchma in memoirs written after his departure from the presidency, that "another type of regime, other than the nomenklatura-oligarch system, could not have come into existence" during his years in office.[73]

The partial recovery between 2000 and 2008 survived political turmoil that included the "Orange Revolution" of November 2004—January 2005. As shown by the reaction to the initial privatisation of Kryvorizhstal, large numbers of Ukrainians were indignant at the ability of the country's super-rich to seize public assets for derisory sums. Now a related anger, at the brazenness of the oligarchs in subverting democratic — or at least, electoral — institutions, sent citizens into the streets. Repeatedly in December 2004 hundreds of thousands of people demonstrated in Kyiv against the theft by Kuchma's Prime Minister Viktor Yanukovych of the 2004 presidential election. The demonstrators — primarily students and members of the Kyiv "middle layers" — succeeded in forcing a re-run of the poll, this time won handily by Viktor Yushchenko, an earlier prime minister under Kuchma and a political protégé of gas oligarch Yuliia Tymoshenko.

Despite the size and militancy of the Orange Revolution demonstrations, there was no question of the protestors forging a movement that represented a break with oligarchic politics. The middle-class demonstrators against Yanukovych, while blocking the ascent to office of an unusually crude-minded oligarchic politician, had neither the will nor the political grasp to combat the system that persistently gave rise to such figures. For such an opposition to be mounted, masses of working people would have needed to move into action around their own distinctively non-capitalist interests — and among the working class, the political understanding and organisation that might have underpinned such a development were nowhere in sight.

In 2008 the boom drew to a close. The breathing-space it had offered for reform and restructuring had been squandered. Strikingly, accumulation within Ukraine had begun falling even while export prices remained high. From the mid-2000s national savings had begun a steep, near-continuous decline, to levels far below those of other post-Soviet countries and of most other relatively large developing states.[74] Still heavily reliant on low-value commodity exports, the economy was exceptionally vulnerable to any downturn in global demand. Now, the international slump that would come to be termed the Great Recession blew the foundations from beneath Ukraine's economic structures. World prices for metals and chemicals began falling, at the same time as the flow of Western credits slackened. In May 2009 average global steel prices were 55% below their July 2008 peak.[75] The value of Ukrainian industrial production in 2009 was down by 23.8% on the previous year.[76] Goods exports declined by 24.2%, and real GDP by 14.8%.[77]

The International Monetary Fund (IMF) stepped in with disbursements under a stand-by "adjustment" program that had been signed in 2008. A total of $10.6 billion in loans, conditional on austerity measures, was paid out[78] before the IMF suspended the program during the autumn of 2009; the Ukrainian government had refused IMF demands that it cut subsidies to domestic energy consumers, and had gone ahead with promised wage and pension increases. Nevertheless, a default on state debts was avoided. ■

II. Ukraine On the Eve of the Euromaidan

As the global economy revived after the crisis of 2009, Ukraine's GDP recorded several years of relatively strong growth, with increases of 3.8% in 2010 and 5.5% in 2011. But from mid-2012 the Ukrainian economy suffered five successive quarters of decline, before a brief return to positive figures in the final months of 2013. GDP growth for 2012 finished up at a sliver-thin 0.2%, followed in 2013 by 0%.[1] The years between 2010 and 2013, of partial recovery trending into stagnation, will serve here as a benchmark for summarising and quantifying some of the outcomes of Ukraine's capitalism over its first decades, and for defining the context of the political explosions that were to ignite from November 2013.

In many respects, the three years after 2010 may be seen as the high point of Ukrainian oligarchism, when the rule of the plutocrats had been consolidated and when their system functioned without major challenge. The country's new president, elected in February 2010, was Viktor Yanukovych, the front-man for the Donetsk business clan and the loser in the Orange Revolution of five years earlier. The Yanukovych years would later be recalled by many Ukrainians as an interlude of relative calm and even, to a degree, prosperity;[2] measured in real hryvnias, average wages rose to levels well above those seen in the years of economic recovery before 2008.[3] The improved living standards, however, bore little relation to Ukraine's economic fundamentals. The higher incomes reflected a huge burst of foreign borrowing, as well as favourable terms of trade, which during 2010 and 2011 were at levels approaching those of a half-decade earlier.[4] Neither the trust of foreign lenders in Ukraine's solvency, nor the relatively high prices for its main exports, would prove enduring. From mid-2011 world steel prices, after some 18 months of renewed buoyancy, began a long decline.[5]

Longer-term indices for the performance of Ukrainian capitalism meanwhile remained unimpressive. In 2013 real GDP, as officially measured, was only 70% of the level in 1990,[6] or in per capita terms about 80%.[7] In some respects the disproportions in the economy had become less glaring — the service sector, neglected in Soviet times, had expanded by 2013 to provide 58% of total incomes.[8] But the growth in services went nowhere near offsetting the failure of industrial output to recover the losses it had suffered during the 1990s. Value added in industry in 1991, as calculated by the World Bank, had been around 180 billion hryvnias of 2005; the corresponding figure in 2012 was no more than about 100 billion.[9] Also unflattering were the population statistics; compared to the late Soviet era, there were now many fewer Ukrainians. By 2013 the fall in population since 1990 amounted to 6.4 million people, or 12% of the earlier total.[10] Throughout almost all the period since independence the number of deaths had exceeded that of births, and emigration, largely to Russia, had been substantial.

No less striking than the demographic decline since 1991 was a spectacular increase in economic inequality. Tightening further during the Yanukovych years, the concentration of wealth reached the point where, as British scholar Richard Sakwa was to note, a hundred people controlled some 80-85% of the country's riches.[11] Ukraine's wealthiest citizen, controlling a conglomerate of a hundred or so enterprises and with a personal fortune estimated in 2013 at $15.4 billion,[12] was the coal and steel magnate Rinat Akhmetov; the son of a coal miner, Akhmetov had begun his career in the 1980s as a petty racketeer and lieutenant to a Donetsk crime boss. Inequality also had an important geographic dimension. Average wages were dramatically higher in Kyiv and the industrialised east than in the still largely agricultural western provinces.[13]

For mainstream commentators in the West, such results of Ukraine's "transition" were an embarrassment to be acknowledged as little as possible. Or, if the failures could not be ignored, an assumption might be ventured: the features that capitalism exhibited in the country were an aberration, a mutation that had arisen by chance, and not the organic outcome of the system's poor fit with Ukraine's specific social, economic and historical realities. The flaws, the assumption proceeded, could be set right within the parameters of capitalism if reformers were committed enough, and if Western governments showed them resolute support.

Nevertheless, and for all the evasions and excuses, there was no escaping the fact that the way the country's capitalist class ran their businesses breached almost every tenet of good corporate governance, and in the longer historical perspective, would obviously be unsustainable. In a 2012 article, Volodymyr Lanovyi described the oligarchic empires as "multilayered and highly diversified holding corporations with a limited number of major stakeholders — generally less than 10."[14] These "holdings" featured tightly centralised structures and narrow management authority. Their component firms — which typically had been assembled through opportunistic takeovers — lacked complementarity and were hard to administer in coherent fashion. The results of excessive diversification and ineffective control, Lanovyi went on to note, included bureaucracy, swollen administrative costs, and an inability to make correct strategic decisions; meanwhile, the ineffective forms prevented company executives from reacting in timely fashion to new market challenges. Weak administrative and financial control over production facilities undermined internal financial discipline, while "late reaction to market changes" resulted in "difficulties or the failure to meet external financial liabilities."[15]

The structures and practices of oligarchism nevertheless had a perverse rationality, in terms of the mind-set and interests of the oligarchs if not for Ukrainian capitalism as a whole. In a 2013 interview, Lanovyi summed up the perspectives of the country's new wealthy class:

> The key principle of present-day oligarchs is to grab as many assets as possible, squeeze the juices out of them, then liquidate or fob them off on someone else, and transfer the profits and the remaining funds abroad.[16]

Within the "holdings", the tight concentration of ownership and authority served these ends by granting protection against raids by outsiders, while allowing the rights of lesser shareholders to be ignored. The involved, multilayered forms, featuring ownership via "shell" companies that in many cases were registered outside Ukraine, provided additional defences while also expediting tax evasion.

For the oligarchs, operating amid uncertain property rights and weak rule of law, putting resources into constructing modern, well-integrated businesses rarely made sense. Efficiency might be increased and output expanded, but the effort would be in vain if the enterprise concerned were lost to an unexpected raid, and in any case, the rewards of creating new value tended to compare poorly with those of a focus on appropriating value that already existed. Access to bureaucrats, legislators and government ministers often counted for far more than effective management, and so long as monopolism was widespread and competitive pressures minimal, low productivity tended not to be a handicap. Firms that produced for export, and that needed to match the prices of foreign rivals, could well find that bribing politicians to secure subsidies paid better than installing new technologies. Providing a cushion against the effects of mismanagement and thievery was the fact that Ukrainian wages, despite their rising trend, were still only a small fraction of those in leading Western economies, and in dollar terms less than half those in Russia.[17]

The oligarchs, in sum, ran their businesses on a basis of opportunism and short-term advantage, taking an insouciant attitude to a longer-term future that they understood to be wildly unpredictable. Meanwhile, obvious parallels existed between the conduct of individual oligarchs in managing their corporate assets, and the way in which Ukraine's wealthy elite as a whole ran state affairs. Under Yanukovych as in the case of previous administrations, there was little in the actions of the president and his ministers to suggest strategic thinking outside a framework bounded by the coming few months. Of the few consistent threads in government policy-making during the Yanukovych years, the most obvious was a determination to preserve the conditions for elite enrichment. Another was a concern to cultivate public backing in the near term; since the most active voter cohorts were traditionally pensioners and public employees, this required a periodic topping-up of pensions and state-sector salaries, whatever the objections of international lending agencies. For very broad numbers of urban voters, a prime concern was the prices they were charged for gas supplies and district heating. Traditionally, these tariffs had been kept heavily subsidised for household consumers, and to the outrage of bodies such as the IMF, the gas prices charged to such customers during the Yanukovych years stood at levels as low as one-eighth of those on the world market.[18] The revenue shortfalls meant that the deficits of the state natural gas firm Naftohaz continued to swell, in 2013 reaching some 2% of GDP.[19]

Servicing the political needs of the Yanukovych regime also required other expedients that, as economic stresses grew, became increasingly adventurous. In 2012 the administration oversaw a double-digit increase in real wages, and an expansion in retail turnover of 13.7%,[20] at the same time as GDP during the second half of the year was dropping. Driven by the increased demand for consumer goods, imports blew out to the point where the current account recorded a deficit for the year amounting to 8.4% of GDP.[21] By now, the trade shortfall was being met by running down the foreign reserves of the National Bank, as well as by increased resort to foreign loan capital, still available on relatively generous terms. The fact that the loans would eventually need servicing appears to have been sensed only dimly, and to have been dismissed on the assumption that further loans could be contracted just as readily to cover the sums due.

In 2013 the administration's financial problems became still more challenging. Consumption was still growing strongly, though amid a stagnant economy, imports were now declining. The value of exports fell by still more, to a decline for the year of 8.8%, and the current account deficit reached an alarming 9.2% of GDP.[22] By the end of the year reserves of foreign currency had been drawn down to the point where they covered only two and a half months of imports.[23] Finally acknowledging the scale of the crisis, the government in the last quarter of 2013 made drastic cuts to its capital spending, while slowing its refunds on value added tax and its disbursals to state-owned enterprises. Nevertheless, its fiscal deficit for the year reached 4.5% of GDP,[24] and the pace of its borrowing accelerated.

The productive economy: industry and infrastructure

As indicated earlier, the flourishing of the oligarchic system under Yanukovych rested on unusually high prices for a narrow range of commodity exports, principally industrial goods. Two decades after independence, industry retained a massively important place in Ukrainian economic life. In 2010 the sector as a whole provided jobs for some 25.7% of the workforce, an exceptionally high figure by world metrics and only marginally down on the 1991 total of 27.6%.[25] Dominating the field as in the past were resource extraction and manufacturing. Out of total industrial employment in 2010 of about 2.8 million people, about 446,000 were employed in the mining industry, producing about 5.9% of GDP.[26] Manufacturing — in Ukrainian statistics a very broad category that includes the processing of minerals and agricultural produce — was recorded in 2010 as producing 13.2% of GDP.[27] The largest manufacturing category was metallurgy, somewhat outstripping food processing; some 339,000 people were employed that year in metals smelting and the production of finished metal products.[28]

The central place of metals production in Ukraine's economy is illustrated by the fact that throughout the post-independence decades the country's GDP has moved in close correlation with world prices for raw steel.[29] But although Ukraine at the beginning of the Yanukovych period ranked as the world's fourth-largest steel exporter, lack of investment had left the industry primitive by global standards. In 2010 only 54% of Ukrainian steel output, reportedly the lowest percentage for any major steel-making country,[30] was produced using modern continuous-casting methods. Opportunities for "downstream" processing had been neglected; steel was exported mostly in semi-finished form, at the same time as finished steel products were being imported in growing quantities.[31]

After peaking in the first half of 2011, international steel prices began a steady slide, to be joined in the final months of the year by a sharp drop in the prices commanded by iron ore exports.[32] Reflecting this fall-off, the value of industrial production in 2012 declined by 1.8%,[33] and in 2013 by a further 4.7%.[34] Ukraine's dependency on returns from its raw and semi-processed commodity exports was, however, offset to an extent by the less volatile earnings of its machine-building industry. In 2011 the machine-building complex accounted for some 10% of GDP,[35] and its railway equipment and heavy engineering sub-sectors were operating at close to full capacity as they sought to meet strong demand for rail wagons, locomotives and a wide range of equipment for mining, chemical, metallurgical, energy and other producers. Nevertheless, the continuing weakness of investment in Ukraine – throughout the Yanukovych period it barely exceeded, in real terms, the dismal total recorded in the slump year 2009[36] — meant that despite the decrepit state of much

Ukrainian industry and transport, relatively few of the customers of the machine-building plants were Ukrainian firms. In 2011 the marine gas turbine manufacturer Zorya-Mashproekt exported more than 95% of its output, and the country's largest locomotive builder, Luhanskteplovoz in the Donbas industrial region, made more than 95% of its sales to Russia and Kazakhstan.[37]

Manufacturing for the local consumer market, in Ukraine always the poor cousin of heavy industry, recovered partially following the rout of 2009 only to fall back into recession by 2013. Producers of items such as clothing and household appliances were favoured by the growth of real wages, but were more and more finding their goods outcompeted by imports. In 2005 the share of imported products among the goods sold by Ukrainian retailers had been 29.5%; in 2013 official figures put this proportion at 42.8%.[38] The most dynamic area of consumer goods production was the food processing industry, now beginning to see significant foreign investment. But even in the area of processed foods, imports were seizing large shares of the national market.[39]

Above all, the industrial complex was suffering from the failure throughout most of the post-independence period to invest sufficiently in equipment and infrastructure. After collapsing during the1990s, gross fixed capital formation in the economy as a whole had experienced a partial recovery during the following decade. But by the Yanukovych years it was again in the inadequate range of 17-19% of GDP,[40] compared to world average figures above 23%.[41] The sums being spent annually were put by the World Bank at less than a third, in constant terms, of those at the end of the Soviet period.[42] Huge amounts of Ukraine's industrial machinery were now worn-out or long obsolete, but little new capital equipment was being installed. "The stock of installed capacity … has become increasingly outdated," a German study recorded. "In particular, the share of depreciated installations has increased from about 45% in 2001 to … more than 75% by 2012."[43] A 2013 OECD report noted that the ratio of private investment to GDP in Ukraine was "far lower than those of most fast-growing emerging economies," and "far lower than that needed to sustain rapid catch-up." Levels of spending on infrastructure, the report stated, were "approximately 30% of those in lower-middle income countries elsewhere in the world", and lack of maintenance, combined with poor planning, ensured that even the infrastructure that existed was deteriorating.[44]

The "energy intensity" of the economy — that is, the energy expended per unit of GDP — reflected the outdated nature of much of Ukraine's industrial equipment. According to World Energy Council data, the country in 2013 had the world's highest energy intensity, roughly twice the global average and three times the figure for the EU.[45] At this point, Ukraine was obtaining only a little over 40% of its gas from domestic sources[46] relying for the remainder on imports from Russia and Turkmenistan. As late as 2008 the sum per cubic metre paid by Ukraine for Russian gas had been less than half that charged to Western European countries,[47] and traditionally, Ukrainian industries had paid far below world prices for their natural gas needs. By allowing primitive but long-amortised equipment to be kept in use, the cheap gas had provided an important competitive advantage. But by 2013, after years of acrimonious disputes, the imports were having to be paid for at essentially European prices. The profligate use of energy was now a major burden.

The rural sector

The general weaknesses of Ukraine's production complex were also on show in agriculture, where despite the legendary fertility of the country's soils output per hectare remained at only about half the levels in Western Europe.[48] By this time recognisably capitalist forms had finally come to dominate the countryside. Private ownership of agricultural land was well established; by the end of 2012 some 93% of the people entitled to land allotments had received them, and together held title to 74% of farmland.[49] But for the most part, the structures of rural production were neither the heavily invested, high-productivity agribusiness that dominated the US farm sector, nor the prosperous operations of industrious peasant families about which Kyiv liberals in the 1990s had been given to dreaming. Mistrustful of government initiatives, rural residents feared being swindled of their plots; as a result, attempts to open the way for the buying and selling of farmland drew little support. The parliament regularly renewed the moratorium on agricultural land sales, and a market in farmland failed to develop. Large numbers of allotment owners leased their land to one or another of some 50,000 agricultural companies. These enterprises controlled about half of the total farmland, while private farms worked by individual families accounted for some 38%.[50]

Competition for leasehold land was not intense, and land rents remained far below those in Western Europe. The effect was to encourage the consolidation, by farming corporations that had access to significant capital, of vast aggregations of leasehold land. These holdings were worked on a basis of low investment per hectare and low productivity, taking advantage of wage levels in rural areas that were among Ukraine's most meagre. At the beginning of 2014 the country's largest agricultural corporation, Oleg Bakhmatiuk's UkrLandFarming, controlled 670,000 hectares with a putative value of $4 billion, while Mriia Agro Holding, under Ivan Huta, leased or owned almost 300,000 hectares. Oligarchs who had made their fortunes in other areas of the economy also entered the farm sector. In 2011 Rinat Akhmetov and Vadym

Novinskyi formed HarvEastHolding, with nearly 200,000 hectares. At the time of the Euromaidan Ihor Kolomoiskyi controlled 120,000 hectares of agricultural land, and Petro Poroshenko some 96,000. The ten largest agricultural firms held sway over more than 3.1 million hectares of Ukrainian farmland, or more than 15% of the total.[51]

Gaining from the low cost of leasing land, the owners of large agricultural businesses helped ensure that the parliament would keep renewing the moratorium on land sales. At the same time, the agricultural holding companies often acted as landlords, renting out to farmers land that had earlier been leased cheaply from its owners. The control exercised by the holdings over their tenants was multiplied by the fact that the agricultural corporations were often the only available source of credit and machinery. A Polish study of Ukrainian agriculture spoke of "a re-feudalisation of social relations";[52] the advent of capitalism to the countryside had not led to modernisation, but had seen the proliferation of forms that most resembled, perhaps, the Junker estates of Prussia a century before.

Overall, output in Ukraine's rural economy was still below the levels it had reached in the final Soviet period. In 2013, according to World Bank data, value added in the country's agriculture, forestry and fishing reached 13.12 billion dollars of 2010, marginally below the 1990 figure of 13.22 billion.[53] Of the various subsectors of agriculture, grain-growing had fared best, benefiting from high international grain prices and a growing interest by large agricultural firms in exporting to developing-country markets. Output in the livestock sector, serving mainly the domestic market and still dominated by household production, had collapsed. "Between 1991-2012," a Polish researcher notes, "the population of horned cattle decreased by over 81% …pigs — by 61% …sheep — by 86% … poultry — by 13%."[54] Consumption of dairy products in Ukraine in 2010-2011 was the lowest in almost 50 years.[55]

Reflecting the condition of the farm sector was the depressed state of the agro-machinery complex, consisting of about 40 plants around the country. In 2011 most of these, starved of capital and production orders, were reportedly operating at only 15 to 30% of capacity.[56] Ukraine's tractor park was meanwhile shrinking, with the area of arable land per tractor — already extremely high by European standards — increasing between 2000 and 2013 by more than 25%.[57] Historically, Ukraine had been a key centre of Soviet machine-building for the agricultural sector, with the vast Kharkiv Tractor Plant alone producing as many as 50,000 tractors per year.[58] But in 2013 Ukraine's total tractor output came to just 4273 machines,[59] barely a tenth of the estimated annual replacement need.[60] Large, relatively well-capitalised farming enterprises preferred technology from the US, Western Europe or Belarus, while smaller operators repaired ageing machines, or if they could contemplate making purchases at all, bought second-hand imports.

Debt, deficits, and trade

During the 2008-2009 crisis the Yushchenko administration had countered the effects of falling state revenues by sharply increasing its borrowing. Between 2007 and the end of 2009, government debt increased from 12.3% of GDP to 34.7%.[61] In the course of 2011 improved economic conditions allowed this figure to be stabilised. But as the recovery ended in 2013, Yanukovych and his ministers found themselves with continuing commitments that their flawed revenue-gathering was unable to match. The result was a renewed blow-out of the government debt, which at the end of that year stood at 40.1% of GDP.[62]

This level of government indebtedness might have seemed unthreatening by world standards had not a large and increasing portion of it been repayable in foreign currency. By 2013 Ukraine's overall level of foreign debt was rising at an extraordinary rate. As noted earlier, Ukraine in 2009 had been plucked from the brink of default by an IMF stabilisation program. Curiously, since the conditions of this lending had not been met, a further program of $15 billion in stand-by credits was extended in July 2010. As before, the IMF stipulated tough disciplinary measures, focused on the subsidies that the Ukrainian government provided to domestic gas consumers. Again the stipulations were not met, and the 2010 program of credits was frozen the following year. Nevertheless, borrowing continued apace from other sources, and from a figure of a little over $100 billion at the beginning of 2010, gross external debt reached $142.5 billion at the end of 2013.[63] This latter figure represented almost 80% of GDP, well inside the range at which lenders to poor countries have conventionally suffered palpitations.

Of the capital borrowed abroad, a large if unquantifiable proportion was swiftly re-routed into the pockets of the elite, much of it to be fast-tracked out of the country. More readily traceable as a cause of Ukraine's near-insolvency were the country's persistent and often large trade deficits. In the mid-2000s partial economic recovery and booming credit meant that many Western consumer products, with their attractions of quality and feature, had become affordable for better-off citizens. In the consumption patterns of the less wealthy, cheap Asian manufactures provided stiff competition to locally-sourced goods. The shortfall in merchandise trade, after dipping during the 2009 slump, increased to an ominous 12% of GDP in 2013.[64] The greatest part of this deficit, by a large margin, was incurred in trade with the countries of the EU.

As in previous decades, Russia remained Ukraine's single largest trading partner.

Ukrainian trade with Russia, though also heavily in deficit during the Yanukovych period, was much less unbalanced than the exchanges with the West. Russia featured especially prominently in Ukraine's export sales, in 2013 purchasing goods in quantities only just outstripped by the EU. A German study put Ukrainian exports to Russia in 2013 at 8.3% of GDP,[65] enough to promise grave difficulties if any falling-out occurred between the two trade partners. Specific industrial sectors in Ukraine were especially vulnerable. By far the most exposed was the category of "manufacture of machinery and equipment", with 22% of its output destined for Russian purchasers. Also at particular risk were metallurgy and metals processing; coke products; and the production of chemicals, rubber and plastics.[66] In general, the provinces of Ukraine's east and south were more vulnerable to cutbacks in trade with Russia than those of the country's west. Most exposed were Luhansk and Zaporizhia provinces, with 10% of their output exported to Russia, followed by Mykolaiv with 9% and Sumy with 8%.[67]

Compared to Ukraine's foreign trade in goods, trade in services during the Yanukovych years was a minor category comprising 13–14% of total turnover.[68] Unlike the country's general foreign trade picture, the services trade was characterised by strong surpluses, with sales abroad exceeding imports by as much as two to one. In the first instance these surpluses reflected sales to Russia of pipeline services, worth more than $3 billion per year, for the transit to the West of Russian natural gas. Services exports also included a rapidly expanding category, worth nearly $1.5 billion in 2013, of "telecommunications, computer and information services".[69] The rigour of Ukrainian mathematics teaching, an inheritance from Soviet times, had provided the country with large numbers of people equipped for training as computer software developers. Together with a pool of qualified workers, low wage rates allowed information technology start-ups to bid competitively for foreign contracts. Western IT firms as well were beginning to set up Ukrainian branch offices.

A quickly expanding presence in Ukraine's merchandise trade during the years before the Euromaidan was the People's Republic of China. From a low base before 2007, China in 2010 took 2.5% of Ukraine's exports[70] and was the source of 7.74% of its imports.[71] That year Yanukovych made a state visit to China, a move that was reciprocated in 2011 when Chinese President Hu Jintao visited Kyiv. Chinese trade officials were now seeking to diversify their grain imports away from the US, and in 2012 an initial shipload of Ukrainian corn departed for China following a $3 billion loan-for-grain deal.[72] The Ukrainians were finding in China a source of machinery and consumer goods at competitive prices, while the Chinese, apart from their focus on agricultural produce, were showing interest in Ukrainian military technology. Late in 2013 Yanukovych was again in Beijing, signing a number of agreements including a "treaty of friendly cooperation". By this time China had become Ukraine's second-largest bilateral trade partner after Russia, taking 4.3% of exports and supplying 10.3% of imports.[73]

Bureaucracy and corruption

Fundamental to oligarchic rule, and a heavy burden on productive output, was the now long-established control of the administrative sphere by an interlocking system of influence-trading, bribery and theft of public assets. A micro-level analysis in 2006 had found that although public officials received salaries 24-32% lower than those of comparable employees in the private sector, their consumption and assets were similar;[74] the civil servants were clearly making up for their low pay by resorting to graft. The 2013 Corruption Perceptions Index prepared by Transparency International put Ukraine near the bottom of its list in 144th place out of 177 countries, somewhat behind Russia at number 127.[75] State funds were embezzled on an awesome scale; estimates noted by British journalist Oliver Bullough have the government during the Yanukovych years losing a quarter of the national budget through fraud in the administration of the Value Added Tax, while 30% of state procurement funds were being stolen.[76] Senior ministerial officials colluded with business chiefs in schemes that were vastly profitable for both groups. Yanukovych himself, along with a cabal of his associates, acquired a legendary reputation for corruption. No significant area of state spending, whether the repair of roads or the provision of food rations to the armed forces, escaped the pillage.

For ordinary Ukrainians, the need to pay off state employees to ensure that necessary documents could be obtained was an irksome reality of daily life. A contemporary study by the scholar Taras Fedirko noted the findings of a 2011 survey according to which

> on average 25.8% of respondents reported having been extorted bribes in the preceding year. When dealing with government permits, 47.1% said officials demanded payments explicitly, and 40.2% testified [to] bribe extortion in business regulation and inspection.[77]

The most corrupt domains of public administration, according to Fedirko, were the most heavily regulated ones, where bureaucrats exercised "considerable discretion over allowing, restricting or imposing sanctions on economic activities."[78] In 2013 the World Bank's Doing Business report, which rates the quality of formal government regulation in a range of areas affecting private enterprises, ranked Ukraine in137th place out of 185 countries.[79] Entrepreneurs, confronted with official requirements that changed frequently and that imposed a daunting burden of paperwork, were encouraged to cut corners, preferring, in Fedirko's words, to "negotiate with state officials and establish informal relations often implying illicit payments."[80]

Much of the regulation was plainly unnecessary, but it was defended by the bureaucrats, for whom its intricacies and contradictions yielded well. The situation did not pose insuperable problems for large, established businesses that could afford the bribes needed in order to operate, or that could exploit connections in government so as to bypass regulations entirely. But small and medium entrepreneurs were often left with no choice but to pay onerous bribes if they were to continue functioning; these excursions outside the law then made them vulnerable to reprisal if they challenged the *status quo*. For would-be interlopers and disruptors, the deterrents to investment posed by government bureaucratism were especially prohibitive. Simply to establish a new business was a complex, drawn-out process whose many requirements each offered the opportunity to exact a bribe or delay further progress. On the World Bank's Starting a New Business index, Ukraine in 2013 ranked 112th of 174 countries listed.[81] Foreign investors who lacked the skills and influence to navigate the informal networks found themselves at a disadvantage compared with more savvy, better-connected local rivals.[82]

For the oligarchs, bureaucratism thus performed a crucial function: it blocked the rise of more nimble, innovative competitors, while also repelling inroads from foreign intruders who might demand institutional change. Added to the community of culture and outlook that bound oligarchs and crooked officials together, there was thus a close, continuing bond of shared material interests.

Of the bureaucratic thickets that hemmed in smaller or newer businesses, the tax system was notably impenetrable. As late as 2010 Ukraine lacked a unified tax code, and the World Bank in a report that year rated the country in 181st place out of 183 for ease of paying taxes.[83] Nevertheless, larger entrepreneurs with the needed resources and connections had little trouble dodging tax payments. The quality of the tax code that came into force at the beginning of 2011 was described by a Carnegie Endowment study as "low", with the observation that its "biggest hole" remained tax avoidance through offshore havens.[84] Fedirko in 2013 noted "numerous opportunities for informal, although technically legal, 'tax optimization' through off-shore funds and companies."[85]

Related mechanisms, also involving foreign-registered firms, expedited the vast rake-off of state revenues from crooked procurement deals. As also related by Fedirko, the watchdog organisation Nashi Groshi ("Our Pennies")

> found numerous instances in which companies that received public contracts could be traced back through off-shores in Cyprus and the UK to family members of public servants and politicians controlling the public procurement tenders.[86]

The scams often involved variations on a ploy in which dummy firms would be set up to place inflated bids in "competition" with the intended winners, after the responsible officials had been bribed to favour the latter. Areas of the state budget that were systematically looted included military logistics — with results that were to become infamous in 2014 when army units combating the revolt in the Donbas lacked elementary supplies — and the health system.

Ukraine's public health sector had a reputation as an area in which operators untroubled by conscience could make fortunes with exceptional speed; it deserves study as an illustration of the shamelessness with which the country's elite had grown used to robbing the most vulnerable among the population. In terms of infrastructure, the health system during the Yanukovych years remained extensive and reasonably well equipped, with hospitals or clinics in thousands of small towns and villages. The number of physicians per thousand of the population was at developed-country levels, higher than in the US, UK or Japan.[87] State funding, however, had been allowed to fall to gravely inadequate levels, and the pay of medical staff was notoriously low. Health outcomes were inferior, with male life expectancy in 2013 almost 12 years below the average for high-income OECD countries.[88]

Although most health care remained nominally free, a survey in 2009-2010 found that 59% of respondents believed that good health services could not be had without paying bribes or having connections.[89] The treatment and supplies that the system was not providing were having to be paid for by patients and their families. In the health sector as a whole, out-of-pocket spending by the public in 2013 was estimated by the World Bank at 42% of total outlays,[90] with the items needing to be bought including such elementary materials as bandages and soap. A particular burden on patients was the need to purchase the great bulk of the medicines they were prescribed. Since Ukraine's own pharmaceutical industry had seen little investment, most of these drugs were foreign-manufactured; the importing and distributing were controlled by a cabal of well-connected firms that charged huge mark-ups. Ill-paid doctors would obtain a second wage from the drug companies for prescribing medicines of which their patients might have little or no need. The most notorious abuses concerned the looting by pharmaceutical companies of government drug procurement programs. A report from later years described how such schemes functioned:

> A small number of shell companies, all with tight connections to health ministry officials and lawmakers, colluded to distribute state contracts and resell products through a chain of affiliated entities. Having artificially increased prices for the Ukrainian market — by, say, buying a pill abroad for a dollar, reselling it in another country for $10, importing it, and then charging $11 to Ukraine's health ministry — they pocketed

the difference, kicking some back to the government officials enabling the scheme.[91] Liudmila Pharm, the drug company that won the largest number of state tenders under Yanukovych, was reported by health care activists as supplying its drugs at prices typically 20 to 40% above the real cost.[92] In another area of health system supply, a fleet of ambulances bought by the Ministry of Health in 2013 is recorded as having come at a price inflated above normal levels by almost 50%.[93]

It was not only officials in the general areas of state administration who abused their authority. Joining in the criminality, and aided in this by their coercive powers, were the organs of law enforcement, including the police (Militsiia), the Office of the General Prosecutor, and the Security Service of Ukraine (SBU). Throughout the years since independence the Militsiia, subject to the Interior Ministry, had been left understaffed and inadequately funded. Rarely able to perform proper investigations, the ill-trained Militsiia officers met their quotas through arresting innocent people, falsifying evidence, and torturing suspects to obtain confessions. As described by a Council of Europe study, established Militsiia practice, aimed at ensuring better statistics, required a confession as the starting point for actual inquiries.[94] Nor were the Militsiia officers strangers to petty racketeering, including shakedowns of small businesses within their jurisdictions. Still more notorious for corrupt behaviour was the prosecution system, whose functions included conducting investigations as well as preparing cases to go to trial. Prosecutors had broad latitude for deciding which cases would be pursued, and as a result, enjoyed extensive opportunities for extracting bribes.

Among Ukraine's law enforcement organs, the most feared — by guilty and innocent alike — was undoubtedly the SBU. With as many as 30,000 employees, the SBU was only a little smaller than the American FBI, and was by far the largest state security organisation in Europe outside of Russia. Under the Constitution, the SBU was directly subordinate to the president, and Yanukovych used it to harass and intimidate his business and political adversaries, including opposition-aligned NGOs and media outlets. As well as employing its intelligence capabilities to gather compromising information on opponents of the regime, the SBU was well placed to attack their financial interests through adroitly targeted investigations. Meanwhile, the SBU was a highly successful criminal enterprise in its own right. Its size and operational scope — its ill-defined powers overlapped those of other law enforcement bodies, extending into economic policing and ironically, the investigation of corruption — allowed it to extract rents from businesses whose wealth and connections made them invulnerable to lesser racketeers. In later years, investigative journalists would detail the extravagant lifestyles of senior SBU officers, whose consumption levels could never have been supported by their modest salaries.[95]

The labour movement and the left

When Western commentators during the Yanukovych years looked for a force in Ukrainian society able to restrain corruption by the elite and curb its appetite for borrowed cash, their attention normally alighted on the country's "middle layers". The Ukrainian middle class, however, has always been small, and its relation to the production of wealth in the economy has been peripheral. The working class is very different. Not only are its numbers massive, but it commands the ability to decide whether production goes ahead or comes to a halt. For all that, scholars and journalists in the West have almost universally ignored the potential of the organised proletariat as a social force — the only such force, in fact — capable of disciplining and imposing the rule of law on Ukraine's wayward billionaires.

Admittedly, the organised labour movement under Yanukovych would have seemed an unlikely national saviour. Huge numbers of workers were simply outside its purview, employed in the "shadow economy". While the union movement was large in formal terms — the "official" unions of the Federation of Trade Unions of Ukraine (FPU) claimed some eight million members[96] — this size reflected the "distributive" functions of the FPU, which as in Soviet times provided workers with cheap holiday vouchers and other social benefits. The miners and steelworkers of the south-east had not forgotten their huge strikes of earlier decades; the region's traditions of working-class militancy were to re-emerge, in transmuted form, in the Donbas revolt of 2014.[97] But in the great majority of Ukrainian workplaces, even large ones, labour organisation was at a low ebb and acts of protest very much the exception. This was despite gross violations of worker rights. Unions reported numerous cases in which labour activists were harassed, beaten, discriminated against or subjected to illegal dismissals. Employers obstructed attempts to set up union bodies, and failed to pass on money that had been deducted from wages for the payment of union dues. Labour inspectorates and other law enforcement bodies showed little inclination to act on worker complaints, and favourable court judgments, even if they could be won, meant almost nothing in the absence of effective enforcement mechanisms. The legal system, in fact, was often among the forces deployed against the labour movement; employers brought numerous spurious lawsuits, intended to disrupt and exhaust workers' organisations. Even the mostly compliant FPU was not exempt; in 2009 the Office of the General Prosecutor had sought its compulsory dissolution.[98]

The situation of workers who came under attack was not eased by labour legislation that was biased heavily in favour of employers. The Constitution of Ukraine recognised the right to strike, and the Labour Code, adopted originally in 1971 but amended extensively since independence, formally enshrined a range of worker protections.

But public servants were banned from striking, and workers in broad categories of jobs that were deemed essential services faced jail terms if they withdrew their labour. As the researcher Oksana Dutchak notes, organising an official strike was almost impossible, and there had been years in which the National Statistical Agency reported that no such actions had occurred.[99] Nevertheless, a database compiled by civil society activists revealed sporadic stoppages.[100] Of the strikes that occurred during the Yanukovych period, the great majority were local, uncoordinated and defensive in character, and posed no large-scale or radical demands. The most usual cause was the non-payment of wages,[101] a phenomenon that the slump of 2009 had again made common. In most cases of strike action, trade unions were not involved; Dutchak records that in 2011 they played a role in only about 30% of labour mobilisations.[102] An exception was a successful nation-wide campaign for pay increases waged by teachers in 2011, with union backing.

Apart from a few such instances, impacts by organised labour on the national political process were negligible. Mainstream political parties, noting that the labour movement possessed neither media backing nor large cash resources, made no meaningful effort to enlist its support. Nor, despite the numerical strength of the working class, did the leaders of the main union federations ever set themselves the goal of constructing their own party, based on labour interests and oriented toward working-class voters. In the hope of cadging favours from business elites whose interests had essentially nothing in common with those of rank and file union members, the FPU leaders maintained a loose association with Yanukovych's Party of Regions, and the KVPU, as explained earlier, with Yuliia Tymoshenko's All-Ukrainian Union "Fatherland".

For that matter, the leaderships of the main parties that claimed the mantle of the left also resisted the temptation to pose an alternative to oligarchic politics. By the mid-1990s the remnants of the Soviet-era Communist Party of Ukraine had assembled themselves into three significant formations: the Socialist Party of Ukraine (SPU), with pretensions to social democracy; the Progressive Socialist Party of Ukraine (PSPU), billing itself as a principled opponent of NATO and the IMF; and the Communist Party of Ukraine (CPU), which claimed continuity from its Soviet forebear. Basing themselves largely on pensioners, and angling for protest votes, all three parties at various points between 1996 and 2010 attracted enough electoral support to have deputies in the parliament. In no sense, however, were they independent of big-business patronage and influence-trading. Under the Yushchenko administration in 2005, the SPU held ministries in then-Prime Minister Yuliia Tymoshenko's scandalously corrupt first government. The CPU, its fortunes buoyed by sponsorship from the financial oligarch Kostiantyn Grygoryshyn, went into effective coalition from 2010 with Yanukovych's Party of Regions. Though claiming to defend the people, the main "left" parties by this time displayed a cast of mind associated in the West with the populist right. In the public mind, one commentary noted,

> socialism and communism are still closely tied to ideas such as Slavic nationalism, a pro-Russian geopolitical orientation, the police state, the death penalty, social conservatism, the defence of 'canonical Orthdoxy,' and the wholehearted approval of the Soviet experience.[103]

Activists of Western-style "new left" groups, according to Kyiv sociologist Volodymyr Ishchenko, numbered barely a thousand throughout the country around the time of the Euromaidan.[104] Disunited and mostly ephemeral, the currents of the new left had a significant base only among students in Kyiv's elite educational institutions, where their influence was never remotely dominant. Ties between the new left groups and worker militants remained scant. A partial exception, in various respects, was the largest new left organisation, the Borotba ("Struggle") Union, which set itself the task of constructing a modern party of the radical left. In 2012 the organisation ran candidates in two parliamentary districts, but with discouraging results. Even Borotba never grew to more than a few hundred members.

Turning to the West

If Ukrainians in the months before the Euromaidan were unresponsive to the parties of the left, this reflected in part the indifference — or outright contempt — felt by the population for the country's politicians and governing institutions in general. Survey results published early in December 2013 showed 79% of respondents expressing dissatisfaction with the political state of affairs. Questioned on their support for political parties, the largest proportion (25%) replied that no party represented their interests. A resounding 69% of participants expressed little or no confidence in Yanukovych. The cabinet of ministers had the support of just 20% of participants, and the parliament, of 16%. Some 87% of respondents were dissatisfied with the state of the economy.[105]

The mass of Ukrainian workers were clearly alienated from the political process, whose structures allowed them no obvious avenue for advancing their interests. Meanwhile, middle-class opponents of the oligarchic system had found themselves thwarted in their efforts to pursue reform through parliament, where liberal-reformist currents were making little headway. Among members of the "middle layers" whose personal interests were not bound up with the fortunes of one or another business magnate, a strong if unfocused frustration was building up. Reflecting a long tradition of looking to Western Europe for models, the hopes of many people in this group centred on politico-economic integration with the West — specifically, on following the lead of the countries, former Soviet allies, that had joined the EU. Closer ties with the EU, it was assumed, would bring not just an increased flow of Western capital into Ukraine, but also a forcible breaking down of the structures of oligarchic power, expected to crumble beneath an influx from the West of capitalist "normality".

Improbably, these "Westernising" ambitions also found support among Ukrainian nationalists, especially in the country's mainly Ukrainian-speaking western provinces. Integration with Western Europe promised to swamp traditional Ukrainian cultural memes beneath a homogenising tide of capitalist popular culture. But Ukrainian nationalists perceived their identity largely in counterposition to models that, while arguably best understood as "post-Soviet", and as common to most of the former USSR, were felt as "Russian". On the basis of a shared orientation to the West, nationalists of provincial background finished in unlikely alliance with Russian speakers from the Kyiv middle strata.

From 2008 Ukraine also featured at the heart of an ambitious plan, conceived by Polish Foreign Minister Radoslaw Sikorski, to draw various eastern neighbours of the EU into its orbit. For each of these countries, the "Eastern Partnership" scheme projected the signing of a bilateral "Association Agreement" with the EU, to be developed into a "Deep and Comprehensive Free Trade Area" (DCFTA). Welcomed by the Yushchenko administration, negotiations on the agreement were continued from 2010 under Yanukovych, and the deal was essentially ready for signing by 2012.

The economic rationale for Ukraine joining in this scheme was shaky. The country suffered from a massive deficit in its trade with the EU, but it was not, for the most part, EU tariffs on Ukrainian manufactures that blocked more equal exchange.

Admitted in 1993 to the EU's Generalised System of Preferences, Ukraine throughout the decades since had confronted only minor tariff barriers to exports of its industrial products to the European trading bloc. "In 2013," an official EU site records, "more than 70% of Ukrainian exports to the EU of machinery and mechanical appliances, plants, oils, base metals, chemicals and textiles benefited from GSP preferential tariffs."[106]

The most significant shift in Ukraine's favour promised under the Association Agreement was a relaxation of many of the barriers that restricted entry to the EU for Ukrainian agricultural produce. Most EU tariffs on Ukrainian agro-food goods would be removed immediately under the agreement, and the remainder over a ten-year period. Modelling anticipated that during this time Ukraine's agro-food exports to the EU would rise by about 20%, while corresponding imports from the EU would increase by about 7%.[107] The famously powerful EU agricultural lobbies, however, would still prevent Ukraine's advantages as an agro-food producer from coming fully into play. Relatively restrictive tariff rate quotas would apply to various major agro-food lines, including cereals, meat, eggs and sugar;[108] once these quotas were filled, the earlier tariffs would apply. To expand their exports to the EU, Ukrainian agro-food producers would also need to meet EU technical standards, along with the bloc's demanding sanitary and phytosanitary requirements.

The main obstacles — as distinct from EU tariffs — to more equitable trade between Ukraine and the EU would meanwhile remain. These obstacles included the scant prospects, amid episodically saturated global markets, for increasing sales to the EU of the products of Ukraine's metallurgical industry. Further barriers were posed by the restricted assortment, often-mediocre quality and generally unfamiliar specifications of Ukrainian machinery and equipment. For exports of the latter to increase, massive, closely targeted investment would be required, but nothing in the agreement provided grounds for hoping that EU investment in Ukraine's capital goods and consumer manufacturing sectors was about to flourish. Despite the existing low tariffs on imports of Ukrainian manufactures to the EU, foreign investors had never shown much interest in modernising Ukraine's decrepit heavy industries — and still less interest in expanding the country's knowledge-intensive, high value-added production. Commentaries during the Yanukovych years noted that as before, the main destinations of foreign investment in Ukraine were finance and services.[109] Even the possibility of employing cheap Ukrainian labour in new plants carrying out light manufacturing and assembly — that is, analogues of the *maquiladoras* along Mexico's border with the US — had rarely proved compelling.

"Deep and comprehensive free trade", meanwhile, would see Ukrainian manufacturers stripped of much of the tariff protection that had sustained them, up to a point, in the face of Western imports. While easier entry to the Ukrainian market would benefit EU producers, many Ukrainian firms would find their existence imperilled. For Ukraine, as for Mexico under the North American Free Trade Agreement, the implications of mutual "openness" between advanced producers and a much poorer "developing" country included the destruction of existing productive capacity, distortion of rational development patterns, and a general exacerbation of dependent status.

Promising further harm to Ukrainian producers was the fact that free trade with the EU would overturn many of their country's existing trading arrangements. Ukraine had for some time carried on substantially free trade with Russia and most other post-Soviet states, whose general level of economic development provided a close match for its own. In 2011 these arrangements had been regularised under the

Commonwealth of Independent States Free Trade Area Agreement. For Ukraine's partners in the CIS, an end to Ukrainian tariffs on goods imported from the EU posed a direct threat; traders would be able to bring the highly saleable products of EU industries duty-free across the Ukrainian border, then re-export them throughout the CIS expanse. Tariff protection against EU products would be dramatically impaired, if not ended; all members of the CIS bloc would be exposed, on their own territories, to direct Western economic competition, and their ability to determine their own patterns of development would be sharply limited. If Kyiv accepted the EU's overtures, Ukraine's partners in the CIS Free Trade Area could allow the country to remain part of their bloc only at the cost of compromising their own interests.

Exclusion from the CIS trade bloc would have severe consequences for large numbers of Ukrainian enterprises, whose exports to the bloc would now face significant tariff barriers, and perhaps just as important, a range of bureaucratic hold-ups at border crossings. The goods concerned would now be significantly more expensive in the very markets which, for many Ukrainian enterprises, provided their main opportunities for export sales. The enterprises most closely linked to partners in other CIS countries — enterprises that tended to be among Ukraine's most technologically advanced — would face additional barriers to obtaining materials and components they needed.

For Ukraine, the need to develop an extensive range of economic linkages with the countries to its west was in principle indisputable. But if this integration were carried out in a fashion that saw Ukraine's manufacturing industry destroyed or drastically degraded — and most crucially, its high-tech capacity substantially lost, with expertise dispersed as qualified personnel took lower-skilled work or went into emigration — the exercise had no point. Advanced industrial capacity would have been surrendered, in exchange for a modestly enhanced ability to export low value-added commodities such as cereals and chicken meat. Once the advanced capacity had been lost, regaining it under unfavourable competitive conditions would be next to impossible.

A further complication of the proposed "choice for Europe" was the fact that the Association Agreement proposed by the EU was not solely economic, but would require Ukraine to make a definite political and military commitment. As Richard Sakwa observes, the projected agreement explicitly foresaw "gradual convergence on foreign and security matters with the aim of Ukraine's ever-deepening involvement in the European security area."[110] The logic of the Eastern Partnership — as its prime mover Rados^{3}aw Sikorski clearly intended — included a steady growth of military cooperation between Ukraine's armed forces and NATO, with the goal of eventual NATO membership. Signing the Association Agreement would thus guarantee a dramatic heightening of tensions with Russia.

When its implications are teased out, the agreement represented an unfavourable deal for Ukraine. Across the population as a whole, backing for it in the months before the Euromaidan was at best lukewarm; an opinion survey in November 2013 found that support for integration with the EU, at about 40%, was no more than the support for joining the Russia-centred alternative, the Eurasian Customs Union.[111] The fact that the EU option prevailed is explained to a degree by the support it received from a number of currents, determined and single-minded even if not particularly large, within Ukrainian society. For the earlier-mentioned Ukrainian nationalists, the agreement had automatic appeal because of the distancing it implied from Russia. At the same time, integration with the EU came packaged in the allure of the West, something always enticing to the members of Kyiv's liberal intelligentsia; the latter fed their attitudes to broader social layers through their influence within the mass media.

Most working people were probably as indifferent to the Association Agreement as they were to government machinations in general. For some, however, the agreement's promise of eventual visa-free entry to the EU undoubtedly commanded interest, offering as it did the prospect of jobs in the West for many times the pay rate at home.

The attitude of the oligarchs to the Association Agreement was ambivalent and contradictory, as evidenced by the fact that Yanukovych pursued the deal for many months despite the links between his eastern political base and Russian commercial partners. Ukrainian business chiefs as a matter of course had acquired assets in Western Europe, and many no doubt relished the chance to present themselves to associates in the EU as enlightened and westward-looking. Favouring increased ties with the West also conferred a certain legitimacy on the oligarchs among the Ukrainian middle strata, despite the cynicism with which the population at large regarded the business chiefs' origins and methods. Some oligarchs could expect to benefit from increased trading opportunities, like the confectionery magnate Petro Poroshenko, who stood to gain handsomely from the ending of European tariffs on his "Roshen" brand of sweets. For oligarchs who, like Poroshenko, were not aligned with the president's faction, an increase in the formalised ties between Ukraine and the EU would also have held promise as a curb on the growth, by this time disconcerting, in the power and influence of the Yanukovych business clan.

At the same time, integration with the EU held definite dangers for Ukraine's business elite. As well as expediting incursions onto their commercial territory, the Association Agreement came with stipulations that business transparency would be improved and anti-corruption mechanisms put into effect. Nevertheless, the oligarchs who aligned themselves in favour of the agreement appear to have discounted the hazards involved. During their decades of controlling Ukraine's economy, the business chiefs had never had much trouble deflecting such threats.

Sikorski's "Eastern Partnership", however, was about much more than tariff adjustments and pressures to curb corruption. It was a full-blooded project of dependent incorporation. The forms and degree of dependency it presaged were quite different from those that had arguably applied in Ukraine's relationship with Russia; although the latter country possessed a much larger economy than Ukraine, its productive apparatus was not dramatically more advanced or competitive. Integration with the EU, by contrast, would see Ukrainian capital directly confronting a far superior adversary in all but a few areas of economic life. Ironically, the main defences of the local capitalism would be its dysfunctionality and corruption, which locals knew how to navigate but outsiders, by and large, did not. To the extent that EU capital succeeded in taking over particular areas of production and imposing its methods and ethos, the benefits to most Ukrainians would be minimal; in the semi-colonial relationships that resulted, production would occur locally, but profits for the most part would be repatriated for accumulation in the West. In areas where Ukrainian capital continued to dominate — likely, most of the economy — its hegemony would be a corollary of its backwardness, maintained through its ability to make the costs and difficulties of outside penetration prohibitive. For Ukrainian business, "deep and comprehensive free trade" would thus set a premium on the survival of primitive, lawless forms of operation. As tariff protection vanished, the need would become starkly greater for local capital to maintain its vices and debilities as essential safeguards.

Ukraine's rich and powerful showed no particular sign of apprehending these subtleties. The concept of imperialism and the ideas of dependency theory had vanished from the mental frameworks of almost all the country's economic analysts — not to speak of the broader Kyiv intelligentsia — and the oligarchs had little care for theory in any case. Throughout most of 2013 Yanukovych carried forward preparations for a final signing of the Association Agreement late in the year. In Moscow, by contrast, the administration of President Vladimir Putin grasped the implications of the Association Agreement — and above all, of its foreign policy and military dimensions — very keenly indeed. A concerted Russian diplomatic effort sought to explain to Western governments that the Russian authorities viewed the agreement as profoundly destabilising.

When the EU showed little interest in discussing Russian concerns, Kremlin officials began efforts to dissuade Yanukovych from signing the deal. From July 2013 the Moscow authorities began applying low-level harassment measures, holding up imports from Ukraine on food safety and other technical grounds. Meanwhile, the advances of modern political economy had not been purged completely from Ukrainian academia; the Institute for Economics and Forecasting at the National Academy of Sciences was preparing a report for the Yanukovych administration on the likely price to Ukraine of reorienting its trade away from Russia. Later press articles were to put the cost estimated in the secret report at a total long-term sum of $160 billion.[112] Comparable in size to Ukraine's annual GDP, the figure would be revealed over subsequent years to be anything but fanciful.

Yanukovych remained unswayed, both by the report from the Academy of Sciences economists and by Russian pleas and pressures, until November 2013. By this time Ukraine's foreign exchange holdings sufficed to cover barely two months of imports,[113] and the economy was in obvious crisis. With debt servicing payments of as much as $17 billion due in the coming year,[114] the need for new external credits was extreme, but an IMF loan offer presented on November 20 would have been politically toxic, imposing savage austerity measures including big budget cuts and increases in the gas bills paid by domestic consumers. On November 21, 2013 Yanukovych announced that he would not sign the Association Agreement in its existing form, insisting on more time to consider its potential effects. In December Putin stepped into the breach, extending a $15 billion Russian loan package accompanied by a discount of about a third on gas supplies. Demonstrators, however, were now pouring into central Kyiv, and the "Euromaidan Revolution" was under way.

The "revolution" was never an authentic irruption of the masses into political life. As the scholar of the post-Soviet labour movement David Mandel observes, workers, as workers, were absent; no strikes supporting the opposition to Yanukovych took place.[115] Although most of the people who flocked to the Kyiv protests were undoubtedly of modest means, the mass of hired employees remained suspicious of the Euromaidan struggle just as they were cynical concerning the political process in general. While sharing in the near-universal contempt for Yanukovych, workers were not about to join a fight to overthrow him when they viewed his likely successors as no better. An "all-Ukrainian strike" promised by leading opposition politicians for February 13 failed to ignite, despite being promoted by KVPU chief (and during various periods, Rada deputy for Yuliia Tymoshenko's "Fatherland" party) Mykhailo Volynets. Bizarrely, the only notable "stoppage" that day appears to have been a rally in front of a linen factory in Rivne, where bemused employees had been ordered from their lunchrooms by the plant director during a meal break. Footage of the workers' "anti-government protest" was later broadcast intensively on opposition-owned television.[116]

In essence, the Euromaidan represented an outpouring from the Ukrainian middle layers — specifically, those of Kyiv, and including important numbers of students. The political leanings of these strata require further examination. In mainstream Western reporting during the period, the educated middle layers of Ukrainian society were presented as Western-oriented and liberal-minded, supporters of democratic rights and even broadly progressive. There is no doubting that large numbers, almost certainly a strong majority, of educated Ukrainians favoured economic and cultural incorporation with the West. But it does not follow from this that their inclinations were liberal or democratic.

As reported by the *Kyiv Post,* analysis of voting patterns in the 2012 parliamentary elections revealed a startling level of support among tertiary-educated voters for the far right-wing "Svoboda" ("Freedom"), which until 2004 had gone by the unsubtle name of "Social-National Party". Some 48% of Svoboda voters polled in 2012 had described themselves as having higher education.[117] From an initial base in western Ukraine, where in 2010 it had won an absolute majority on the Lviv city council, Svoboda stormed eastward in the 2012 elections to take 10.5% of the nationwide vote,[118] and to gain second place among voters in Kyiv.[119] With 37 Rada seats, the party now made up the fourth-largest parliamentary bloc. In its election campaigning Svoboda had soft-pedalled its neo-fascist origins, and there is no doubt that it benefited from an anti-Yanukovych protest vote. Nevertheless, it is instructive that the votes of the Kyiv intelligentsia did not simply swing behind the more mainstream parties of various anti-regime oligarchs.

As the strength of the far right among the Kyiv middle layers would indicate, liberal and democratic views were not hegemonic among the people who streamed onto the Maidan square from November 2013, or even particularly well represented. Members of the left who joined the demonstrations learned to conceal their views, or to risk being beaten up. The political scientist Denys Gorbach, in his recollections of the struggle, was to observe that "nationalists maintained their monopoly of public pronouncements, and pushed the leftists and feminists aside as soon as [the latter] unfurled their human rights and socio-economic banners."[120] Analyses noted by Volodymyr Ishchenko identified members of ultra-nationalist formations as "the most … visible collective agents in the Maidan protests, particularly in violent events."[121] The conundrum that middle-class students should have allied themselves on the Maidan with ultra-rightists often dismissed as lumpen-proletarians and football hooligans becomes less puzzling if we accept that, as seems highly likely, many of the extreme nationalists were precisely young people from the Kyiv middle strata.

In any case, it is clear that the Euromaidan was not based on genuinely broad popular commitment and activism. It triumphed because of the debility of the despised

Yanukovych regime; because few members of the business elite were inclined to defend the discredited president; because the parliament, taking its cue from its oligarchic paymasters, accepted that the regime was not worth saving; because Western NGOs (and without doubt, intelligence agents) worked to mobilise opposition to the government; and because sections of the oligarchy — the names of Petro Poroshenko and of the steel and television baron Viktor Pinchuk are often cited — provided the movement with substantial monetary and media support.

No persuasive evidence suggests that the business chiefs who backed the Euromaidan sought a fundamental reconfiguring of the way Ukrainian capitalism was run. Instituting a "civilised", Western-style capitalism — more or less law-governed, and with its profit-taking subject to a degree of public scrutiny — was not in the interests of any of Ukraine's super-rich. Arguably, the key motivation of the magnates who backed and funded the Euromaidan was concern, as noted earlier, at the burgeoning power exercised by the Yanukovych commercial-political "family". For business leaders who wished to destroy an overweening competitor and restore the traditional pluralism of interests within Ukraine's moneyed class, a temporary political alignment with pro-Western liberals held obvious attractions. While the liberals and their allies in international lending agencies would demand the application of stringent austerity policies, the primary cost of these would not be borne by oligarchs but by wage workers, whose labour would become cheaper. Sharing power with liberal reformers might also, in time, require manoeuvring to keep demands for anti-corruption measures in check. But one of the lessons of the Orange Revolution had been that in a state where economic and political power was concentrated in the hands of a tiny elite, concessions to popular demands could readily be clawed back.■

Ukrainian farmland.

Top: Maidan protest, Kiev, 2014. *Bottom left:* Victoria Nuland, leading US diplomat in Ukraine during Maidan protests. *Bottom right:* Arsenyi Yatseniuk became prime minister following ouster of President Viktor Yanukovych in February 2014.

III. The First Post-Euromaidan Years: Dependent Incorporation

The struggles surrounding the Euromaidan, ultimately, took place on a stage much broader than central Kyiv or even Ukraine as a whole. As so often in discussions of Ukrainian events, a focus on local developments has to be accompanied by awareness of the geopolitical context.

In a now-notorious telephone conversation early in February 2014, US Under-Secretary of State for European Affairs Victoria Nuland and US Ambassador to Kyiv Geoffrey Pyatt discussed plans for a political transition in Ukraine. "Yats is the guy who's got the economic experience, the governing experience," Nuland famously argued, referring to parliamentary leader of the "Fatherland" bloc Arsenyi Yatseniuk. Later in the exchange, Pyatt concluded: "We want to try to get somebody with an international personality to come out here and help midwife this thing."[1]

The conversation was striking on a number of levels. First, perhaps, was its casual acceptance of the rightness of outside direction of Ukraine's political processes. Also jarring, for many, were the tones of *realpolitik* in which the two US officials discussed the region's affairs ("You know, fuck the EU"). Just as troubling for those familiar with the history of the post-Soviet countries might have been Nuland's choice of Yatseniuk as head of a prospective new government. "Yats" was a single-minded proponent of neoliberal measures reminiscent of the "shock therapy" enacted throughout most of the former eastern bloc two decades earlier.

Those who accept the formal premises of US foreign policy might excuse Nuland and Pyatt on the basis that their exchange, while blunt, was about helping to create functional institutions of democratic rule in Ukraine, while "midwifing" a workable economy for the country. But such a view is excessively generous. In its practical purposes, the conversation was about expediting the decisive incorporation of Ukraine into the political, economic and military periphery of the advanced West. From a position of semi-independence, poised in its commercial and political-strategic relations between the EU, Russia and a variety of developing-world trade partners, Ukraine was meant to move into clear subordination to the EU and NATO. The terms on which this shift occurred — democratic or dictatorial, with a local capitalism that was thriving or that was dwarfed and dysfunctional — were for Pyatt and Nuland a lesser consideration.

Yanukovych was duly overthrown, and on February 27, 2014 Yatseniuk was elevated to the post of prime minister. In March, Ukrainian leaders put their signatures to the political provisions of the promised EU Association Agreement, with acceptance of the economic provisions to follow in June. The corollary was an undertaking by the new Ukrainian authorities to enact a program of reforms, its general thrust spelt out by the IMF in the conditions attached to a two-year, $17 billion stand-by loan arrangement negotiated in April 2014 and taking the place of the now-cancelled Russian credit.

In line with IMF practice, the reforms aimed to boost profits and increase accumulation through imposing a strict austerity program whose main burden would be borne by the mass of the population. Among the measures prescribed were cuts to public sector salaries, a freeze on the minimum wage, and reductions to social income supports for retirees. Quite apart from its cruelty, the program was disastrously timed. Global economic growth, mediocre in the early months of 2014, was in the following years to slip into a "mini-recession" that caused international demand for Ukraine's raw materials and semi-processed goods to slacken markedly. World steel export prices, already dropping, were not to "bottom out" until the beginning of 2016.[2] In this setting, the IMF's strictures could be predicted to turn recession in the country into a full-blown economic crash. The collapse of domestic demand, as incomes plunged and spending on social services was curtailed, would bankrupt numerous small and medium businesses dependent on the local market, and bring about a self-reinforcing downward spiral of impoverishment.

While the IMF officials must have realised the likelihood of such an outcome, they were not deterred. Stronger enterprises, especially those capable of exporting, were foreseen as surviving the effects of a crisis and as having their long-term profits buoyed by a combination of reduced wage bills and lower taxation. In time, Ukrainian capital was expected to revive as its now-cheapened exports found sales on world markets. Superior rates of return, backed by improved fiscal governance, were envisaged as luring Western entrepreneurs to move in, buying up and modernising distressed Ukrainian firms or establishing new ones.

The crash, and the mass impoverishment, went ahead. In 2014 Ukraine's nominal GDP fell by 6.6%, followed by a further drop of 9.8% in 2015.[3]

Reform and the oligarchs

In the calculations of international lending agencies and Ukrainian reformers, the turn to "shock therapy" was not just expected to bring fiscal stability to the country as a whole and increased competitiveness to its exporters. Just as centrally, austerity by restoring a degree of order to state finances was seen as opening the way for attacking the phenomenon viewed as underlying the country's miseries: the stubbornly oligarchic form into which Ukrainian capitalism had congealed.

This calculation, however, was naïve. Oligarchism in Ukraine was not simply an aberrant feature that had imposed itself, through historical accident, on a fundamentally vital and promising set of social and economic institutions. Oligarchism *was* Ukrainian capitalism; as Leonid Kuchma had insisted in his memoirs, it represented the only form that the system, within the specific national context, could reasonably have been expected to assume. The oligarchs, who not only dominated industry but also controlled the state apparatus in startlingly direct fashion, had no intention of allowing the institutions they had constructed, and that guaranteed their power and privileges, to be threatened in any decisive way. Aiding the oligarchs was a decision late in February 2014 to undo amendments that had been made to the constitution a decade earlier. "The role of the president was weakened," Polish scholar Wojciech Konończuk remarked of this 2014 reversal, "and the parliament's prerogatives strengthened significantly."[4] With the parliament still under close oligarchic control, the power of the magnates to dictate government actions became even less constrained.

In these circumstances, assembling parliamentary support and forming a new ministry in the weeks after the Euromaidan required serious concessions to the business chiefs who had backed the overturn. Oligarchic hirelings, and even certain oligarchs themselves, were awarded numerous senior posts. Astonishingly, prominent business magnates were handed administrative control over regions where they already wielded immense economic power. Early in March 2014 Acting President Oleksandr Turchynov appointed Ihor Kolomoiskyi, the second or third richest Ukrainian and a notorious corporate raider, as governor of Dnipropetrovsk Province. Kolomoiskyi was known for having organised a legendary 2006 assault on the Kremenchuk steel complex in which, the *Forbes* business journal related, "hundreds of rowdies armed with baseball bats, iron bars, gas and rubber bullet pistols and chainsaws forcibly took over the plant."[5] Metallurgy magnate Serhii Taruta received the governorship of soon-to-be-rebellious Donetsk.

Most crucially, the new president, elected on the first round in May 2014 with 54% of the vote, was another oligarch, Petro Poroshenko. With assets spread across the food industry, shipyards, banking and television, and with a personal worth calculated in 2012 at $1 billion,[6] Poroshenko had been a prominent political figure, known for his shifting allegiances, long before emerging as a key backer of the Euromaidan. Late in 2000 he had participated in the moves that led to the founding of the Party of Regions, which later functioned as Yanukovych's parliamentary machine. After serving under Yushchenko as Secretary of the National Security and Defence Council, and later as Foreign Minister, Poroshenko for a period in 2012 became Yanukovych's Minister of Economic Development and Trade.

For new Prime Minister Yatseniuk, forging a stable pro-reform majority in the parliament following the Euromaidan proved impossible, and in order to govern he was forced to strike bargains with oligarchic parties. Through a series of tactical deals, Konończuk explains, the prime minister "gained the support of important deputies from the oligarchic groupings in the Verkhovna Rada, as well as informal sources of financing and media support." In return, Konończuk goes on to record, "it seems that the oligarchs were granted personal safety, protection for their businesses and the ability to continue lobbying for their business interests."[7] The General Prosecutor's Office, under close presidential control, meanwhile blocked inconvenient investigations, and efforts to prosecute former office-holders of the Yanukovych administration remained thwarted. The privatisations of the Yanukovych era, many of them notoriously corrupt, were not revisited.

While the oligarchic system altered remarkably little in the aftermath of the Euromaidan, the same cannot be said for the fortunes of individual oligarchs. With the ability to amass wealth still contingent on political connections, the hierarchy of oligarchic power changed substantially. Individuals and groups who had been regarded as especially close to Yanukovych dropped into obscurity, while new factions took their place. Seizing control of parliamentary committees and state agencies, the *arrivistes* named their supporters to the directorships of state-owned firms, whose revenues then fed the rise of new business empires.

Ethnic and class schisms

In projecting their reforms, Yatseniuk and his backers had gambled that the country's working people would endure further impoverishment without mounting significant opposition. In most of the country this calculation proved correct. But in several regions vexed ethno-linguistic issues, together with fears of persecution and apprehension at the new government's economic plans, resulted in the districts concerned taking their leave of the Ukrainian state. In the Autonomous Republic of Crimea — joined arbitrarily to Ukraine in 1954, and with a strong ethnic Russian majority — the local parliament voted in late February 2014 to dismiss the territorial government and to hold a referendum on self-rule. The move was protected by Russian troops, but its real strength lay in the overwhelming support it enjoyed among the territory's population. Following the referendum in March, the parliament declared

Crimea independent, and shortly afterward the territory rejoined Russia.

In Ukraine's largest concentration of heavy industry, the ethnically diverse, Russian-speaking Donbas provinces of Donetsk and Luhansk, fears of nationalist pogroms joined in April 2014 with the prospect of further immiseration to stir a broad worker-based revolt.[8] A measured government response might have resolved the Donbas conflict at an early stage, since neither the demands of rebel leaders nor mass sentiment in the region extended initially beyond enhanced autonomy.[9] Any inclination by the Kyiv authorities to negotiate with the rebels, however, was blocked by the ultra-nationalist forces with which the reformers had allied themselves during the Euromaidan. The initial stand-off in the Donbas developed into a war that continued through the summer, until Russian military assistance to the rebels led to setbacks for Ukrainian government forces. A military stalemate then followed, and from September 2014 international talks and a fragile truce left the two self-declared rebel republics intact behind an often-violated ceasefire line. Over the next two years nationalist pressures kept Ukrainian military spending at an impossible-to-afford level of around 5% of GDP, roughly twice the figure in 2013.[10]

The decision to wage war on the Donbas was not the only instance in which the Yatseniuk government followed the prompting of its ultra-nationalist allies, and finished up paying an exorbitant price. In April 2014, shortly after Crimea joined the Russian Federation, the Kyiv authorities announced a freeze on military exports to Russia. Ukraine's arms industry was an important export earner, with foreign sales in 2013 of $1.24 billion,[11] and was integrated closely with Russian producers. The proportion of Ukrainian defence output going to Russia at this time has been put as high as 70%;[12] a large share of this production consisted of components that were destined for Russian weapons systems, and that had no conceivable buyers apart from Russia and in some cases, foreign buyers of Russian armaments. As the ban bit into arms industry revenues, only corruption, by disguising military exports to Russia as civilian goods or by routing them through third countries, mitigated the losses.

Export price declines, austerity and impoverishment

As if to mock hopes of an early recovery from the post-Euromaidan slump, prices for key export products meanwhile continued to decline. International markets for food commodities and agricultural raw materials carried on a slide that had begun in 2011;[13] from levels of about $300 per metric tonne in 2013,[14] world wheat prices in December 2016 stood at barely $140.[15] World steel and iron ore prices kept dropping, in the case of the latter to a total fall of around 70% between September 2013 and January 2016.[16] The losses were only partly made up by a large decline in the cost of oil imports.[17]

As falling export revenues multiplied the difficulties of fiscal stabilisation, the IMF stepped up its pressures. Spending in areas as fundamental to long-term prosperity as education and health care was ravaged; over the three years from the beginning of 2014 real outlays on education were to fall by 36.2%, and on health care, by 36.3%.[18] The chief target of IMF austerity nevertheless remained the heavy subsidies provided by the state for energy supplies, particularly natural gas use. In October 2014, after it had become clear that the parliament was not about to address the deficits of the state gas firm Naftohaz, the IMF terminated the loans program that had been negotiated soon after the Euromaidan. Discussions between the government and the lending agency eventually resumed, and Ukrainians were told that gas prices needed to rise by an overall figure of more than 300%. For central steam heating the increase was to be 75%, and for centrally-delivered hot water 50%.[19] The rises would not go near to bringing the charges into line with the costs of supply, but pensions and the minimum wage, inadequately adjusted for inflation, were so low that for large numbers of citizens any increase in utility charges would be calamitous. Meanwhile, no attempt was made to reduce the deficit through raising the tax take from the well-off. The neoliberal dogma of the “flat tax” was applied rigidly, the rate of personal income tax remaining within a band from 17 to 20%.[20]

By the winter of 2014-2015 austerity had not brought stabilisation but a financial rout. As revenue streams failed and repayments on foreign loans fell due, the government ran down the country’s reserves of foreign currency still further; near the end of 2014 they equalled barely five weeks of imports.[21] In February 2015 a long-standing attempt to keep the hryvnia stable against the dollar was abandoned, and the national currency was allowed to float. A spectacular devaluation followed. Making imports more expensive, the devaluation fuelled inflation, which reached a level for the year of 43%.[22] Real incomes plunged along with the hryvnia; by the end of 2015, data of the International Trade Union Confederation indicate, the fall in the real wages of Ukrainian workers over the previous two years amounted to no less than 74.6%.[23] State Statistics Service figures in 2016 revealed that 75.6% of households with two children were living below the subsistence minimum income calculated by the Ministry of Social Policy.[24] As late as November 2016 the mass of Ukrainian workers, receiving monthly incomes under 6000 hryvnias[25] (at that point about $230), still lived below the international “ethical poverty line” — calculated as necessary to allow a chance of normal life expectancy — of $7.40 per day.[26]

Stabilisation

Government finances ultimately saw a technical stabilisation in the second half of 2015, as a further program of measures superintended by the IMF made its effects felt. Agreement was reached with foreign creditors on a debt restructuring — in effect, a technical default — that postponed repayments for four years. The IMF meanwhile extended a new credit line of $17.5 billion, intended to bolster the hryvnia and permit Ukraine to continue importing. The state budget deficit, which had reached 4.5% of GDP in 2014, declined during 2015 to 1.2%.[27]

The blows of reform, to be sure, were not felt by workers and pensioners alone. As a result of the post-Euromaidan economic shake-out, the number of Ukrainian billionaires reportedly fell from ten to five.[28] The greatest losses were taken by the coal and steel baron Rinat Akhmetov, whose wealth, according to *Forbes,* shrank from $12.5 billion at the beginning of 2014 to $7.2 billion a year later.[29] Among the established oligarchs, the only one to grow his wealth was Poroshenko. The president's assets are estimated to have increased in the course of 2015 by $100 million.[30]

In the plans of the government, part at least of the burden of fiscal stabilisation was meant to be alleviated through a sell-off of remaining state assets; early in 2015 the newly-appointed finance minister, US-born investment banker Natalie Jaresko, pledged "privatisation of everything that can be privatised".[31] The major asset sales were subsequently postponed to 2016, when the state budget foresaw privatisation revenues for the year of $631million.[32] "We have shortlisted about 25 enterprises from the energy sector, chemical industry, port infrastructure and a few more," Economy and Trade Minister Aivaras Abromavièius explained at the beginning of 2016, adding that he believed the offerings were "of great interest to strategic foreign investors."[33] But potential foreign buyers remained deterred by the difficulties and risks of doing business in Ukraine, and the country's own wealthy elite were not, for the time being, in a position to make massive purchases. Of the enterprises sold during this period, most were small, and almost all went for trivial sums. At the end of 2016, privatisation results for the post-Euromaidan years remained derisory: $30 million in 2014, $6 million in 2015 and a mere $3 million in 2016.[34]

A particular disappointment for the government was its continuing inability to sell one of the giants of the country's chemical industry, the Odesa Portside Plant. Operating mainly for export, the complex was among Ukraine's leading producers of nitrogen fertilisers, and according to one calculation had a replacement value of about $1.5 billion.[35]. Attempts to sell the plant had been made in the years before the Euromaidan, and in 2009 a business group headed by Ihor Kolomoiskyi had won a privatisation tender with an offer of $625 million. But as related by the *Kyiv Post,* the auction was cancelled by government officials who argued that the sum was inadequate.[36] The plant was listed in 2016 at a starting price of about $500 million, later dropped to about $200 million, but failed to attract a buyer. The deterrents to purchasers reportedly included the plant's extensive debts, its unfavourable economics when forced to pay high prices for natural gas supplied by Naftohaz, and an ownership dispute with a business group controlled by Kolomoiskyi, [37] with whom even the most powerful of Ukrainian entrepreneurs were wary of crossing swords. Most off-putting of all, perhaps, was the fact that the plant drew a large part of its revenues from fees paid for transhipping ammonia piped from Russia's Tatar Republic. Viewing this arrangement as unreliable, the Russian authorities had begun constructing an ammonia terminal on their own coastline.

The near-balancing of Ukrainian government finances by the end of 2015 had a parallel in the nominal restoration of order to the country's foreign trade balance. After dramatic trade deficits during the Yanukovych years, state figures show exports and imports of goods in approximate equilibrium during 2014 and 2015, with even a small trade surplus during the latter year. This seemingly healthy picture, however, was the sum of a collapse of exports and imports alike. Exports fell in value by close to 40% between 2013 and 2015,[38] while imports, reflecting reduced consumption levels, more than halved. The plunge in export earnings was mainly the result of lower commodity prices, and occurred despite the removal of almost all tariffs on sales to the EU. Following the initial signing of the Association Agreement in March 2014, EU import tariffs on Ukrainian goods had been cut from an average of 4.2% to 0.9%, anticipating the levels of the first year of the Deep and Comprehensive Free Trade Area (DCFTA), whose general trade provisions were to come into effect at the beginning of 2016.[39]

Meanwhile, the geographic tilt of Ukraine's heavily reduced foreign trade was shifting; the distancing from Russia seen in the political field was taking on a perceptible economic form. Between 2013 and 2015 Ukrainian state data show trade turnover with the EU falling by 35.3%,[40] while World Bank figures have trade with Russia during these years down by almost 68%.[41] By the end of 2015 shipments of machinery to Russia were minimal, and purchases of gas from Russia's Gazprom had been halted. Ukraine was now choosing to rely on supplies of gas — ironically, in large part of Russian origin — from the EU.

The de-development of industry

Ukrainian industrial production, which in 2014 had fallen by 10.1%, dropped by a further 13.0% in 2015.[42] Even these figures do not convey the worst losses suffered by the country's industrial potential during the post-Euromaidan crisis. Official statistics show engineering sector output as plunging 21% in 2014, and in 2015 by a further 15%.[43] A radical primitivisation of the economy was taking place, as technologically advanced firms curtailed production at rates much greater than the decline of industry as a whole, and as skills were lost.

The first years after the Euromaidan were especially catastrophic for hi-tech enterprises that had previously collaborated with Russian organisations, relying on them for production orders and components. The Ukrainian shipbuilding industry, a report in January 2015 stated, was on the verge of suspending operations; according to former Deputy Prime Minister Aleksandr Vilkul, output of the industry in 2014 was barely a tenth of annual production during the 1990s. An important reason was reported to be the crisis in relations with Russia, as a result of which Russian shipping firms were directing their orders elsewhere.[44] In a similar situation was the Kharkiv power-station turbine maker Turbatom. In 2012 Russia and other CIS countries had purchased 60% of Turbatom's output, and hopes for the enterprise's future rested on bids to supply equipment for Russian nuclear and hydropower plants. But from 2014 the prospect of further such sales being made seemed distant — and in a fiercely competitive global market, the odds of finding alternative buyers were unpromising.[45]

Still more dire were the prospects before Ukrainian suppliers of military-related hardware, their sales to Russia blocked directly by the government's prohibition. Since Ukrainian independence the Zorya-Mashproekt complex in Mykolaiv on the Black Sea coast had supplied almost all the gas turbine engines installed in Russian warships; engines of this type had made up about 35% of the firm's total production.[46] With Ukrainian engines no longer available, the Moscow authorities had a Russian jet engine manufacturer tool up to produce substitutes. Zorya-Mashproekt was left to compete for orders in a field dominated by the Western heavyweights General Electric and Rolls-Royce.

The legendary aircraft firm Antonov, traditionally producing military freighters and reliant on Russian components and markets, completed just two airframes in 2014, followed by two more in 2015. Another enterprise hit hard by the ban on military-related sales to Russia was the Zaporizhia firm Motor Sich. One of the world's largest aero-engine producers, with 27,000 employees in 2014.[47] Motor Sich for many years had produced almost all the engines used in Russian helicopters, including military models. In 2012 some 93% of the company's income had come from exports, with about half of total production going to Russia.[48] By 2016 reduced sales to Russia were contributing to a decline in Motor Sich revenues that amounted to 61% compared to the figure three years earlier.[49]

The best-known instance of a Ukrainian high-technology producer suffering near-collapse in the years after the Euromaidan is undoubtedly that of Yuzhmash, the giant state-owned space industry enterprise. Centred in the city of Dnipropetrovsk and employing some 15,000 people, Yuzhmash had been the Soviet Union's premier rocket-building complex, and at the time of Ukrainian independence had possessed expertise in its field that was among the world's most advanced. Amid an expanding international commercial space industry, Yuzhmash might have been expected to compete successfully. But starved of state investment and beset by the chaos of the country's economy, the firm never developed the distinctive products, closely matching the needs of prospective customers, that might have maintained its leading place.

From 1997 Yuzhmash benefited from a Ukrainian-Russian agreement that allotted it an important role in converting Soviet-era missiles into civilian launch vehicles, but by the Yanukovych years the firm was entering a severe decline. Russia's space program, accounting for the bulk of Yuzhmash sales, was suffering from repeated launch failures that necessitated an expensive reorganisation. At the same time, the Moscow authorities were intent on ensuring that key capacity in strategic industries was developed within Russia's borders, independent even of generally friendly trading partners. Between 2011 and the end of 2014 Yuzhmash revenues fell by more than three-quarters.[50] By this time new Russian-built launchers were becoming ready for service, and in February 2015 came the announcement that Russia would end its use of the Soviet-descended, Yuzhmash-supplied Dnepr and Zenit rocket systems.

Employees of Yuzhmash had for many months been working three-day weeks, and in January 2015 many of them had been sent on two months of unpaid leave. In the course of 2015 orders from Russia virtually ceased, and by October the working week at Yuzhmash had been cut to a single day. Wages were owed for as long as four months past, and production at the plant now centred on items such as trolley-buses and agricultural machinery.

Popular disillusionment

As the second anniversary of the Euromaidan approached, survey data in Ukraine yielded a picture of a population whose feelings of well-being and of confidence in the future had disintegrated. One study, conducted late in 2015, recorded more than 76% of respondents as saying their incomes had decreased over the previous twelve months. Some 40% characterised the decline in their incomes as "dramatic". Only 2% said their welfare had improved slightly, and none reported any substantial improvement.[51] Another survey published in the first days of 2016 found that over the previous year the proportion of Ukrainians who stated they were satisfied with their living standards had dropped from 27% to 17%. Those who viewed the country's economic situation as "poor" had increased from 62% in 2014 to 79% in 2015.[52]

Confidence in the country's political leadership had almost vanished. A survey in November 2015 by the Ukraine-based Rating Group found that only 15% of respondents thought the country was headed in the right direction, compared to 70% who thought the opposite.[53] A Gallup International poll conducted around the same time concluded that only 17% approved of the job that President Poroshenko was doing. This was well below the level of support recorded by Yanukovych in 2013, not long before his ouster. Poroshenko was unpopular even in Ukraine's west, where his support had fallen to 22%.[54] The president's support nonetheless eclipsed that of Prime Minister Yatseniuk, for whom only 12% of respondents in the Rating Group survey had any positive regard.[55] Less popular still was Yatseniuk's government, in which a mere 8% of participants in the Gallup poll expressed confidence. Seventy-nine per cent took the contrary view. Among the grievances felt by Ukrainians against Yatseniuk's ministers, suspicions of corruption held an important place. "Nearly 9 in 10 Ukrainians (88%) say corruption is widespread in their government," the commentary accompanying the Gallup findings stated, "and about eight in ten (81%) see the same widespread problem in their country's businesses … Just 5% of Ukrainians say their government is doing enough to fight it — similar to the 6% who said this before 2013."[56]

Ukrainians who retained their faith in the country's post-Euromaidan institutions could at least look forward to the entry into full force of the DCFTA trade pact with the European Union, due for January 1, 2016. The DCFTA, however, came burdened with its own complications for Ukraine, not least in the area of trading relations with Russia. As the pact came into effect, the Russian government suspended its CIS Free Trade Agreement with Ukraine, and Ukraine then imposed trade restrictions on Russia. Meanwhile, full implementation of the DCFTA meant the end of the last substantial tariff barriers limiting access by EU manufacturers to the Ukrainian market. Under the DCFTA, Ukraine's Institute for Economic Research and Policy Consulting has calculated, the average duties paid on EU goods entering Ukraine decreased from 4.5% to 1.7%.[57]

Promises that free trade with the EU would in time expedite reforms and promote recovery were not enough to save Yatseniuk's government. In February 2016 the prime minister's parliamentary coalition fell apart, and in April he resigned. Nominated as his successor was a close Poroshenko ally, Verkhovna Rada speaker Volodymyr Hroisman. With difficulty, Hroisman assembled a new majority coalition that rested on parties noted for their oligarchic ties.

By 2016 fiscal stabilisation, aided by Western loan funds, was beginning to encourage investment and allow suspended production to be restarted. Inflation was being curbed, though not eliminated; from the 43% recorded in 2015, it shrank the following year to 12.4%.[58] GDP moved into positive figures, with growth across the economy in 2016 of 2.4%.[59] Of this limited recovery, a good deal was the gift of favourable weather that allowed a bumper harvest, but the return to growth also reflected a loosening of fiscal restraints after Yatseniuk's resignation. This relaxation, however, was accompanied by a stepping-up of the inequities of a heavily regressive tax system. Value-added tax exemptions that had benefited the population by limiting the cost of medicines, medical equipment and agricultural produce were abolished. Meanwhile, revenues from corporate profit tax continued to decline, from 3.6% of GDP in 2013 to 2.5% in 2016.[60] In a startling concession to employers, the social security contributions levied on enterprises were slashed in 2016 by around half.[61]

Especially in the absence of the anticipated privatisations, the cut in enterprise social security contributions contributed to a steep fall in state revenues. In real terms these declined during 2016 by 11%,[62] undermining the near-elimination of the fiscal deficit achieved the previous year. The renewed deficit blow-out that resulted added to a menacing debt picture. Public and state-guaranteed debt at the end of 2016 stood at 81.2% of GDP,[63] with an interest bill equal to 4.5% of the country's economic output.[64] Gross external debt amounted to 121.8% of GDP;[65] this was more than twice the level of 60% commonly cited by economists as a threshold for concern, and implied long-term servitude to international lenders.

Foreign trade presented a mixed picture in 2016; volumes in key export categories rose, but earnings meanwhile diminished, as the increased volumes were more than cancelled out by continuing declines in world commodity prices. The main bright spot was a rise of 20% in the value of food exports,[66] but revenues from sales of chemicals in 2016 were down by 27%, of metals by 12%, and of minerals by 12%. Foreign sales of machinery continued to fall, with the decline for the year reaching 8%.[67] Overall export revenues in 2016 shrank by 4.6%, while imports increased; the small foreign trade surplus recorded in 2015 melted away, to be replaced by a deficit corresponding to about 3% of GDP.[68]

The DCFTA: a slow beginning

By this time, the post-Euromaidan economic strategy of a "turn to Europe" had in essence been carried through. Exports to the EU, making up 37.1% of Ukraine's foreign sales in 2016,[69] were now decisively larger than its sales to other countries of the former Soviet Union. The reorientation, however, had mainly taken the form of a collapse of exports to Russia, rather than of the DCFTA opening up new opportunities for Ukrainian firms to sell in European markets. The value of Ukrainian sales to Russia in 2016 fell to $3.5 billion,[70] compared to $15.1 billion in 2013,[71] and now made up less than 10% of Ukraine's total export trade;[72] meanwhile, Ukraine's exports to the EU during 2016 rose only marginally, by 1.9% over the previous year's figure,[73] to a total still almost a quarter below that achieved in 2012.[74] The increased sales to the EU in 2016 rested mainly on expanded deliveries of traditional, low value-added wares: sunflower oil, and to some extent wood products.[75] Exports to the EU of machinery, and of knowledge-intensive manufactures in general, remained minor. "Free trade was meant to open the doors for Ukrainian firms to the huge EU market," a Polish commentary noted, "allowing increases in the competitiveness, standards and quality of their production. However, adapting to the requirements of the Community and the fierce competition there has proven difficult for most Ukrainian companies."[76]

By contrast, imports to Ukraine from the EU were booming, with growth during 2016 of no less than 17.6%.[77] The goods now flooding almost duty-free across Ukraine's western border were skewed heavily toward modern, internationally competitive products, which the few cashed-up Ukrainian purchasers tended unsurprisingly to prefer. "It seems that the Ukrainian economy was absolutely unprepared…to compete with Western enterprises," a Dutch business site observed.[78] Aleksei Doroshenko, head of the Retail Trade Suppliers Association of Ukraine, recounted to the *Kyiv Post*: "When Europe opened markets for Ukraine, we thought we would start selling our goods immediately … Unfortunately, Ukraine has got more goods from Europe than it managed to sell."[79]

For consumer manufacturers in Ukraine, the free trade agreement was having the opposite of its promised effect. The deal had been promoted as aiding such firms by enhancing their access to European markets, but these enterprises, with their relatively unattractive wares and difficulty in obtaining finance on acceptable terms, were instead being crushed by increased competitive pressures. In the Ukrainian countryside, the outcomes of the DCFTA for many producers were equally perverse. Duty-free sales to the EU of important agricultural commodities remained subject to quota restrictions designed to protect European farmers. Only about 5% of Ukrainian maize exports to the EU in 2016 were admitted without tariff imposts.[80] The quota for chicken meat was set at a derisory 1.3% of Ukraine's overall production,[81] while the allocation for duty-free honey was filled in the first six weeks of the year.[82]

In the expectations of the reformers, the new regime of EU-Ukrainian trade was to prompt large-scale foreign direct investment that would progressively modernise local manufacturing, satisfying demand for quality goods and contributing to exports.

During 2016 the net inflow of foreign investment rose by 17.1% on the depressed 2015 figure, reaching a total of $4.4 billion.[83] This sum nevertheless remained well short of the annual figure, of $6 billion to $7 billion, reckoned by a Western expert as needed to allow a meaningful recovery.[84] Near the end of 2016 the *New York Times* published this hopeful assessment:

> The western edge of the country, near the Polish, Hungarian and Romanian borders, has drawn investment. European and Asian auto-parts suppliers have opened or announced plans to establish small factories to export products to Europe. Niches like a ski-manufacturing industry have done well.[85]

Manufacturing value added in 2016, however, was still down by 28% on the 2012 figure.[86] Moreover, there was no sign that foreign investors would take over broad numbers of existing Ukrainian enterprises, pay off their debts, and introduce the new technologies and management practices needed to make the firms competitive in Western markets. This reluctance applied even though workers in Ukraine at this time commanded wages around one-tenth of those in Western Europe.[87] In a January 2017 interview Mohammad Zahoor, the British publisher of the *Kyiv Post,* explained the situation as follows:

> I would say there is no faith in the government. Investors, who are up to date with what happens on a daily basis, actually find the country too risky. No structural changes have been made. The reforms are not there.
>
> If you go by the set rules, you would never invest in Ukraine because hardly anything works well. I would say some 90% of investors would have that opinion.[88]

The return to GDP growth in 2016 brought only limited relief to Ukraine's heavy engineering sector. The shipbuilding industry in 2016 remained almost paralysed. In a somewhat less dire position was the marine equipment firm Zorya-Mashproekt, now reportedly operating at a profit.[89] Following the loss of its Russian market, Zorya-Mashproekt was producing almost exclusively for export to countries listed as being located in "South Asia, Southeast Asia, Eastern Europe and the Middle East."[90] Like the power equipment producer Turboatom and other firms, Zorya-Mashproekt continued a pattern familiar from past decades: sales of sturdy, somewhat old-fashioned products were being made to customers, mainly in developing countries, for whom price was an important consideration. Western markets were not being penetrated, and in this respect, the advent of the DCFTA had brought no meaningful gains.

At the rocket-builder Yuzhmash, employees were still working short hours during the autumn of 2016, and the enterprise had major debts outstanding for wages and electricity. In November a bill was before the parliament to provide 400 million hryvnias, at that point about $16 million, to allow Yuzhmash to meet its immediate commitments.[91] By this time the firm was trying to develop new areas of expertise in producing wind turbines and components for solar power installations. Finally, some of the most dismal prospects were those of the aircraft builder Antonov. In 2016 the renowned company delivered no aircraft whatever.

Agriculture

Production levels in the Ukrainian farm sector during the first years after the Euromaidan largely reflected influences, particularly weather conditions, unrelated to the convulsions in society as a whole. The value in real terms of agricultural output increased in 2014, for the first time in the post-independence period exceeding the figure attained in 1990. After a dip in 2015, further good weather allowed output to reach another peak the following year.[92]

For all that, the long-term problems of the sector, especially low fertiliser use, slow and wasteful harvesting, inadequate infrastructure and lack of finance continued to weigh on farm operations. Output per hectare in the 2015-2016 marketing year was only 39% of the EU figure for wheat, and 35 and 36% respectively of the US figures for maize and soybeans.[93] Land degradation, including widespread erosion, restricted long-term potential. In dollar terms, investment in the agricultural sector during 2016, at \$1.9 billion, was well below the 2012 figure of \$2.4 billion.[94] Wary of borrowing at high interest from the banking system, and lacking collateral because of the continuing moratorium on land sales, farm managers generally relied on their enterprises' own revenues for purchasing seed, fertilisers, machinery and other inputs. A study by the firm UkrAgroConsult shows the share of farm companies in total investment in the sector during 2016 reaching 69.4%; the contribution from bank credits and other loans had fallen to 7.1%, compared to a 2012 figure of 16.1%.[95] Although returns for foreign investors in Ukrainian agriculture were potentially high, FDI in the sector remained minuscule, in 2016 accounting for only 1.3% of the total in the economy as a whole.[96]

One consequence of inadequate farm investment was that as in Soviet times, it was far from guaranteed that crops after harvest would make it to the feedlots, consumers' tables or export markets. For the bountiful grain harvest of 2014, immediate storage was available for only 45 to 65% of the total;[97] massive post-harvest losses were the inevitable result. In many cases, opportunities for adding value to farm produce could not be taken up, as investment in food processing fell precipitously from \$1.7 billion in 2012 to \$0.7 billion four years later.[98] A further burden on the rural sector was the long-term failure of Ukrainian capitalism to invest adequately in transport provisions. Few rural roads were paved, the railways were increasingly decrepit, and river transport remained poorly developed. Subtracted from the potential returns of farm enterprises were costs for transporting grain to Black Sea ports that were calculated at around 40% higher than analogous costs in France and Germany.[99] Despite improved crop yields, UkrAgroConsult reported that the profitability of farming enterprises declined in 2016, with the trend predicted to continue at least until 2022.[100]

Sharing in the general malaise of the rural sector was the agricultural equipment industry. National production of combine harvester-threshers in 2016 was recorded at just 154 units,[101] against an Agriculture Ministry estimate of the minimum annual replacement need for these machines of almost 7000.[102] Nevertheless, the market for combines was regarded as saturated, as farming enterprises bought imported equipment or for lack of finance, kept worn-out machines in service. The Kharkiv Tractor Plant spent a ten-month period from March 2016 with its operations effectively frozen. As described by the *Kyiv Post,* the reasons for the shutdown were neither technical nor exclusively financial, but stemmed from "an exceedingly complicated mix of politics, cross-border affairs, and legal issues."[103] In April 2016 the plant came under the control of Kharkiv-based oligarch Oleksandr Yaroslavskyi, amid allegations of an attempted illegal takeover.[104] ■

Left: Yuliia Tymoshenko, Ukrainian prime minister in 2005 and 2007-10. *Right:* Petro Poroshenko, oligarch, president of Ukraine 2014-19.

IV. The Resilience of the Oligarchs

Ukrainians might have been excused for hoping that their country's economic agonies during the first post-Euromaidan years were at least performing a cathartic function, cleansing society of the forms and institutions that had allowed the rise of the intolerable Yanukovych. But as the economy began to recover from its slump, the evidence was clear that the shocks that had followed the Euromaidan had not seen off oligarchic capitalism. At most, the system had "shed its skin", emerging with a fresh exterior but with its defining shape intact.

The Ukrainian oligarchs, in their fraught geopolitical setting between NATO and Putin's Russia, retained an impressive ability to call the bluff of Western governments and lending bodies. However egregious their larceny and misrule, the oligarchs were the only capitalist ruling class Ukraine was likely to have in the foreseeable future; destabilising their hegemony, amid mass poverty and intense popular disillusionment, was unlikely to usher in anything that Western strategists would have liked better. Western policy toward the oligarchs was thus strikingly complaisant, especially as regards the loan bailouts that kept Ukrainian society from sinking into bankruptcy and perhaps, national break-up. As US economist Michael Hudson has detailed, the IMF in its funding to Ukraine repeatedly and flagrantly breached its own rules, which forbid lending to countries that are at war, that are manifestly unable to make repayments, or that cannot carry out the fund's conditionalities.[1]

At the same time, Western governments could not simply leave Ukraine as it was. The place was a terrible advertisement for capitalism. The fiscal disciplines needed for macroeconomic stabilisation had therefore to be accompanied by moves for institutional reform, centred on initiatives whose logic was to undermine specific oligarchic practices. This was true even while oligarchic perquisites could not be challenged too directly, and while the drip-feed of Western loan subventions could not be interrupted for long.

The stage was thus set for inconsistent and relatively weak moves in the direction of a law-governed capitalism. Business magnates now found that their access to some of the most notorious pecuniary feed-troughs of the past was curtailed. "The margin of graft on government tenders has fallen from about 40% to 10%," the London *Economist* in March 2015 quoted anti-corruption activists as stating.[2] Oligarchs were obliged to act more circumspectly in side-stepping legal constraints, and to use more elaborate, ingenious methods. But liberal observers made clear that oligarchism itself was not being broken. A commentary from the end of 2016 made the following assessment of the implementing of the terms of the IMF's 2015 bailout:

> There has been little progress in fulfilling obligations under the program, including in areas fully under control of the government. Out of eight structural benchmarks set for November 2016 only one was met (filing of electronic assets and income declarations by Ukraine's high-rank officials) … Progress in other areas was dismal.[3]

Anti-corruption agencies had been established in Ukraine, another analysis from 2016 noted, but had scarcely begun to function.[4] As measured by the Corruption Perceptions Index compiled by Transparency International, overall progress with ensuring clean government remained minimal. In 2013 the index had ranked Ukraine in 144th position out of 175 countries examined;[5] the 2017 report, based on data compiled the previous year, still listed the country in 130th place. Ukraine's absolute score across a series of corruption criteria had improved only marginally, despite now being better — just — than the performance of Russia. On the other hand, Ukraine's figure remained dramatically worse than that achieved by Belarus, which had, moreover, improved its score far more markedly over the years concerned.[6]

Incremental reformism

Despite the failure of anti-corruption measures to show much progress, Western aid donors did not slacken their support for Ukraine. Between the Euromaidan and the final months of 2016 the country received a total of $17 billion in financing from official creditors, a sum which an observer for the liberal VoxUkraine site described with some understatement as "a notable amount for an economy generating around $90 bn of GDP per year."[7] With any frontal assault on criminality in Ukrainian business and state administration ruled out, Western lenders and the EU aimed to promote reform in the years after the Euromaidan through an incremental set of sanctions and rewards. According to this strategy, deliberately targeted measures would multiply the difficulties and limit the profits of the traditional fraud and graft. The oligarchic system would be weakened by increased competition, and over time, it was projected, the rise of new, modern-thinking entrepreneurs would cause the old order to evolve out of existence.

As mechanisms for restricting the flow of illicit funds, a number of obvious measures presented themselves and were applied, with varying degrees of success, during the first post-Euromaidan years. The raising of household charges for natural gas, for all its cruelties, undercut huge scams based on diverting subsidised gas supplies to industrial uses. Corrupt business chiefs also suffered as efforts were made to clean up the banking industry. Under its reforming governor Valeriia Hontareva, appointed in 2014, the National Bank of Ukraine improved its efficiency and expanded its regulatory activity. New legislation required that the real owners, the "ultimate beneficiaries", of private banking structures be disclosed. Numerous banks that were grossly undercapitalised, were effectively insolvent or that had notorious criminal connections were shut down; of 180 banks that had operated in Ukraine at the beginning of 2014, only 86 were reportedly still active early in 2018.[8]

A further reform initiative was the adoption — on the basis that "computers don't take bribes" — of a series of electronic systems covering areas of state business previously known for corruption. Developed from 2014, initially by volunteer activists, the "ProZorro" system of publicly visible real-time tendering for state procurement contracts encouraged competitive bidding and limited the ability of suppliers to lock in overpriced deals through bribing officials. The number of suppliers subsequently tripled.[9] Reformers also won the introduction of an electronic register on which tens of thousands of state functionaries, including parliamentarians and government ministers, were forced from 2016 to publicly declare their income and assets. President Poroshenko was found to have $26.3 million stowed in bank accounts, while Prime Minister Hroisman and his wife were revealed as the owners of $1.2 million and •460,000 in cash, along with a collection of luxury watches.[10] Near the end of Poroshenko's administration the parliamentarians would be reported as keeping an average of $700,000 at home.[11]

The reporting legislation, however, came with loopholes. Officials were required to declare themselves as the real (that is, beneficial) owners of companies, but not as the beneficial owners of real estate, including the villas on the Mediterranean coast known to be favoured by high-placed Ukrainian state figures. There was no easy way to verify the sums declared by officials as held in foreign banknotes, and the government in any case lacked the resources to conduct checks on more than a relative handful of declarations. Determining the real owners of firms secreted behind multiple shell companies would have required an army of financial specialists, as well as the unlikely help of authorities in offshore tax havens. In any case, Ukraine's government showed no inclination to press its officials on the truthfulness of their attestations. In 2017 allegations proliferated that the National Agency for Preventing Corruption, the body charged with overseeing the asset declaration system, had failed to check the declaration of a single official since the system had been initiated the previous year.[12]

Meanwhile, the moves to impose transparency on the financial dealings of ministries and their officials were limited strictly to the civilian sector. With the outbreak of war in the Donbas, purchases by the Ukrainian state of weapons and other military supplies had grown swiftly, and rake-offs from the army's provisioning system, concealed by military secrecy, were considered to have multiplied. "From what we can tell, not one single deal has been free from corruption," a Defence Ministry employee with the thankless job of combating military graft was quoted as stating in December 2014. "The amounts range from 10 to 90%."[13] Early in 2015 a senior defence official acknowledged that between 20 and 25% of the money allocated to the ministry was being stolen.[14] In the sprawling defence conglomerate Ukroboronprom, with its 130 enterprises, overpriced contracts were sealed without competition, the plant directors secure in the knowledge that journalists and whistle-blowers were deterred from revealing details by the threat of jail sentences. As late as 2017, the only information issued publicly on the defence budget consisted of 20 vague lines on a spreadsheet. Above the whole edifice loomed Poroshenko, vested as president with vast unchecked powers over the defence sector.

Under Yatseniuk, reformers attempted to circumvent networks of corruption by winning the appointment to senior posts of people who had not risen through Ukraine's criminalised state apparatus, and who, it was hoped, were free of insider connections. Following the parliamentary elections of late 2014 Aivaras Abromavièius, of Lithuanian origin, became minister of economic development and trade, while US import Natalie Jaresko took over the finance ministry. In 2015 veterans of the reforming Saakashvili administration in Georgia were recruited to senior positions in Ukraine. Former Georgian President Mikheil Saakashvili himself was appointed governor of corruption-ridden Odesa Province. Other recruits from Georgia included Khatia Dekanoidze, named to head the National Police, as the Militsiia was now known. Her compatriot Aleksandr Kvitashvili took on the role of health minister, while Eka Zguladze served as deputy interior minister.

Major reforms in the field of law enforcement, however, were blocked by the fact that overall control of the area remained in the hands of Interior Minister Arsen Avakov, an apparatus chief of the old school whose career and practices illustrate the obstacles in the way of far-reaching change. Appointed by Yushchenko in 2005 as governor of Kharkiv Province, Avakov held the post until shortly after his patron's defeat in the presidential election of 2010. While serving as governor, Avakov did not pass up the chance to enrich himself; his previously modest assets, with those of his wife, surged to an estimated $238 million in 2011.[15] That year, under pressure from accusations related to allegedly corrupt land privatisations, he moved abroad. In March

2012, after being charged by Ukrainian authorities, he was detained in Italy and placed under house arrest.

Nevertheless, Avakov remained well connected among political opponents of the Yanukovych administration. While still outside Ukraine and facing criminal charges, he secured a place on the electoral list of Yuliia Tymoshenko's "Fatherland" party, and in October 2012 was elected to parliament. A Ukrainian court then overturned the strictures on him, and the exile returned home. In the days following the triumph of the Euromaidan, the new authorities named Avakov to head the Interior Ministry. There, he was effectively the second most powerful person in Ukraine, in charge of more than 200,000 law enforcement officers. Supposedly, he did not exercise direct command over police operations, which were the responsibility of Dekanoidze as head of the National Police. But poorly drafted legislation allowed Avakov to usurp many of Dekanoidze's functions.[16]

Efforts by Dekanoidze and deputy interior minister Zguladze to reform the police service scored some initial successes. Kyiv and other major cities gained a new patrol police, with extensive retraining, American-style uniforms and many new officers. Funding for the force as a whole nonetheless remained inadequate, and most policing, especially in the area of criminal investigation, remained little altered. Attempts to purge corrupt or incompetent officers saw fewer than 8% of the total number sacked, with almost all of those ousted later regaining their jobs on appeal. As recounted by human rights lawyer Yevhen Krapyvin, all progressive initiatives within the police force came to an end in 2015-2016, after which no political will to reform the force remained.[17]

Backed by Western pressure, reformers in Ukraine succeeded in creating several quasi-independent state bodies charged with fighting corruption. The most important of these was the National Anti-Corruption Bureau of Ukraine (NABU), which began operating in June 2015; its counterpart in the area of court prosecutions, the Specialised Anti-Corruption Prosecutor's Office (SAPO), was set up a few months later. The particular brief of NABU was the investigation of high-level corruption, focusing on senior officials whose wealth and influence had previously kept them untouchable. With training and assistance from the American FBI, the carefully selected NABU detectives worked with impressive energy, but their first two years of operations yielded only 17 convictions.[18] Among officials at the top level only a handful, including State Fiscal Service chief Roman Nasirov and former head of the parliament's energy committee Mykola Martynenko, were arrested.

The oligarchic system, despite having been forced to yield up some of its fields of brigandage, was proving well able to defend its key positions. By 2016 moves for a comprehensive tax reform had been postponed for the third year in a row. Inefficiency and corruption in the State Fiscal Service, responsible for tax and customs collection, still cost the state vast sums; while the service collected $26.5 billion in taxes during 2016, the Finance Ministry estimated that better policing of tax evasion, together with improved policies, might have yielded a further $13 billion.[19] The inability of the few tax inspectors to examine more than a fraction of the businesses which the Fiscal Service's algorithms identified as suspicious left the inspectors with wide choices of which firms to audit, creating huge scope for soliciting bribes. Meanwhile, demands for the creation of a dedicated anti-corruption court had gone unanswered, and the government had failed to set in place an effective mechanism for verifying state subsidies, an area described as "prone to enormous abuse".[20] A long-awaited civil service reform left anti-corruption campaigners frustrated, as people viewed as tarnished by graft secured top posts.[21] No serious effort was made to enforce a 2014 law prohibiting owners of firms from concealing their identity via offshore shell companies.

For the oligarchs and their bureaucratic allies, an important guarantee that their core interests would remain intact was the mounting strength — and deepening corruption — of the SBU security police, directly controlled by Poroshenko as president. With the coming of war the SBU's prestige and influence grew dramatically, as did the audacity and ruthlessness of its agents. Numerous well-documented allegations had the SBU responsible for cases of secret detention and forced disappearance.[22] Few of the service's energies seem to have gone into catching spies; the number of espionage cases sent to court in 2016 was reportedly zero.[23] Far more resources went to the SBU departments supposedly devoted to fighting corruption and economic crime. Campaigners against graft charged that a frequent response by the service when it detected cases of corruption was to negotiate the price of not pursuing the investigation further.

Meanwhile, SBU agents themselves became the targets of bitter accusations of extortion and racketeering. From 2015 to 2016 the service's deputy chief and other high officials shut off Ukraine's exports of nuts, purportedly on phytosanitary grounds but almost certainly in an effort to extract money from firms in the sector. At one point, exporters of honey found their shipments held up by SBU personnel claiming to have detected antibiotic and pesticide residues, despite a lack of complaints from customers. In league with the so-called "pharma mafia" of criminalised drug importers, the SBU in 2016 sought to thwart efforts by anti-corruption campaigners to organise the procurement of medicines directly from international bodies.[24] The same year, the SBU's anti-corruption unit blocked imports of liquefied petroleum gas by independent traders, a move evidently designed to thwart competitors of a Poroshenko ally.[25]

The installing of the Hroisman government in April 2016 raised hopes that reform moves would be pursued more vigorously. Instead, the pressures coming from above for a renovation of state institutions slackened. In 2015 the National Reform Council, a top-level government body formed by President Poroshenko and charged with strategising the reform process, had met on 17 occasions, but in 2016 it convened only five times.[26] Increasingly, Ukrainian liberals came to recognise Poroshenko as a committed backer of oligarchic power who used anti-corruption campaigns and rhetoric mainly as a public relations ploy — where, that is, he did not employ them as a direct weapon for intimidating political opponents.[27] While critics of the president might fear retribution, allies were protected; Odesa Province Governor Mikheil Saakashvili was later to recount that Poroshenko, after appointing him, went on to list for him which officials, including an influential police chief, he was not to remove from their posts under any circumstances.[28]

In the course of 2016 Poroshenko's personal business dealings came under a cloud. The previous year had seen the leaking of the so-called "Panama papers" — millions of documents relating to secret firms set up in offshore havens via a Panamanian corporate services provider. The owners of such firms, investigators discovered, included the Ukrainian president, who in August 2014 had set up a holding company in the British Virgin Islands and transferred his confectionery assets to its nominal control. As the *Kyiv Post* noted in April 2016, the arrangement — which appeared to breach at least two Ukrainian laws – had the potential to save the president millions of dollars a year in taxes.[29]

By the end of 2016 the government's "foreign legion" of reforming officials had almost all departed. Minister of Economic Development and Trade Abromavièius quit his job — or in some versions, was forced to resign — in February 2016, after coming under pressure to fill influential positions with placemen for presidential cronies. "Neither me, nor my team," Abromavièius declared in an English-language statement, "have any desire to serve as a cover-up for the covert corruption, or become puppets for those who, very much like the 'old' government, are trying to exercise control over the flow of public funds."[30] Finance Minister Jaresko resigned from her post in April, declaring to reporters: "I will be honest and say that we were never able to root out corruption from our agency — my will and powers were insufficient to implement change."[31]

Saakashvili remained for the time being in Odesa, but in November 2016 he too resigned, declaring to journalists that his efforts to defeat the city's crime gangs had been thwarted by Poroshenko himself.[32] National Police chief Dekanoidze quit a few days later, contending that "the tradition of interference by politicians in the work of the police" was "still being preserved."[33] Over her outspoken protests, she was replaced in an acting capacity by her deputy Vadym Troian. In 2014 Troian had been deputy commander of the neofascist "Azov" paramilitary battalion, and as deputy police chief he had been captured on video apparently arranging deals involving the extortion of money from businesspeople and the collection of corrupt revenues by the traffic police.[34] Considered too controversial for confirmation as head of the country's police, Troian was before long pushed sideways, receiving the no less influential job of deputy interior minister.

The justice system

In her resignation statement, Dekanoidze had spoken bluntly of the need for reform of the prosecution system and the courts. The low repute of the prosecution system may be gauged from a televised statement made by deputy general prosecutor and former human rights activist Vitalii Kasko when he resigned from his post in February 2016:

> Today, the General Prosecutor's office is a brake on the reform of criminal justice, a hotbed of corruption, an instrument of political pressure, [and] one of the key obstacles to the arrival of foreign investment in Ukraine.[35]

In October 2014 parliament had adopted a law meant to render the prosecution system more independent and transparent. But under General Prosecutor Viktor Shokin, who was appointed by Poroshenko in February 2015, efforts to renew the corps of prosecutors were effectively crushed. Shokin was eventually forced from office in March 2016, following a scandal related to the persistent thwarting of investigations in a case involving two prosecutors found during a search to be concealing diamonds, unregistered weapons and large hoards of dollars. Named as Shokin's replacement, though lacking a law degree and relevant experience, was Yurii Lutsenko, head of the parliament's Petro Poroshenko Bloc. Before long, Lutsenko was accused by reformers of trying to cover up a scandal involving an influential parliamentarian suspected of stealing $180 million from the state budget. Meanwhile, attempts to purge compromised prosecutors and appoint honest replacements remained blocked. A plan to hire regional prosecutors through open competition, one commentary observed, became a farce as "nearly all vacant posts were filled with existing prosecutors."[36]

Where accused officials could not avoid arrest by bribing prosecutors, their next resort was often to try to suborn the trial judge. Such ploys were notoriously effective; a 2017 Atlantic Council post was to describe Ukraine's judiciary as "riven with graft."[37]

Public confidence in the legal system was at abysmal levels, with a survey in June 2015 finding that only 16% of Ukrainians trusted the Supreme Court, while 57% named the courts among the public institutions most likely to engage in corruption.[38] Reformers, however, faced the practical question of how the court system was to be kept functioning if large numbers of serving judges whose probity was under challenge were excluded from office. Judicial reform was thus slow to begin, with the needed legislation not coming into force until September 2016. Important structural changes were prefigured; judges, for example, would be named to their posts for life, freeing them from the threat of arbitrary dismissal. But at the same time, their lifestyles, levels of expenditure, and family ties would be monitored.

The new legislation foresaw that an eventual total of 200 Supreme Court judges, with a first draft of 120, would be appointed through a competitive process involving written examinations, psychological testing, and interviews that would include close questioning on past actions and performance. Not only serving and retired judges, but other qualified individuals such as legal academics and practising lawyers could apply. Once a new Supreme Court had been chosen, the process of "lustration", or cleansing, would be extended to the thousands of judges at lower levels.

The task of examining candidates and making an initial selection was assigned to an existing institution, the High Qualification Commission of Judges of Ukraine (HQCJ). Made up of experienced judges, the HQCJ was the body that in the past had held responsibility for filling judicial vacancies. Assisting the HQCJ — and to a degree, providing a check on its actions — was to be a new institution, the Public Integrity Council (PIC). With a membership including lawyers, scholars, journalists and representatives of organisations such as Transparency International, the PIC was charged with making independent assessments of candidates' honesty and professional ethics. Once the HQCJ had made its choices for the new Supreme Court, its recommendations would be sent for review to the High Council of Justice. A long-established body, this was made up of judges, representatives of the president and parliament, and other members nominated by prosecutors, lawyers and legal academics. After vetting by the High Council of Justice, the list would be sent to President Poroshenko for final approval.

Of the elements in this system, only the PIC with its civil society presence inspired any confidence in reform activists. Among developments undermining the trust of reformers in the HQCJ was one from early 2016 in which the head of NABU, the National Anti-Corruption Bureau, had sent the HQCJ materials on corruption risks relating to ten judges. Over NABU's objections, eight of the judges had been granted recertification.[39]

The HCQJ duly began examining candidates for appointment to the new Supreme Court; of these candidates, 78% were serving or retired judges from the existing system.[40] Meanwhile, the PIC carried out its parallel investigations, reaching negative conclusions on about 40% of the applicants.[41] The judges of the HQCJ, however, were entitled by a two-thirds vote to overturn the PIC's recommendations, and repeatedly exercised this option. Late in September 2017 a list of 111 candidates was sent to President Poroshenko for confirmation; of these, 25 were people whose ethics had been found wanting by the PIC.[42]

On September 26 the PIC held a press briefing. The people about to be confirmed as judges, it was argued, included some whose possessions bore no relation to their declared incomes. In other cases, candidates had violated human rights during the Euromaidan by banning peaceful demonstrations, then "forgotten" to mention this in their declarations of integrity.[43]

"Each of the candidates who has received a negative opinion will provoke comments that the Supreme Court … is absolutely no different from the current state of the judiciary," PIC spokesperson Roman Maselko stated. "Their membership … will kill confidence in the new, but not renewed Supreme Court."[44]

Substantial reform of the justice system was not yet in close prospect. Prosecutors and judges, subject now to greater scrutiny, would need to be more circumspect than previously in accepting bribes and in making politically expedient but otherwise inexplicable decisions. Nevertheless, an important underpinning of the oligarchic system remained in place.

The unspeakable Kolomoiskyi

The success of oligarchic business in sidelining Ukraine's legal system — and indeed, in exercising decisive sway over society, government and the economy — during the first years after the Euromaidan may be illustrated by the history during this period of Ihor Kolomoiskyi. After being appointed as governor of Dnipropetrovsk Province in March 2014, Kolomoiskyi remained in the post for a little over a year, using his position to expand his influence in the south-east and throughout the country. According to *Foreign Affairs,* he "seized the opportunity to forge a new identity for himself as an ardent defender of Ukrainian sovereignty," and transformed himself into one of the country's most popular politicians.[45].

In his guise as patriot, Kolomoiskyi launched moves promoted as securing Dnipropetrovsk Province — where he had extensive assets — against any spread of the Donbas insurrection. From late March 2014 he began organising and funding the ultra-nationalist Dnipro-1 volunteer battalion, eventually to have as many as 2000 fighters; his personal spending on the unit reportedly reached $10 million per month.[46] He also gave money to the Dnipro-2, Azov and other far-right militia groups,[47] as well as to the fascist-like Right Sector political party and paramilitary organisation.[48] Meanwhile, he used his new power and popularity to improve his economic position, intimidating rivals by hinting at a readiness to send fighters from the war zone to enforce his commercial interests.[49] By the early months of 2015 Poroshenko's attitude to him had cooled noticeably. With government finances under pressure, the president had evidently grown exasperated at the plunder by his fellow oligarch of the revenues of the state oil firm UkrNafta, of which Kolomoiskyi was co-owner; Kolomoiskyi's leeching on the firm was reported by the *Kyiv Post* to have cost the treasury $600 million over the years in unpaid dividends and taxes.[50] With 43% of the shares in UkrNafta, Kolomoiskyi kept the company's management under his control through a law that required 60% of the equity in state firms to be represented at a general meeting of shareholders; simply by telling his representatives to stay away, Kolomoiskyi could render any meeting inquorate.

On March 19, 2015 reformers in the parliament were allowed by Poroshenko's supporters to win passage of a law reducing the quorum requirement to a simple majority. The same day, the government sought to replace a manager loyal to Kolomoiskyi at the pipeline monopoly UkrTransNafta, of which the oligarch was also a minority shareholder. Kolomoiskyi responded with classic raiding tactics, filling the corridors of the UkrTransNafta offices in Kyiv with his own armed security guards. On March 22 another 40 to 50 armed men arrived in unmarked military-style vehicles outside the offices of UkrNafta, where they welded grilles across the building's entrances. Poroshenko, however, rose to the challenge, on both occasions forcing Kolomoiskyi to back down. On March 25 Kolomoiskyi was made to resign from his post as Dnipropetrovsk governor.

Wariness of Kolomoiskyi's powerful 1+1 Media Group then appears to have dissuaded Poroshenko from making an all-out assault on his rival oligarch's business empire. Meanwhile Kolomoiskyi, who previously had not been known for intervening directly in parliamentary politics, began patronising the small Vidrodzhennia ("Renaissance") party of his ally, Kharkiv Mayor Hennadyi Kermes. With a base in Ukraine's east, and an eclectic make-up that included veterans of Yanukovych's Party of Regions, Vidrodzhennia held 23 seats in the 450-member Rada. From February 2016 the government lacked a regular majority, and its ability to pass laws and confirm appointments rested on unaligned deputies and small, oligarch-backed parties. "[Kolomoiskyi] now holds the balance of power in parliament," the *Kyiv Post* observed later in 2016, "with his loyal lawmakers helping to secure key votes."[51] Support from

Kolomoiskyi was viewed by analysts as vital to Poroshenko's success during 2016 in winning the appointment of Hroisman as prime minister, and of Yurii Lutsenko as general prosecutor.[52]

Later in 2016, Kolomoiskyi was at the centre of one of the greatest convulsions ever experienced by Ukrainian business. In December 2016 the government announced that it would nationalise PrivatBank, the country's largest private credit institution and the centre-piece of the financial empire that Kolomoiskyi ran together with his business partner Hennadyi Boholiubov. At the beginning of 2016 the bank had accounted for 21% of the Ukrainian banking industry, and for 35% of all private deposits;[53] now, Kolomoiskyi and Boholiubov would receive just one hryvnia for their shareholdings. The two oligarchs nevertheless kept most of their fortunes intact, having by this time stripped PrivatBank of almost all its capital.

Founded in 1992, PrivatBank would later be described as "a giant vacuum cleaner, sucking up deposits and refinancing, converting it into dollars and euros and pouring the cash into Kolomoiskyi's business empire."[54] An investigation by the US-based financial security consultancy Kroll Inc. was eventually to trace a history of vast malfeasance by the bank's owners. Over more than a decade, Kroll agents reported, a "loan recycling" scheme had concealed massive fraud, with new loans continually issued to allow firms linked to the oligarch to service earlier borrowings. Shady transfers between companies had been used to disguise financial flows and keep accounts in apparent balance.[55] Following the Euromaidan, Kolomoiskyi and Boholiubov began moves to extract their wealth from PrivatBank and prepare for its dissolution. Between 2014 and 2016 well over $2 billion was drained from the bank in the form of insider loans to shell companies;[56] National Bank of Ukraine governor Valeriia Hontareva was eventually to report that in all, 97% of PrivatBank's corporate loans were made to firms linked to its shareholders.[57] The shell companies then passed the money on to firms owned by Kolomoiskyi and Boholiubov, and especially, to Kolomoiskyi's fuel retailing business.[58] The loot included large sums from recapitalisation loans granted to PrivatBank by the National Bank, and sourced ultimately from the IMF's bailout programs.[59] Revenues were continuously siphoned abroad, using complex ploys based around niche offshore banks.

As early as December 2015 National Bank officials had concluded that PrivatBank was grossly undercapitalised,[60] and that it posed a menace to Ukraine's entire financial system. No action was taken, allowing Kolomoiskyi and his associates time to wind up their involvement in the bank with an astonishing flourish of criminality. As detailed by a later investigation, PrivatBank between mid-2015 and mid-2016 handed out more than $1 billion in loans to firms owned by Kolomoiskyi subordinates; of this sum, much if not all lacked collateral. To receive the loans, the recipients created 28 new firms, almost all with trifling capital.[61] After passing through the new structures, the borrowed sums vanished untraceably into equally obscure companies. On the night before the nationalisation, National Bank governor Hontareva later recounted, Kolomoiskyi and his associates carried out fraudulent transactions worth more than $612 million.[62]

After being nationalised, PrivatBank could not be shut down without creating the danger of panic and major economic damage. The government opted to recapitalise the bank, at a cost to taxpayers which, it was estimated, would amount eventually to $5.6 billion,[63] close to 5% of Ukraine's 2016 GDP.

As the former owners of a failed credit enterprise, Kolomoiskyi and Boholiubov were vulnerable to moves to recover the value of its related-party loans. Lawsuits against the two oligarchs proliferated, and in December 2017 the High Court of Justice in London ordered a freeze on their world-wide assets. Reports speculated that Ukrainian authorities were about to launch a criminal investigation against Kolomoiskyi and his associates, under a law that made it an offence to deliberately bankrupt a lending institution.[64] But as of November 2018 there was no indication that Kolomoiskyi — by this time resident mainly in Switzerland — was under imminent threat of being indicted. He retained contacts at high levels of the Ukrainian state apparatus, and at one point was photographed drinking coffee in Amsterdam with General Prosecutor Yurii Lutsenko.[65] Among reform activists in Ukraine, the belief was widespread that he had escaped criminal charges because of a political deal with Poroshenko.[66] As well as needing the support of Kolomoiskyi's parliamentary fraction and media machine, the president may also have been wary of thousands of right-wing militia veterans who bore the oligarch their personal loyalty. While PrivatBank was too big to be allowed to fail, its former owners were evidently too rich and influential to prosecute.

Even after losing control of PrivatBank, Kolomoiskyi remained an important figure on Ukraine's economic and political scene. He dominated the country's aviation industry with his firm Ukraine International Airlines, and his television channel, with more than 10% of the national audience, was the country's most popular.[67] He held a leading position in ore mining and processing, and a dominant one in ferroalloys, having for years monopolised the country's manganese production.

While the most brazen of Ukraine's plutocrats, Kolomoiskyi had never been the most powerful. He was not the country's wealthiest oligarch — that distinction belonged, by far, to Rinat Akhmetov — or the best-situated politically; in that area, he deferred unquestionably to Poroshenko. Kolomoiskyi's continued impunity, as a second-ranking figure given to flaunting his crimes, testifies to the fact that the "Euromaidan revolution" had not altered the basic features of Ukrainian capitalism. The system remained incapable of creating an entrepreneurial culture able to sustain the "normal" functioning demanded by local reformers and favoured, if less insistently, by international lending agencies.

Labour and the Left after the Euromaidan

While for most oligarchs the first years after the Euromaidan were a time of retrenchment, for a large majority of Ukraine's working people the period was one of unmitigated economic disaster. The desperate material condition of the population nevertheless failed to prompt a broad, militant response in circumstances where the labour movement remained ill-organised and politically disoriented. The relatively few labour struggles mounted between the ouster of Yanukovych and the end of 2016 focused mainly on the demand for payment of wage arrears, but workers rarely had much leverage on employers who could claim — credibly in many cases — that chains of non-payments had made the meeting of wage bills impossible. Or else, strike action was pointless in circumstances where owners were stripping enterprises of assets in preparation for shutting them down.

As in earlier times, the most combative element of the Ukrainian working class during the first years after the Euromaidan consisted of coal miners. The labour movement scholar Oksana Dutchak notes repeated mobilisations late in 2014 and early in 2015 on both the eastern and western coalfields, with actions involving the "blocking of roads, strikes, rallies with protest against wage arrears and demands to solve systematic problems of the coal industry."[68] Teachers were another group that staged protests; in late December 2014 more than 6000 teachers from many regions were reportedly among more than 10,000 people, mainly government employees, who rallied in Kyiv against cuts to social programs.[69] Overall, however, the country's working masses showed a remarkable forbearance beneath the blows of neoliberal austerity; after the December 2014 demonstration, the next public protest to attract wide reporting was an "All-Ukrainian Protest March" called by the "official" unions of the FPU, and held in Kyiv in July 2016. Tens of thousands of demonstrators condemned increases in gas charges and other communal tariffs, while demanding reform of the wage system and an increase in the minimum wage.[70]

Regarded with suspicion by the post-Euromaidan authorities and their right-wing supporters, the trade unions met with significant harassment. In July 2014 a statement by the European Federation of Public Service Unions spoke of "constant attacks" on Ukrainian unions by nationalist radicals, and denounced an incident the previous month in which people apparently from the Right Sector and Self-Defence organisations had turned up outside a meeting of the FPU presidium.[71] In the resulting mêlée glass doors were smashed, and a fire was set. In June 2015, after the KVPU had called pickets and rallies against wage arrears and various government policies, leaders of the federation were summoned by the SBU and interrogated for several hours.[72]

The truth was that the "European" inclinations of Ukraine's new leaders did not extend to permitting so characteristic a European phenomenon as an assertive labour movement. A new draft Labour Code that went before the parliament in August 2015 included provisions designed to multiply the difficulties of union organising. Instead of the earlier three documents, registering a trade union would now require no fewer than 14.[73] Ambiguous articles in the legislation increased the potential for arbitrary sackings, and greater employer power over workplace regulations threatened to undermine collective bargaining agreements. Protests from the International Trade Union Confederation, which condemned the draft as "inconsistent with … international labour standards and the legal obligations of Ukraine",[74] did not deter the parliament from adopting the new code on the first reading in November 2015.

Meanwhile, the radical empowerment of the political right that had been ushered in by the Euromaidan brought with it a concerted campaign to break up left-wing organisations and drive them out of political life. The principal target was the Communist Party. Despite its long-standing accommodation to the capitalist order — sociologist Volodymyr Ishchenko speaks of the Communists' "long-term degradation into a bourgeois party with Russian nationalist and conservative elements" — the CPU during 2014 and 2015 suffered scores of raids, searches and physical attacks on its offices and activists.[75] The assailants, clad often in balaclavas, could rarely be identified. In April 2014 the Kyiv premises of the CPU Central Committee were ransacked, and in December, about 20 men armed with iron bars, hammers and police truncheons smashed up the offices of the party's local committee in the Shevchenko District of the national capital. Communist activists were arrested by the authorities on unlikely charges, with party chief Petro Symonenko reporting about 400 criminal cases brought against CPU members.[76] Also targeted was Ukraine's largest far-left group, the Borotba Union. The group's offices in Kharkiv were attacked by unidentified people in black uniforms, and in Kyiv the flat of Borotba journalist Andrii Marchuk was invaded and searched. By May 2014 Borotba members found open political activity impossible. Spokesperson Serhii Kyrychuk, already in exile, told an interviewer: "Overall, we are in a complete state of illegality."[77]

Simultaneously, moves were under way to formally outlaw the Communist movement and repress its ideas. Soon after the Euromaidan, the coalition agreement that established the new government had called for "decommunisation in all spheres of public life",[78] and in June 2014 the Ministry of Justice filed a lawsuit to ban the CPU. The pressures told quickly on the Communist deputies in the parliament; by July that year a third of them had quit the party, which they accused of corruption, lack of action and betrayal of communist ideas.[79] Invoking parliamentary rules, the right-wing majority in the Rada took advantage of the reduced number of Communist deputies to dissolve the CPU's fraction outright. In the October 2014 parliamentary elections, the party fell below the 5% threshold for representation, and the CPU's presence in the Rada came to an end. April 2015 then saw the passage of a set of "decommunisation" laws that prohibited the use of Communist symbols and "propaganda". Public denial of the "criminal nature of the communist totalitarian regime 1917-1991" was declared illegal.[80] The government's quest to outlaw the CPU meanwhile passed through a series of court judgments and appeals before being suspended early in 2016 pending consideration by the Constitutional Court. For the time being the party was still technically legal, despite remaining under heavy institutional pressure.

One of the decommunisation laws, however, contained a provision that allowed the Ministry of Justice to prohibit the CPU from standing in elections. The Communists' response was to join with the Progressive Socialist Party and as many as a dozen smaller organisations in a bloc calling itself the Left Opposition. But under continuing state and neo-fascist attack, and vilified by nationalists for presumed sympathies with the uprising in the Donbas, the new bloc made little impression.■

Left: Ihor Kolomoiskyi, oligarch. *Right:* Volodymyr Zelenskyi, president from 2019.

V. Ukraine in 2017 and 2018

By the end of 2016 various preconditions seen as permitting Ukraine's national resurrection following the Euromaidan were in place. Inflation for the year, at 12.4%,[1] was of bearable proportions, while reserves of foreign exchange at about $15 billion were at an acceptable level corresponding to more than four months of imports.[2] The provisions of the DCFTA trade pact with the European Union were being put into effect, and media commentaries were encouraging Ukrainians to expect that integration with the West would steadily raise their living standards. Meanwhile, reforms aimed at streamlining public administration, curbing corruption and expediting business operations were being applied, amid promises of a steady pay-off to the mass of the population.

Internationally, the situation seemed propitious. The slowdown that had affected major world economies in 2016 had been left behind, and global prices for steel — though not yet for grains — were recovering. Regional tensions had for the moment been contained, and while clashes continued with the rebel republics in Donetsk and Luhansk, it was clear that Russian leaders had no will to escalate the conflict. Nevertheless, the years after 2016 were to see no fundamental escape for Ukraine from societal dysfunction and limited, distorted economic growth. Although the minor rise in exports to the EU seen in 2016 was now replaced by a rapid expansion, the level of investment in Ukraine's economy remained low, and the recovery of production after the post-Euromaidan crash only partial. The 2016 GDP growth of 2.4% was followed by 2.5% in 2017 and 3.3% in 2018,[3] leaving real per capita GDP in the latter year almost 10% below that in 2013, and more than 26% below the level in 1989.[4] Meanwhile, debt had accumulated by the end of 2018 to the point where the burden of repayments threatened to make vigorous growth inconceivable, and exacerbating all the country's economic problems was the continuing decay of infrastructure and industrial plant.

At the level of basic economic structures, the message emerging from the data for 2017 and 2018 was discouraging. The "peripheralisation" of Ukraine within the global capitalist system was continuing. Not only was the economy being further de-developed, but the areas of production that were suffering worst included some of the country's most sophisticated and potentially profitable. Incorporation into the periphery of Western European capitalism was locking Ukraine ever more tightly into dependence on volatile world prices for a range of relatively low-value exports. The country had not precisely become a semi-colony — oligarchic lawlessness still deterred most potential foreign investors from buying up industrial assets and seeking to exploit local labour power directly, and in immediate terms the economy remained under the more or less undivided control of Ukraine's own, idiosyncratic bourgeoisie. But the loss of sovereignty was nevertheless far-reaching; it was not Ukrainians but international lenders who now decided the main lines of economic strategy. Moreover, an eventual return to crisis was all but guaranteed. Any significant downturn in the international economy would gut commodity prices, and together with he need to make debt repayments, could be expected to render the country destitute.

A further structural shift that continued during 2017 and 2018 was the concentrating of ownership and control over the economy, unimpeded by an ineffectual state Anti-Monopoly Committee. From exile in Austria, where he was fighting attempts to extradite him to the US, the oligarch Dmytro Firtash carried on buying regional gas distribution companies, to the point where early in 2019 he controlled the delivery of more than 70% of Ukraine's gas supplies;[5] Firtash had also been able to use the resulting leverage to secure control over more than 80% of the market for various nitrogen fertilisers.[6] Rinat Akhmetov's conglomerate DTEK had by the early months of 2019 won control of more than 80% of the country's thermal coal production, and a similar proportion of coal-fired electricity generation.[7] In a November 2018 article, the analyst Oleksii Kushch quoted research indicating that across the economy only 42% of output was being formed in a competitive environment, with the rest subject to varying degrees of monopoly power.[8] In a monopolised economy, the effect of privatising state property was not to encourage competition but to tighten the grip of the oligarchs who were almost the only purchasers. Monopoly power, as it grew, allowed increased profiteering at the expense of customers; NABU investigators in 2019 were to charge that over previous years, DTEK had extracted $560 million in overpayments from electricity consumers through manipulating tariffs.[9]

Yet another structural change, this time prompted by a decision of the EU, had profound effects on the numbers and composition of the Ukrainian workforce. The living standards of the mass of the population had remained straitened since the crash of 2014–2015. In a survey reported in May 2018, only 16% of respondents indicated that they had "enough money to cover the basics plus something over for middle class consumer desirables." Some 32% replied that they had money for food but not enough for clothing and shoes, while 22% stated that they did not have enough money for food.[10] Seeking a better price for their labour power, workers had for decades been leaving the country, the departures limited by the difficulty for potential emigrants of obtaining foreign visas. In June 2017 the EU, after years of using the promise of visa-free entry for Ukrainians to prod and cajole governments in Kyiv into enacting reforms, granted this right to the country's citizens. While Ukrainians did not gain the automatic right to employment in the EU, a number of countries including Poland were granting work permits freely to those who could demonstrate they had jobs to go to. "More than a million Ukrainians are currently working in Poland, more than 300,000 are in Russia, and some 146,000 are in Italy," the *Kyiv Post* reported in March 2018.[11]

Though celebrated in Ukraine as a triumph, the increased access to employment abroad had mixed effects on the Ukrainian economy. Unemployment numbers, poorly measured by official statistics but estimated in 2018 at 9.4% of the workforce,[12] were kept in check by the exodus, and remittances from those working abroad, in 2018 exceeding $14 billion[13] or more than 10% of GDP, were vital for sustaining Ukrainian consumption levels. But the people leaving were disproportionately young and well-qualified. The above-noted *Kyiv Post* article went on to quote an analyst as observing: "Everyone talks a lot about cheap and skilled labor. But a lot of skilled people have left the country and for many foreign companies, when they come to Ukraine, skilled labor is hard to find."[14]

The exodus of younger Ukrainians underscored a threatening demographic situation. With emigration adding to low fertility, Ukraine's population was falling by more than 200,000 per year.[15] Ukrstat data in 2018 showed only 17.8 million out of 42 million Ukrainians as economically active and paying into the pension system.[16] The average age of the population was increasing rapidly, pointing to a future in which the number of workers effectively supporting each pensioner would be at perilously low levels.

Along with these structural factors, an important restraint on economic growth in 2017 and 2018 remained the conflict in the Donbas — or more properly, the ability of NATO-backed nationalists in Ukraine to block any progress toward a negotiated solution. Related to the war was a sharp political skirmish that broke out late in January 2017, when nationalist militants began blockading the rail lines along which coal from mines in the rebel republics of Donetsk and Luhansk had continued to be sent to users on territory controlled by Kyiv. The militants had been incensed by reports that anthracite coal, from pits on rebel-held territory that were owned by Akhmetov, was being purchased by the Ukrainian government at premium international prices; as well as aiding the economies of the rebel regions, the trade was allowing Akhmetov to profit from the fighting.[17] Large generating plants in eastern Ukraine were configured to burn only anthracite, and the prospect of blackouts loomed. But rather than confronting the blockaders, Poroshenko in March 2017 granted their demand for a ban on all cargo traffic with the rebel territories. Power outages were avoided when electricity demand fell, reflecting mild weather and a sharp economic dip as coal supplies to the metallurgical industry were disrupted. But the point had been reinforced that the armed ultra-right remained a dangerous presence in Ukrainian society, able if it chose to bend governments to its will.

The productive sector: weak investment, slow growth, and primitivisation

Even after relative economic stabilisation, experiences such as the rail blockade continued to deter potential investors from risking their money trying to initiate or expand production. Gross fixed capital formation during 2018 came to 17.2% of GDP, up from the dismal figures of 15.5% in 2016 and 15.8% in 2017,[18] but well below the typical levels for the post-Soviet countries of 21-26%,[19] and in terms of real volume, not greatly above the disastrous levels of the mid-1990s.[20] New foreign direct investment remained almost negligible; although World Bank data record net inflows of $2.83 billion in 2017 and $2.48 billion in 2018,[21] the latter figure corresponding to about 1.9% of GDP, these sums represented mainly the return to the country of funds held by Ukrainian firms registered abroad. "In reality, Ukraine attracted only about $500-$700 million in actual foreign direct investment in 2017," the *Kyiv Post* early in 2018 reported a researcher as concluding.[22]

Inadequate investment, especially in infrastructure, now presented a massive and growing obstacle not just to economic growth, but even to maintaining existing levels of output. Roads, railways, ports and airports, a *Kyiv Post* article in June 2017 observed, were in urgent need of modernisation, at a cost of at least $30 billion by 2030. Ninety per cent of roads had not been repaired for more than 30 years. Tariffs charged by the state-owned rail freight monopoly Ukrzaliznytsia, the article continued, were kept by the authorities at the lowest levels in Europe, as an effective subsidy to private freight users; in consequence, the rail system lacked the funds to maintain itself. In the early months of 2017, Ukrzaliznytsia had been fulfilling only 30% of the demand for freight wagons and locomotives, and the resulting transport bottlenecks were slowing production and exports.[23]

Utility systems also suffered from inadequate upkeep. As early as 2005, unrepaired leaks and breaks in the urban water system had been causing water losses estimated at more than 50%,[24] and a Dutch study in 2016 estimated the investment needed in the

Ukrainian water sector at •6 billion.[25] Losses from the gas distribution network were reported in 2014 at 2.6%, more than three times the corresponding average figure for the EU, and with some regions losing more than 6%.[26] The electric supply system was obsolete and dilapidated. Most of Ukraine's electricity in 2016 came from the country's 15 nuclear power reactors; of these, 12 were either continuing to operate despite being overdue for retirement, or would reach the end of their projected lifespans by 2020. Most of the coal-fired generating capacity had been constructed in the 1960s, and plagued by breakdowns, plants functioned on average less than a third of the time.[27] The transmission grid had seen little investment, even in critical equipment, since the time of independence; also dating mostly from the 1960s and 1970s, it was rated early in 2018 as one of the least reliable networks in Europe, with technical losses two-and-a-half times the average in OECD countries.[28] Across the electricity sector, the *Financial Observer* reported in 2017, some $5.1 billion in new investment was required.[29]

In industry more generally, the degree of "capital exhaustion" continued to soar. As noted earlier, the proportion of depreciated installations nationally had already exceeded 75% in 2012.[30] A 2015 study of the steel industry relates: "The share of fixed assets with a 100% depreciation has reached extremely high levels (%): Coke ovens — 54, Blast furnaces — 89, Open hearth furnaces — 87 … Rolling mills — 90."[31] The implications were clear: unless large new sources of capital could be secured, and unless the owners of industrial assets showed an uncharacteristic enthusiasm for renewing plant and equipment, output levels would inevitably decline. The country's industries faced a future of more and more frequent production halts as repairs were made to worn-out machinery, and of relying on low wages to permit sales at marginal profit rates in foreign markets dominated by more efficient competitors.

Of the various sectors of Ukraine's productive economy, the most dynamic in 2017 and 2018 was construction. Following a drastic plunge in activity during the first post-Euromaidan years, the volume of construction began recovering strongly during 2016, and over the next two years was to regain most of its 2011 output levels.[32] A strongly contrasting picture was on show in the country's transport system. Here, freight turnover was undergoing only a weak and inconsistent recovery, with total tonne-kilometres in 2017 still almost 20% below the levels of 2011.[33] Especially troubling was the poor performance of rail freight.

More broadly, productive activity was settling into a pattern of weak investment and slow growth. In 2017 the expansion of overall industrial output was a mere 0.4%.[34] An absolute decline of industrial production was prevented by the fact that in manufacturing, the rebound that followed the post-Euromaidan crash was still under way, allowing growth in the sector to reach a relatively strong 4.8%. But by 2018 this short-term effect had exhausted itself; the rise in overall industrial production now came to 1.6%, while manufacturing output recorded an increase of just 1.1%.[35] In real terms, the value of manufacturing production that year remained more than a quarter below the figure attained in 2011.[36]

At the same time, and as indicated earlier, the trend was continuing for output across the range of material production to become concentrated in relatively unsophisticated, low value-added areas. Between 2010 and 2018 the share of GDP provided by agriculture, forestry and fishing rose from 8.4% to 11.9%, while the combined contribution of industry and construction shrank from 29.4% to 27.5%.[37] Within manufacturing, a related shift was occurring as the processing of raw materials took on increasing weight compared to more technically demanding, high-value categories. In 2012 "basic metals and fabricated metal products" had made up 16.3% of the total value of industrial output, with a similar figure in 2018 of 16.2%. But machine-building, which in 2012 had provided 10.3% of the total, in 2018 made up only 6.9%.[38]

In the calculations of liberal strategists, the trend to the primitivisation of industry was to recede over time as developed-country corporations, observing a more stable and law-governed business climate in Ukraine, stepped in to purchase and modernise industrial plants. Instances of Western buyers taking over major Ukrainian industrial assets, however, remained almost non-existent. Historically, the outstanding exception had been the purchase in 2005 by the Luxembourg-based steel giant ArcelorMittal of Ukraine's largest metallurgical complex, Kryvorizhstal. Developments in later years at the plant, now ArcelorMittal Kryvyi Rih (AMKR), provide insights into the functioning of Ukraine's metals sector — and into the pitfalls, for poor countries, of counting on redemption by global capital.

The world's largest steel corporation, ArcelorMittal employed a business model focused on buying up distressed steel plants, mostly in the developing world and former Eastern bloc, and on rationalising their operations. Loss-making or low-profit functions of the plants were curtailed or shut down, and investment was concentrated on the most remunerative areas of production. The model implied mass sackings, and at AMKR the workforce was cut from 65,000 in 2005 to a mere 23,000 in 2018.[39] While carrying out reorganising and job-cutting, the firm's executives appear to have shared the reluctance, near general for the managers of large-scale Ukrainian industry, to risk major spending on new equipment so long as profits could be ensured through other means. In 2018, AMKR was still producing 20% of its steel using long-obsolete open hearth furnaces.[40] Although the firm's profits by that time were reportedly booming,[41] the flow of wealth to the local economy had clearly diminished, as the share of wages in the firm's cost of production dropped between 2010 and 2018 from 11.3% to 5%.[42]

ArcelorMittal was meanwhile providing a lesson to Ukraine's steel oligarchs in how to conceal earnings and evade taxes. The transnational corporation had grown skilled at boosting its margins by ensuring that the profits of its far-flung operations surfaced in places where the tax regimes were especially lenient. AMKR sales proceeds were funnelled into "transfer pricing" schemes that involved trading-company subsidiaries of ArcelorMittal in low-tax offshore havens. Left-wing economists in 2018 established that approximately 50% of AMKR's receipts were being directed through these zones, with gains for ArcelorMittal of at least $150 on each tonne of steel. The cost to Ukrainian tax revenues was put at nearly $400 million per year.[43]

Firms such as AMKR, specialising in the large-scale export of semi-finished goods, had mostly emerged relatively unscathed from the post-Euromaidan crash. But the slaughter of smaller and weaker enterprises that always attends capitalist crises had told heavily on other companies within Ukraine's manufacturing sector. Thousands of marginal enterprises had shut their doors or been absorbed by larger firms. Across industry as a whole, the economic commentator Yurii Gavrilechko noted in May 2018, the number of plants and factories had shrunk from 49,000 to 34,000 since 2013.[44] In the consumer durables area, increased competition from EU imports after the Association Agreement came into force added to the pressures, and by 2017 and 2018 many Ukrainian producers in this field faced existential challenges. A commentary on the 112.Ukraine news site recorded:

> Negative indicators of consumer goods production point to the reverse side of the FTA agreement with the EU: European goods began to simply eat up our domestic market, squeezing domestic producers out of it. European goods have already penetrated even into the segment of consumer goods of economy class, gradually displacing traditional Ukrainian products.[45]

Even large and historically powerful producers of consumer durables were at risk. Late in 2017 Ukraine's passenger car production, moribund for the previous few years, effectively expired. In 2008 the country had manufactured 424,000 motor vehicles of all types. The last important year of production was 2014, with a total output of 28,751, and in 2017 the figure was down to 8586.[46] In July that year the giant Zaporizhia Automobile Building Plant was sold for $9 million — effectively, its price as scrap — to a financial management group without experience of vehicle manufacturing, and in December the new owners announced they were terminating passenger car output. Thereafter, the only such vehicles produced in Ukraine would be a small number assembled from imported kits. Not coincidentally, imports of light passenger vehicles in the first quarter of 2018 showed a 43% increase over the same period of the previous year.[47] The booming imports, coming overwhelmingly from Western Europe, reflected a reduction of tariffs on used cars less than eight years old.

The loss of advanced manufacturing skills witnessed in the death of the car industry had parallels in other areas of high-value engineering. As of mid-2018 the Antonov firm still had delivered no aircraft since 2015, though a prototype for a new twin-turboprop freighter flew for the first time in April 2017. Antonov planned to fit the aircraft out extensively with foreign-built systems, and working with a Saudi partner, to set up the main production line in Saudi Arabia. The aircraft engine builder Motor Sich survived 2016 and 2017 largely by expanding its market for repairs and upgrades to Russian helicopters sold over the decades to developing-world customers. In May 2017 Motor Sich became the object of a takeover bid by the Chinese company Beijing Skyrizon Aviation Investment. Through a British Virgin Islands subsidiary, the Chinese firm paid $100 million for a 56% stake in the engine builder, with the deal including a pledge to invest a further $150 million in upgrading production.[48] Meanwhile, a joint-venture plant would be built in China to service aircraft engines and eventually, to produce them to Ukrainian designs. For Motor Sich, it appeared, the future lay not with the West but with the East.

In August 2017, however, US National Security Advisor John Bolton made a hurriedly arranged visit to Kyiv,[49] and almost immediately, the SBU launched a criminal investigation into Motor Sich and its dealings with Skyrizon Aviation. Senior executives of Motor Sich, it was alleged, had conspired to "weaken the state" by selling their enterprise to foreign interests that intended to "move the company's assets and production capacity outside Ukraine", leading to the firm's "liquidation and destruction".[50] Early in September 2017 a court froze a controlling bloc of Motor Sich shares, preventing the takeover by Skyrizon from going ahead. The SBU then backed off, and as of early 2019 the share purchase deal was still under investigation by the Anti-Monopoly Committee of Ukraine.

Hopes for a revival of activity at the rocket-maker Yuzhmash were raised in September 2017 when a Russian business group purchased the multinational firm Sea Launch, which between 1999 and 2014 had used Zenit rockets built at Yuzhmash to put satellites in orbit from a floating platform. In January 2018 Yuzhmash announced that it had begun manufacturing two Zenit rockets, and Sea Launch had foreshadowed resuming launches in 2019. Prospects for restoring the program nevertheless appeared dim. Production of various components of the Zenit design that had been supplied from Russia had ceased years earlier, and Russian space officials were reportedly having no success in obtaining the missing parts.[51]

Even if the components had been available, the ability of Yuzhmash to carry out the tasks required for participation in Sea Launch was by this time doubtful. Since

Russia had ceased ordering the Zenit rocket in 2014, the experts of the Ukrainian space industry had dispersed around the globe, some allegedly helping to advance the North Korean missile program. Everyone from "the welders on the factory floor to the top engineers in our design bureau" had gone, *Time* magazine in February 2018 reported the Yuzhmash chief of production as lamenting. The plant's workforce had shrunk to a sixth of its 2014 size, and only a skeleton team of mostly aging specialists remained.[52]

Contrasting with the near-stagnation of Ukrainian industry in 2018 — and the extreme plight of advanced machine-building — was a relatively buoyant situation in agriculture. Following a half-decade of variable performance, including a decline in 2017 of 2.3%, the value of agricultural output in 2018 was up by 7.8%.[53] None of the sector's basic problems, however, were being solved; investment remained seriously inadequate, and farm incomes still oscillated wildly depending on weather conditions and the state of world commodity prices. In 2018 abundant summer rain allowed a record harvest of maize, and world cereals prices, though well below the peak witnessed during the Yanukovych years, were improving.[54] But the boom did not extend beyond the sphere of crop-growing. Stock-raising, apart from poultry, remained in its long slump, affected by reduced exports to Russia. Even in the area of grain production, low fertiliser use and slow harvesting continued to affect yields and quality.

Above all, the Ukrainian farm sector remained locked within the forms and structures of oligarchic capitalism. As pointed out by the analyst Vladyslav Rak, agro-oligarchs were not especially interested in investing to secure productivity increases; more commonly, they sought to maximise their returns through extensive methods such as leasing more land at low prices.[55] The continuing disarray of the banking system, in which real interest rates remained high even when collateral was available, also weighed on rural investment levels. In the face of this quandary, liberal writers maintained, the only responsible course was to legalise sales of agricultural land, ending the moratorium that the parliament had regularly renewed. "The overwhelming majority of experts believe only this step can solve the investment shortage problem … in the near-term," a Canadian commentary argued in June 2017.[56]

Ukrainians overwhelmingly disagreed; an opinion survey in December 2017 found 77% of respondents opposed to ending the moratorium, with only 10% in favour.[57] A frequent suspicion was that liberal attempts to transform a functioning *status quo* would simply result in chaos. Small farmers were alarmed by the prospect that powerful rural interests, already adept at shady deals involving state-owned land, would swindle them of their assets through bribing land-office staff. There was also a broad apprehension that large swathes of the national territory would pass into the ownership of foreigners. Those concerns were not lessened in September 2018 when Saudi interests purchased one of Ukraine's largest agrobusiness firms, Mriia Agro Holding, from its creditors after the firm declared itself insolvent. The deal was reported as giving the Saudis control over 150,000 hectares of leased farmland, as well as ownership of grain elevators and other infrastructure.[58]

Meanwhile, agricultural equipment manufacturing remained in its near-comatose state. Under its new owner Yaroslavskyi, the Kharkiv Tractor Plant resumed production in 2017. But the following year, the oligarch was to lament that while the plant had once employed 45,000 people, it now provided jobs for only 3000, and that instead of an annual output of 50,000 tractors, current plans specified a rate of about 800.[59] In total, Ukraine in 2018 produced 2400 tractors, fewer than half of the number in 2011, and just 47 combine harvesters.[60]

With the potential at some point for strong local sales, and possessing a near-unique combination of cheap skilled labour, locally available materials and existing productive capacity, Ukraine might have been thought to stand on the brink of emerging as a world centre of agricultural equipment design, production and export. But the imperatives of developed centre and captive periphery had turned the country into an all-but-uncontested market for foreign equipment manufacturers. As related by a US source, "all self-propelled sprayers, 98% of combine harvesters, 95% of tractors, 89% of plows … sold in 2017 in Ukraine were imported."[61]

Trade, integration, and a Chinese option

Following their decline in 2016, Ukraine's earnings from merchandise exports recovered markedly during the next two years, rising by 19% in 2017 and by a further 9.4% in 2018.[62] The increase, which mostly reflected improved commodity prices,[63] nevertheless left the total value of goods exports in real terms more than 30% short of its level in 2012.[64] Meanwhile, spending on goods imports was rising even more rapidly, by more than 26% in 2017 and by a further 15.3% the following year.[65] In 2017 the deficit on merchandise trade reached 5.7% of GDP, and in 2018, 7.5%. It was only a continuation of the characteristic strong surpluses in the country's services trade that brought the overall foreign trade shortfall down to 0.9% in 2017 and 3.5% in 2018.[66]

Merchandise exports were concentrated as previously in a small range of raw and semi-processed commodities, exchanged for imports that included astonishingly basic items. A commentary in 2018 lamented:

> Fuel, clothes, household appliances, cars, equipment, medicine, hygiene products, furniture, and information products are all overwhelmingly imported into Ukraine from abroad.
>
> Metal ores, transit fees, grain, meat and liquor — this is what Ukraine exchanges

for high-tech foreign imports. Eighty-two per cent of Ukrainian exports are formed from low-tech sectors of the economy. Thirty-six per cent of exports are raw materials.[67]

Foreign sales of agricultural produce, however, were booming, and in 2018 exceeded the nominal dollar value reached in 2012.[68] With other categories of goods exports continuing to lag, the agro-food sector was now central to Ukraine's ability to earn foreign exchange; in 2018 it provided 39%[69] of income from foreign trade in goods, a proportion that had risen from 26% in 2012.[70] The contrast was striking with the much less robust performance of exports in the traditionally important field of "machines, equipment and mechanisms, electric and technical equipment"; although these had rebounded to a degree, sales abroad under this rubric, at $4.66 billion in 2018,[71] remained dramatically down on the 2012 figure of $7.02 billion.[72] At the same time, imports of machinery — though not necessarily of the capital equipment sorely needed by industry — were rising rapidly, and at $11.96 billion in 2018, were well over twice the export figure.[73]

Under the DCFTA, integration of Ukrainian production and exchange with the economies of the EU was now making rapid progress. Ukraine's exports to the EU-28 countries rose by 23% in 2017, and in 2018 by a further 15%.[74]From 25% in 2012, the share of exports going to the EU reached 42.6% in 2018.[75] But although trade with the EU now shaped Ukraine's economic processes profoundly, there was no sign that it was rescuing the country from the developing-world patterns of dependency and backwardness into which its post-independence history had thrust it. Exports to the EU remained heavily skewed toward relatively unsophisticated, low value-added goods; in 2018 products of the agro-food complex made up 29.9% of the total, and base metals a further 22.0%.[76]

Ukrstat data for 2017 and 2018 show agro-food sales to the EU expanding by approximately a third over the period. Driven by bumper crops that allowed a large increase in sunflower oil output, this growth also reflected increased success in meeting the EU's sanitary and phytosanitary requirements. Nevertheless, Ukraine's major prospects as an agricultural exporter lay in expanding its sales to the developing world, not to the EU. In 2018 sales by the Ukrainian agro-food sector to the EU, at 33.5% of the total, were exceeded by sales to Asia, which took more than 42%,[77] with the main customers China and India. Other important sales were to African countries, especially Egypt. As a destination for consistently growing agricultural exports, the EU held only limited promise. The bloc's external trade in agricultural goods was characterised by large surpluses, and competition for its import markets was fierce from such agro-exporting giants as the US and Brazil.

Moreover, the EU still, and notoriously, provided trade protection to its agricultural producers. In 2017 European governments had agreed to grant Ukraine an expansion over five years in the annual duty-free quotas for eighteen agricultural commodities, but the projected increases averaged no more than 10%.[78] Ukraine each year exported about 57,000 tonnes of honey,[79] mostly to the EU, but under the 2017 agreement the quota for duty-free honey was to rise only from 5200 to 6000 tonnes.[80] In 2018 as previously, most of the yearly quotas allotted to Ukraine for duty-free entry of agricultural products were exhausted by the end of April.[81]

Meanwhile, shipments to the EU of machinery and equipment, in 2018 accounting for 14.2% of Ukraine's overall goods exports to the bloc,[82] were of a very different character from the complex devices, often developed by local engineers, that had weighed heavily in the machinery exports to Russia that the Ukrainian state had largely foregone. According to a December 2016 German study, the exports to the EU of electrical machinery at that time consisted mostly of vehicle wiring sets assembled in Ukraine for Western manufacturers.[83] Referring to machinery exports to the EU, Kyiv political consultant Andrii Telizhenko was quoted by *Newsweek* in January 2018 as saying: "We do sell a lot but it's minor products such as bolts, small engine parts … There is no competitiveness and there is no support from the government to produce high-quality products for export."[84]

While Ukrainians had scant cause to hope that exports to the West would return their country to developed-world status, European firms were profiting handsomely from the cuts to Ukrainian import tariffs stipulated by the DCFTA. In the course of 2017 and 2018, Ukraine's deficit on its goods trade with the EU amounted to a massive \$6.3 billion,[85] about 2.6% of GDP during the period.[86] The imbalance might have seemed justifiable if the imports had featured a strong component of capital equipment destined to modernise the country's industries. But this was clearly not the case; imports of capital goods, from all sources, were still down by almost a third in 2017 from the level they had reached five years earlier.[87] Ukraine's consumption of machine tools in 2016 was estimated to be much less than that in Greece and Morocco; less than a fifth of the figure for Belarus; and less than a tenth of that for Romania.[88] Almost the only imports of capital equipment that grew strongly in Ukraine during the years that followed the post-Euromaidan slump appear to have been those, noted earlier, of agricultural machinery.[89]

Services trade remained a relatively small part of Ukraine's foreign commerce, with turnover in 2018 of \$17.95 billion compared to the total for goods trade of \$104.52 billion.[90] Exports of services, which had slumped after the Euromaidan, continued to recover, though they remained well below the levels reached during the Yanukovych years. Pipeline services, somewhat reduced since the falling-out with Russia, remained the largest services export category, but were now being challenged by rapidly rising sales in the information technology field; from $672 million in 2010, these had more than tripled by 2018 to $2.12 billion.[91]

At the end of 2018 Ukraine was home to a reported 185,000 IT specialists,[92] mostly performing outsourced work for Western clients. Predictions abounded that the country was about to evolve into a "new Silicon Valley", but the growth was narrowly based and dependent on foreign contracts. Substantial investment would be needed if local IT firms were to develop and commercialise their own well-paying software lines, but the sums being directed into the IT sector were puny compared to those in rival countries.[93] Moreover, the global volume of IT outsourcing contracts was not unlimited, and competition for these offerings restricted potential profits. Ukraine, with its exports in the IT area of a few billion dollars a year, was bound before long to find its prospects cramped by countries such as India, whose IT exports were running at an annual rate well above $100 billion.[94]

Ukraine's trade with China, after expanding rapidly during the Yanukovych years, declined sharply during the post-Euromaidan slump and through 2018 still had not regained its 2013 level. Major Chinese purchases of Ukrainian grain nevertheless continued, and from 2015 China figured as the largest single customer for Ukraine's agricultural produce.[95] Sales of military technology continued as well, and by 2017 Ukraine was China's second largest source, after Russia, of arms imports.[96] In December that year, following the lead of other Eastern European states, Ukraine officially joined China's "One Belt, One Road" initiative.

During 2017 and 2018 the overall figures for bilateral trade between Ukraine and China recovered rapidly, with goods turnover rising from a 2016 total of $6.5 billion to $9.8 billion in 2018.[97] In the first quarter of 2019 China overtook Russia to become Ukraine's single largest trading partner. China, however, was not about to rival the EU as the prime economic influence on Ukraine. In 2018 China still accounted for only 9.4% of Ukraine's total foreign trade,[98] and the commercial relationship between the two countries was heavily one-sided; Ukrainian exports to China in 2018, worth $2.2 billion, were dwarfed in value by $7.6 billion of imports,[99] made up largely of consumer products. The situation suggested that the Ukrainians would seek to resolve the imbalance by reorienting their imports at some point in the future.

Throughout these years, commentaries in the Ukrainian press and statements by government officials confidently predicted a boom in Chinese investment.[100] Ukrainian capitalism had ample need of Chinese development funding and technology, while for China, there was the possibility of using Ukraine as a staging-point for economic penetration of the EU — in particular, through setting up Ukrainian subsidiaries of

Chinese firms to manufacture goods that could then be exported duty-free to EU markets. But as of December 2018, the cumulative total of direct Chinese investment in Ukraine remained a strikingly small $18 million.[101]

Various reasons suggest themselves as explanations for the failure of the economic relationship with China to develop more strongly and evenly. The Chinese had a clear motive to limit their reliance on food imports from Ukraine, given that country's unstable politics and fraught regional setting. In addition, Chinese entrepreneurs undoubtedly knew the perils that awaited foreigners trying to do on-the-ground business in Ukraine. Arguably of more importance, however, was a less straightforward element: caution stemming from a fear on both sides of policy complications if the mutual dealings became too extensive.

China was a vital strategic partner of Russia, and too close a dependency by Kyiv on Chinese trade and investment was likely to arouse indignation in Ukrainian nationalists. For Beijing, meanwhile, Ukraine had nothing like the strategic and economic importance of Russia; it followed that the Chinese would be reluctant to venture initiatives in Ukraine on a scale that might cut across Russian policy calculations. Finally, Western antagonism was increasingly being directed against Chinese interests as such, and not simply with regard to Chinese-Russian affinities. The result was that almost any major Chinese economic initiative in Ukraine could be expected to encounter Western hostility, with the exertion of pressures on Kyiv that the Ukrainians, in their general state of dependency, were ill-equipped to resist. In the context of the Motor Sich controversy, the *Kyiv Post* in 2019 was to remark:

> Pentagon and NATO officials, as well as G7 diplomats, have all warned … that Chinese investment in Ukraine may be a double-edged sword with a potentially bad impact on Ukraine and its allies.[102]

This situation resulted in a certain tentativeness, even equivocation, on the part of the Kyiv authorities. In 2016 the Ukrainian government rebuffed a Chinese offer to begin talks on a free trade agreement, before reversing course late in 2018 and itself broaching such discussions. After coming late to the Belt and Road Initiative, Ukraine remained only a low-key participant in its functioning.

While keeping direct investment minimal, Chinese firms entered into a range of deals in Ukraine that avoided excessive risk, that provided work for Chinese engineering contractors, and that maintained a modest public profile for Chinese business. The result was a degree of economic interaction considerably greater than the small investment figures suggested, though not remotely approaching the impacts in Ukraine of EU-based capital. A good deal of this Chinese activity rested on concessional lending for schemes designed to improve the infrastructure that serviced agroexports. Other

Chinese credits underpinned renewable energy projects, road construction and a new Kyiv metro line. Chinese interests also sought a formalised presence in Ukraine's financial sector. In 2017, China's Bohai Commodity Exchange bought the Ukrainian Bank for Reconstruction and Development for $3.1 million at a privatisation auction,[103] and in 2018 the same Chinese firm was seeking to win control over two Ukrainian securities exchanges.

Debt, and deficits

An enduring burden left on Ukraine by the economic collapse of 2014–2015 was a huge load of debt. With the return to economic growth this began to be moderated, but it remained at onerous levels. At the end of 2018 central government debt still amounted to 52.3% of GDP,[104] with close to two-thirds of the sum repayable in foreign currencies.[105] Gross foreign debt, as a proportion of GDP, remained at a daunting 89.9%.[106]

One reason why stabilisation and growth did not see debt reduced to more manageable levels was the failure of the tax system to consistently extract the levies imposed on the country's rich; another, the inability of the authorities to stanch the continuing illicit drain of wealth across the national borders. A further, more nuanced cause involved the political difficulties of keeping austerity at the rigorous levels of earlier years. In 2015 the government's cutbacks had allowed the budget deficit to be reduced to 1.2% of GDP, followed by a rise in 2016 to 2.2%.[107] But teachers, health workers and other state employees now needed to be raised from destitution if they were not to abandon their professions for work elsewhere, while pensioners were a crucial voter cohort that had to be saved from literal starvation.

At the beginning of 2017 the pay of teachers and health staff was increased by more than 40%,[108] and the minimum wage was doubled, though only to the equivalent of $119 per month.[109] In October 2017, by which time the minimum-rate pension received by eight million Ukrainians had shrunk to a monthly value of about $50, new pension rates went into effect; the basic monthly payment now rose to the equivalent of about $75.[110] Political pressures to continue the war in the Donbas meanwhile kept military spending at unaffordable sums; defence and security allocations were again raised in 2017 to a total of almost $5 billion.[111]

As economic recovery continued, the state budget deficit in 2017 grew only marginally, to 2.3% of GDP.[112] But the point was approaching where the government would need to make large payments on its earlier borrowings; in the course of 2018, the *Kyiv Post* reported in February that year, the government faced the need to meet debt service obligations equivalent to $10.9 billion,[113] more than 8% of the year's eventual GDP. Much of this sum would need to be paid in foreign currencies, in circumstances where the country's foreign trade was persistently in deficit. Just over the horizon, meanwhile, was a much greater pile-up of foreign payment obligations. A commentary in May 2018 explained that over the years to 2022 Ukraine would need to make foreign debt payments totalling $24.4 billion.[114] Short-term external debt at the end of 2018, the economic researcher Tetiana Bohdan was later to note, amounted to 77.5% of export revenues, almost twice the "threshold value" with which countries such as Ukraine could be expected to cope.[115]

With GDP in 2018 of $130.8 billion,[116] there was no way Ukraine could service its foreign debt out of its own resources, except perhaps through the politically untenable step of selling off large tracts of farmland to foreign purchasers. Providing a certain short-term cushion were the National Bank's foreign reserves; built up over the years with the help of international loan funding, these stood at the end of 2018 at $20.8 billion, equivalent to about three and a half months of imports.[117] Running down the foreign reserves, however, could be ventured only at the cost of dipping toward the point where international confidence in the country's solvency would be shaken. Avoiding a crisis of foreign indebtedness even in the relatively short term would therefore require massive international assistance.

By late 2018, major world lending institutions had been pursuing a tough line with the Ukrainian government for several years. From its $17.5 billion Extended Fund Facility that had been negotiated in 2015, the IMF had initially scheduled $4 billion in a series of tranches during 2017, but ultimately delivered only $1.9 billion.[118] From April 2017 the Facility was effectively suspended, and toward the end of that year the EU also cancelled a •600 million loan pay-out. The IMF was insisting that before additional sums were released, five conditions should be met: adjustment of gas prices to market prices; a stringent pension reform; the adoption of a new privatisation law; legalisation of private sales of agricultural land; and the establishment of an independent anticorruption court.[119]

Of the policy demands listed by the IMF, the higher gas charges and sale of farmland were especially toxic, strongly opposed by large sectors of the Ukrainian electorate. Facing a battle for re-election in March 2019, Poroshenko had strong reasons to resist the loan agency's arm-twisting, while at the same time trying to postpone a showdown on the debt until after the election date. If the country's foreign reserves were not to be depleted, the main resort available was to float bond issues on the world market, and in September 2017 Ukraine secured $3 billion by this method. The interest rates payable on such borrowings, however, were well above those charged by the IMF, and could not be contemplated on the scale of the country's debt service obligations as a whole.

A foreign debt shake-out loomed; in the worst scenario, it might take the form of a full-scale default, crippling Ukraine's international trade, leaving its foreign assets subject to seizure by creditors, and causing the hryvnia to quickly lose most of its value. Poroshenko and his ministers, however, evidently calculated that international capitalism would step in to prevent such a crash from occurring. The Ukrainian leaders would have noted the action of the IMF when in June 2018 it provided an emergency stabilisation package worth more than $50 billion to forestall a default in Argentina, a country with nothing like Ukraine's geopolitical importance. However steep the cost to global capital of allowing Ukraine to postpone a reckoning with its debt obligations, there was little reason to think this price would not be paid if the alternative were chaos, and perhaps further national break-up, in an allied state on the borders of Russia.

In December 2018 the IMF granted Ukraine a 14-month stand-by arrangement foreseeing loans over 14 months of about $3.9 billion, subject to continuing structural reforms. By this time a new Law on Privatisation was in force, and legislation for the Anti-Corruption Court had been approved. Other IMF stipulations, however, remained fully or substantially unmet. The Fund had blinked, and Ukrainian business leaders could reflect that however slowly and reluctantly they mended their ways, their brothers and sisters in international finance would not abandon them.

The foreign debt reckoning, of course, was still only in its initial phase. Further loans, for much greater sums, would be required in subsequent years — and very likely, in circumstances where commodity prices were dropping and Ukraine's terms of trade were growing increasingly adverse. The terms imposed by lending bodies in such future rescues, as in the first years after the "Revolution of Dignity", could be expected to be traumatic for the great majority of Ukrainians. Stabilisation as overseen by the IMF would not centre on a government-directed program of large strategic investments in infrastructure and production capacity, aimed at modernising the economy and creating a basis for prosperity. Instead — and as witnessed in Argentina in 2018 — the international lenders could be guaranteed to reimpose the austerity measures of earlier years, lowering the price of labour power while cutting social programs and reducing corporate tax levels in the hope of persuading a kleptocratic local ruling class to put money into production.

None of Ukraine's fundamental problems would be remedied by these measures. In the service of an anti-popular strategy, the effect of new lending on such terms would be to set the debt treadmill turning faster, while the loss of control by Ukrainians over the directions and processes of their country's economic evolution would grow more extensive.

Privatisation

Throughout 2017 and 2018 pressures continued, especially from the IMF, for the government to mitigate its debt problems by pressing ahead with the sale of public assets. According to a World Bank report, the Ukrainian state sector in April 2017 still provided about 20% of GDP.[120] But of 3460 state-owned entities counted by the Ministry of the Economy in mid-2017, more than 1600 were recorded as not operating, and a further 1186 as loss-making.[121] Many were clearly firms that private investors in earlier years had not thought worth acquiring even at rock-bottom prices, while others were effectively off limits to purchasers because they were controlled informally by feared oligarchs. In Sumy Province, for example, the electricity generating firm Sumyoblenergo was part-owned by Ihor Kolomoiskyi and his associate Kostiantyn Grigoryshyn; investing in any company together with Kolomoiskyi, one commentary observed delicately, was “fraught with risks”.[122]

Projections by the State Property Fund in 2017 foresaw as many as 890 state-owned companies being sold during the period through 2020,[123] with budget receipts in the first year to reach $653 million.[124] As well as large, hard-to-privatise industrial enterprises such as Turbatom and the corruption-ridden distilling group Ukrspyrt, the sales list included numerous minor firms. The auction starting prices for most of these lesser companies, set before the inflation of the previous two years, had not been indexed since;[125] as a result, the enterprises were available to be picked up for relatively tiny sums. Among the objects now for sale were important cultural institutions: the National Circus of Ukraine, six regional circuses, and a series of film studios. Traditionally, most of these institutions had depended on subsidies in order to operate, and the demand to privatise them had to be expected to end in their liquidation. For Ukrainians, it seemed, the price of integration into Western capitalism would include the loss of cultural functions important to the expression of their national identity.

Meanwhile, attempts continued to secure the sale of the Odesa Portside Plant. In an April 2017 memorandum, the IMF insisted that the fertiliser producer be privatised by the end of the year; State Property Fund chief Ihor Bilous told journalists that the new price would be about $150 million.[126] Unable to pay for gas supplies, the plant spent much of 2017 idle, while rumours circulated that its operations were being sabotaged by oligarchs anxious to reduce the cost of purchasing the facility below its value as scrap. In the event, the only major privatisation of government assets achieved during 2017 was the sale in August of five out of eight 25% stakes in regional electricity generating and supply companies, for the relatively small total of $115 million.[127]

There was only one buyer — a firm linked to Rinat Akhmetov, the ultimate owner of the power companies' majority stakes. Plans to sell the energy firm Centrenergo, one of the country's largest electricity generators, were postponed until mid-2018.

In all, privatisation revenues during 2017 were reported by the State Property Fund as reaching $120.7 million,[128] less than a fifth of the hoped-for figure. January 2018 then saw the adoption of new legislation aimed at streamlining the privatisation process. Preparations for the sale of larger enterprises now had to be overseen by international advisors, while use of the ProZorro online system was made obligatory in bidding for smaller firms. A major new round of sell-offs was projected for the autumn of 2018, with the anticipated revenues put at $750 million.[129] At the end of the process, officials predicted, only 15 particularly important "strategic objects", including the railways, the postal service, port administration, Naftohaz, aerospace enterprises, and nuclear and hydropower plants would remain in state ownership; also retained would be a further 363 lesser objects, described as needed to "ensure the state's fulfilment of its functions".[130] The more than 700 enterprises listed for sale included Privatbank, nationalised in 2016, and the Odesa Portside Plant. According to the latter's CEO, the starting price for the facility, valued in past years at as much as $1.5 billion,[131] would be a mere $54 million.[132] But after remaining idle throughout most of the second half of 2018, the Odesa Portside Plant was still unsold at the end of the year.

The sale of the power-generation company Centrenergo was eventually set for December 2018, but was cancelled after the two groups bidding for the purchase failed to provide satisfactory documentation of their ownership. In the event, none of the major objects slated for auction in 2018 were sold, and total privatisation revenues for the year came to just $7.4 million, about 2% of the planned sum.[133]Legal challenges to the outside advisors required under the new privatisation law seemed likely to block most sales of significant enterprises for years to come.

With Ukrainian assets still considered excessively risky by all but the bravest foreign investors, outside interest in the privatisation auctions remained negligible. Even if the legal hindrances to sales were cleared away, almost the only bidders would be cabals of cashed-up Ukrainian citizens, quite likely the same people who effectively controlled the enterprises already. In these circumstances, the chances of privatisation resulting in a shift to innovative management and well-targeted investment were close to non-existent. On the whole, folk wisdom showed a better grasp of the dynamics of privatisation in Ukraine than local reformers or the IMF. In May 2018 the *Kyiv Post* quoted an opinion survey as recording: "Eighty percent of Ukrainians think that only oligarchs will benefit from the sale of state-owned enterprises."[134]

The chimera of reform

During 2017 and 2018 the general impulses to reform in Ukraine continued to slacken. Rising international pressures against Russia had created a tense regional setting in which Western strategists balked at trying to force drastic changes to the way in which Ukrainian business and government were conducted. The oligarchs in turn found little reason to change their existing methods; the maxims of the Western business textbooks remained unconvincing to them, promising lesser margins and greater risk than the old-style rent-seeking and leeching on public revenues. Meanwhile, the pressures for reform coming from the intelligentsia and "middle layers" were far from overwhelming. Where the members of these strata did not depend directly on oligarchic business for their well-being, they were often employed by state structures in which peculation and bribe-taking remained as little-contested elements of institutional practice.

Anti-corruption activists were not helped by the fact that the "low-hanging fruit" of reform had by this time mostly been plucked. New electronic measures, ProZorro and others, were curbing graft in once-lucrative areas; in April 2017 an open electronic system began automatically refunding value-added tax owed to exporters, cutting corrupt officials out of the loop. Nevertheless, the broad powers of arbitrary decision-making that officials retained allowed other fields of illicit enrichment to be preserved or even expanded, especially in the world of military supply. So long as the bulk of the population remained politically inert, bitter at the system of rule but unconvinced that it could be altered, further advances for reform would be limited to the painstaking, incremental work of trying to perfect laws and improve their application. Meanwhile, new legislation crawled at a snail's pace through parliamentary committees whose members, alert to the wishes of their corporate sponsors, sought ways to denature it.

In July 2017 the *Washington Post* concluded that Ukraine's reforms had stalled. Vested interests, the newspaper considered, had blocked the process of building an honest Supreme Court, and although charges had been brought against a handful of the most notoriously corrupt state officials, powerful forces were mounting resistance.[135] Two months later an Atlantic Council analyst observed: "The big beasts of national politics and their oligarch owners appear to have regained their confidence and are pushing back against anticorruption reforms and blocking any future progress."[136] Throughout 2017 the Index for Monitoring Reforms compiled by analysts for the liberal VoxUkraine website showed a persistent downward trend, and by May 2018 the level of new reform was being described as "close to zero".[137]

The oligarchic system, in sum, was not being challenged at any fundamental level. It retained substantial control of the state apparatus, and this power encompassed not just administrators, but also the mechanisms of state coercion. The reform effort had never made much impact on the prosecution system, and despite the setting up of the new patrol police, the country's criminal investigation police continued robbing and brutalising ordinary citizens while protecting well-heeled malefactors. Additionally, the deeply corrupted security service, the SBU, remained an organ of extralegal harassment — and in some cases, violence — employed by powerful figures against opposing business interests and reform activists.

Across the broader state system, reformers had never been able to expand their authority and influence much beyond the limited positions seized in the months following the Euromaidan. In the parliament, the so-called "Euro-optimists" still had not formed a coherent bloc, remaining a minor caucus scattered across different parties and with little sway over the legislative agenda. As appraised by the Atlantic Council's Anders Åslund in May 2018, no more than about 60 deputies in the 450-seat chamber were "really working hard for reforms". In the government, Åslund considered, about half the ministers shared the perspectives and commitment of the reformist deputies; the others, he noted delicately, had "somewhat different interests".[138]

Notoriously, the top-ranking figures pursuing these "different interests" included Poroshenko himself. "The West must face the fact that it backed the wrong leader in Ukraine," a December 2017 US commentary argued.[139] In January 2018 an editorial in the *Kyiv Post* stated: "Poroshenko is the king of the corrupt and kleptocratic oligarchy … a persecutor of his political foes and anti-corruption activists."[140] The following month, the *New York Times* reported that Poroshenko and two of his political cronies had been revealed as the owners of three lavish villas on the Spanish coast.[141]

Although the oligarchs remained firmly in control, it would be wrong to suggest that the reform initiatives mounted in 2017 and 2018 made no impact. The targeting of government spending was improved in areas that included pensions, education and health. These, however, were areas where "core" oligarchic interests, with the arguable exception of the scams in the pharmaceutical sector, were not threatened. Indeed, the effect of the reforms in these areas was to enhance oligarchic interests, along with those of Ukrainian capitalists in general, by allowing the tax take to be minimised; the changes rested on a neoliberal insistence, stirring little dissent in reformist circles, that better targeting was needed so that future commitments of state funds to social welfare could be restricted. To this end, a good deal of service provision would be semi-corporatised, and the principle of "user pays" would figure prominently.

In October 2017 came the adoption of a new pension law. For some years the ratio of tax-paying workers to pensioners had been no more than about one-to-one, and pension payments, in theory covered by employer contributions to the State Pension

Fund, now required government subsidies amounting to about 35% of the state budget.[142] From 2018 this cost was to be held in check by restrictions on pension eligibility. Technically, the retirement age would not increase, but over ten years the period of contributions required to receive the pension at the minimum age would rise from 15 to 35 years. Personal superannuation provisions, compulsory but individually tailored, would boost pensioner incomes. Meanwhile, the system of special pensions that had provided well-endowed retirements to a minority of state employees was done away with.

Adopted around the same time was a new Law on Education, providing for a shift from Soviet-descended practice to models resembling those employed in the EU. Instead of emphasising rote learning, teachers were now meant to instil adaptability and initiative. Schools were to gain extensive autonomy, subject to meeting set standards, and promises were made that teachers' salaries would be raised further as resources became available. Outlays on maintaining infrastructure would be rationalised, with schools closed where low birth rates had depleted student numbers. In rural areas, instruction at senior levels was to be centralised in new "hub" colleges.

There was no indication that state spending per pupil, meagre even compared to Russia,[143] would be raised, and it was unclear whether the savings from rationalisation would improve outcomes for the majority of students. Schools for many years had relied extensively on direct, semi-compulsory contributions by parents in order to operate, and this situation would clearly remain. Meanwhile, the new principle of "money follows the child" foresaw that state funds would flow not only to public schools, but also to the private fee-paying institutions favoured by well-off parents.

In the health sector, the reform consisted to a large degree of legitimising the spontaneous privatisation that had overtaken many aspects of the public system decades before. The state now undertook to pay for only a restricted range of medical care, with a new National Health Service allocating budget funds. While hospitals had previously received central and local funding to maintain their facilities based on a certain number of beds, money now "followed the patient", being disbursed on the basis of the specific services provided. Patients were to be permitted to choose their own doctor, and the salaries of medical staff would be tied to the number of patients treated. Public hospitals received financial and managerial autonomy, being turned into non-profit enterprises with the right — and needless to say, the acute need — to solicit revenues from private sources. Meanwhile, the shift to allowing private providers to receive payment from budget sources had the unmistakeable goal of stimulating private medicine. "These changes could shape a market for medical services in Ukraine that is practically absent today," a corporate survey early in 2018 exulted, while looking forward to "new horizons for investors."[144]

Somewhat more clear-cut improvements were made in the field of public administration, where efforts continued to rationalise the licence and permit requirements confronting entrepreneurs. Computerisation of various government operations, and a shift to electronic documents, aided a reduction in the number of civil servants from some 296,000 in 2016 to around 242,000 early in 2018.[145] Reforms to the State Fiscal Service, Ukraine's tax authority, were also being stepped up. Previous simplification of tax regulations had reduced the outlandish number of work-hours needed for compliance, but as of late 2017 the system was still being assessed by international analysts as "complicated, incomprehensible, and very risky in terms of generating corruption," and as "one of the worst in the world".[146] New reform plans in 2017, anticipated as needing three to four years to complete, stressed transferring most interactions with taxpayers online, while upgrading the quality of staff through recruitment based on transparent competition. Moves to end the ability of tax inspectors to choose which firms they audited would, it was hoped, limit the soliciting of bribes.

Improved collection methods, however, would not necessarily mean a fairer distribution of the tax burden. Amendments to the Tax Code in 2017 that were extolled as relieving taxpayers of the need to pay at least $125 million in direct taxes included the elimination of a 15% tax on syndicated loans, and of an 18% tax on dividends.[147] Aiding mainly large business owners, these concessions would ultimately be made up at the expense of the broad population.

The reforms to the state administration still left entrepreneurs, as they grappled with the demands of government officials and the incongruities of commercial legislation, facing problems familiar to their counterparts in much less developed countries. On the World Bank's Doing Business 2018 index, Ukraine received an "ease of doing business" ranking of 76th out of 190 countries listed. To the chagrin, no doubt, both of reformers and of Ukrainian nationalists, this result was sharply inferior to those of Russia, in 35th place, and Belarus, in 38th.[148]

Claimed as a notable success for reform, and certainly among the schemes pursued with most energy, was the government's decentralisation program. Initiated in 2014, this focused on combining some 12,000 villages, with an average of 1500 residents each, into about 1200 "Amalgamated Territorial Communities" (ATCs), large enough for them to administer health, education and other provisions adequately.[149] State financing, rather than trickling down through provincial and regional administrations run by centrally-appointed officials, would increasingly be furnished directly to the elected councils of the ATCs, which would also gain enhanced revenue-raising powers. Overlaps between the different levels of local authority would be trimmed, improving efficiency and reducing the opportunities for corruption.

By the end of 2018 some 878 ATCs had been formed, encompassing 4018 villages and around nine million people.[150] Comprehensive change was blocked, however, by the failure of the parliament to adopt a range of necessary constitutional amendments, opposed by nationalist deputies as creating mechanisms through which autonomy might be granted to the rebel areas of Donetsk and Luhansk provinces. Meanwhile, decentralisation did not equate to broad democracy in regional decision-making. Poroshenko had kept for himself the authority to appoint a stratum of "prefects", charged technically with ensuring the legality of local government actions. The extensive powers of these officials, who answered only to the president and cabinet, included the right to interpret constitutional provisions and issue binding regulations.[151]

Nor was devolving the authority of provincial and regional officials to the "community" level enough, in itself, to sever the often-corrupt ties that bound administrative and political figures to local business chiefs. Indeed, the strengthening of territorial prerogatives could permit local potentates to worsen their abuses. A 2018 Carnegie Europe study of decentralisation in Kharkiv Province observed that the changes had "allowed elites to capture [an] even greater share of public resources," and went on to conclude: "In the absence of independent local media and strong grassroots civil society organizations, patronage networks are being reinforced rather than challenged.[152]

Corruption: the justice system

The reformers meanwhile continued to meet fierce resistance in areas where central interests of the oligarchs were at stake. Property rights remained notably weak; the 2018 International Property Rights Index ranked Ukraine in 110th place out of 125 countries, with both its ranking and absolute score almost unchanged since 2013.[153] In such areas, the record during 2017 and 2018 was not of modest gains for reform, but of ambiguous results, stagnation, and in some cases, notable setbacks. Above all, the reformers remained unable to force a meaningful purge of the justice system. The Office of the General Prosecutor, under close Poroshenko ally Yurii Lutsenko, remained striking for its inability to mount corruption cases and win convictions. According to the *Kyiv Post,* Lutsenko claimed in December 2017 that 1543 people had been convicted during the year on corruption charges. The anti-corruption organisation Nashi Hroshi, however, established that in 1917 only 91 lower-level suspects had received prison terms for graft, and that of those, only 16 had lost their appeals and were serving jail time.[154]

Toward the end of 2017 open conflict broke out between the Prosecutor's Office and NABU, the national anti-corruption bureau. NABU had remained thwarted in its efforts to bring top-level thieves and bribe-takers to justice. Since 2015 the bureau had investigated hundreds of cases, and by February 2018 a total of 116 had been forwarded to court. Forty-four of those cases had not been proceeded with, and no high-profile officials had been convicted.[155] By its very existence, however, NABU posed a threat to powerful state functionaries, and from an early stage had found itself the object of an intensive bureaucratic and legal assault widely believed to have the support of Poroshenko. In parliament, the ruling coalition drafted legislation, later abandoned under international pressure, that would have simplified the procedures for dismissing the heads of anti-corruption agencies including NABU. Agents of the SBU searched the homes of NABU employees.

In mid-November 2017 NABU struck back at Lutsenko himself, launching investigative proceedings against the General Prosecutor related to allegations of illicit personal enrichment.[156] Then at the end of the month a NABU employee was arrested by SBU agents while apparently carrying out a "sting" operation against corrupt officials of the State Migration Service. SBU personnel proceeded to search NABU's offices. NABU responded with a public statement accusing the Office of the General Prosecutor and the SBU of illegally interfering with an undercover operation, and of having disclosed to the object of the operation data obtained through an SBU wiretap.[157]

Along with NABU, independent anti-corruption activists were also coming under pressure. New legislation adopted by the parliament required anti-corruption campaigners to declare their personal assets in a manner similar to state officials. In December 2017 leaders of the Anti-Corruption Action Centre (AntAC) reported being subjected to defamation and to assault-style searches, as well as suffering harassment by the tax authorities. Campaigners against illegal drug procurement schemes run by the "pharma mafia" complained of being targeted with trumped-up prosecutions.[158]

NABU personnel and independent activists might assemble powerful cases, but their work was futile if well-heeled corruption suspects could secure a trial before a judge willing to be paid off. By 2018 the effort to reform Ukraine's judiciary was being acknowledged as having failed.[159] To deal legal blows against crooked officials, reformers now looked increasingly to the moves, under way for several years and backed by strong Western pressure, to set up a specialised High Anti-Corruption Court. As projected by the reformers, the new court was to be constructed on guidelines drawn up by the Council of Europe, and to be staffed by judges selected according to rigorous criteria. Unless these conditions were met, the IMF intimated, further loan tranches would not materialise. After lengthy stalling and over objections from Poroshenko, a bill to establish the new court went before the parliament in March 2018.

Months of committee work then saw almost 2000 amendments to the text. The bill, as it evolved, provided for a Council of International Experts to share the selection of judges with a presidential-controlled commission, and to have the right to block candidates it deemed unfit. The veto could, however, be overturned by a joint sitting of the two bodies, and fierce wrangling took place over the size of the majority required. The night before the final vote, the reformers prevailed; the foreign experts, if they voted together, would be able to block candidates. On June 7 the bill was passed, and Poroshenko took to social media to proclaim: “We clearly demonstrated the decisiveness of our actions in the fight against corruption!”[160]

Not even the most incorruptible legal institutions, however, could be guaranteed to prevail over the machinations of the “deep state”, whose key embodiment in Ukraine remained the SBU. Although the state procurement reforms were now squeezing the income that SBU agents received from scams in the area of pharmaceutical supply, officers of the security service continued to profit from a broad range of extortion and racketeering activity. In June 2018 a Transparency International posting spoke of a near-doubling since 2016 in the number of complaints brought against the SBU by entrepreneurs.[161] Investigative journalists continued to observe senior personnel of the service driving luxury cars they could not possibly have bought with their legitimate earnings.

Meanwhile, the SBU’s manipulations were taking on an increasingly political cast, aimed at intimidating reform activists and obstructing their operations. While efforts to deter the anti-corruption campaigners of AntAC continued, information technology firms viewed as sympathising with the reformist cause also suffered repeated searches, and prosecutions were launched against health care advocacy groups, supposedly for misusing foreign grants. Other moves by the SBU were clearly intended to favour political allies of Poroshenko, or to benefit the president himself as he manoeuvred against opponents in the lead-up to the 2019 elections. Media organisations critical of the administration were harassed, and the SBU initiated bans on a number of dissident websites. Associates of Mikheil Saakashvili, who after resigning as Odesa Province governor in 2016 had emerged as a troublesome critic of the president, were repeatedly targeted for searches.

Calls to reform the SBU, shutting down its “economic security” and anti-corruption departments and transferring their functions to other bodies, had begun to be heard soon after the Euromaidan, and early in 2016 an international advisory group was set up with the aim of bringing the SBU into conformity with NATO standards for such agencies. In March 2017 Poroshenko announced that the security service would be restructured.[162] But a "Concept of the SBU" document, completed in July 2017, still had not been adopted by the president ten months later. The SBU's powers had survived, potentially for years to come. So too had the provisions under which financial transactions in the defence sector were state secrets, outside the control of civilian society and even beyond scrutiny by NABU. Issuing promises, and then burying them in the processes of the state apparatus, Poroshenko had again preserved essential positions and interests of the oligarchic bourgeoisie. Ukraine's Western paymasters looked on in distaste, but there was no indication that their patronage of the country's criminalised elite was about to be revoked.

The labour movement: a tentative revival

Data from the International Labour Organisation record that in Ukraine in 2017 only two days per 1000 workers were lost due to strikes and lockouts, compared with 3.5 days in Poland, 45.2 in Spain and no fewer than 85 in Hungary.[163] Throughout that year and the next, the prevailing moods among workers were of quiescence and unassertiveness. Enforced through hostile court suits and reflecting the pressures directed against labour activists by right-wing vigilantes, this relative passivity had deeper roots in the continuing weakness of trade union organisations, together with the opportunism and lack of ideological grasp of labour leaders reluctant to end the clientelist relations that bound them to oligarchic politicians.

At the same time, rising business investment was increasing the demand for labour and strengthening workers' bargaining power, especially after the granting of visa-free entry to the EU in mid-2017 boosted the scale of emigration. The improved relationship of forces did little to prompt the country's union federations — and especially the FPU, still by far the largest — to launch struggles aimed at winning back earlier wage losses. But even in the absence of industry-wide wage campaigns, shortages of skilled labour drove employers to offer increased pay rates. Together with the state-decreed rises in the minimum wage and in the pay of teachers and health workers, this ensured that real average wages rose strongly during 2017 and 2018. In December of the latter year they reached a level 13.3% above that seen at the end of 2013.[164]

The average full-time wage in mid-2018, to be sure, was only the equivalent of about $310 per month.[165] Moreover, the increased nominal wages were not necessarily being paid on time; wage arrears continued to mount. In industrial sectors such as mining and heavy manufacturing where workers were relatively organised, and in regions where traditions of protest were unusually strong, stoppages began breaking out. A particular focus of struggle was the Kryvbas iron ore mining and steel-producing district, surrounding the city of Kryvyi Rih in Dnipropetrovsk Province. With a comparatively resolute leadership in the Independent Union of Miners of Ukraine, affiliated to the KVPU, the iron ore workers during the summer of 2017 staged coordinated strikes, winning promises of eventual wage rises of as much as 50%.[166] The ore miners were followed during October by coal miners in the Lviv and Volyn regions of western Ukraine, and in November and December, by shipyard workers in Mykolaiv.

Employers and the Hroisman government had no intention of allowing the enhanced leverage enjoyed by workers to result in a long-term strengthening of organised labour. The proposed new Labour Code, adopted by the parliament on the first reading late in 2015, was reworked subsequently and had its anti-worker provisions strengthened. A draft presented in 2017, the KVPU objected, differed greatly from the previous one, with the amendments clearly intended to leave employees worse off.[167] Restrictions on fixed-term work contracts would be looser, allowing such contracts to be imposed on new categories of employees including cultural workers and teachers; the people concerned could be kept on consecutive contracts and denied permanent jobs. The legal working day would be extended to 12 hours, compared to ten in the 2015 version of the code, and within those bounds the amount of overtime that could be demanded of workers was effectively unlimited.[168] So-called “normative acts” in the draft would allow employers to settle almost any issue of labour relations as they chose, with violation of employer-imposed regulations a disciplinary offence. A disturbing “suspension of labour relations” concept would give employers the right to pay wages in part. The limited worker protections that the revised code preserved would be backed only poorly by enforcement mechanisms, since the workplace inspectors employed by the State Labour Service were few, and lacked adequate funding.[169]

In February 2018 struggles around unpaid wages broke out again, with 7000 coal miners in Donetsk Province staging a three-day strike that won the payment of rather less than half of their entitlements. Thereafter, the centre of class struggle moved back to the Kryvbas, and to the huge ArcelorMittal Kryvyi Rih (AMKR) steel complex. In March 2018 a roof collapse killed a worker at the plant, sparking a protest rally at which workers demanded safe conditions, an average monthly wage of •1000, a halt to job cuts and outsourcing, and an end to hostile pressures against trade unions. Over several days, an appeal setting out these demands was signed by more than 12,000 plant workers.

A drawn-out “conciliation” procedure, dictated by labour legislation, was under way at AMKR when workers of the state railway firm Ukrzaliznytsia began a work-to-rules campaign from May 14 in pursuit of safe working conditions. Most of the Ukraliznytsia rolling stock, according to the rail workers’ union, had been in use since the 1960s, and 90% of it was past its planned working life. An investigation by government safety inspectors had found numerous violations, with some locomotives not having functioning brakes.[170] On May 16 workers for ArcelorMittal's internal rail system, who faced similar dangers, joined the campaign and drove trains into the repair yard, stopping the transfer of ore to the furnaces. Production of steel at the plant quickly ceased, while output of pig iron was heavily curtailed. With state help, the plant management on May 18 brought in strikebreakers, and the Ukrzaliznytsia management then sent locomotives to permit operations at the plant to resume.

In the autumn of 2018 the focus of labour action swung again to the coal industry. On October 19 thirty-three miners in the Lysychansk district of Luhansk Province began an underground sit-in and hunger strike, demanding wages that some had not received since June. The action continued for 32 days, as the Independent Union of Miners organised solidarity demonstrations in other coal-mining centres. Lysychansk mineworkers who had not stayed below travelled to Kyiv, setting up protest camps and rallying outside the parliament building. Then in December close to 100 workers at the state-owned Lisova mine in Lviv Province staged an underground strike after having received none of their wages since a half-payment for October. As related by KVPU chief Mihailo Volynets, the miners blocked management access to the mine, refusing to let administration personnel go below.[171]

Outside these few areas of industry, the general record of labour action throughout 2018 remained sparse. A limited exception was a protest march through the Kyiv city centre on October 17, the International Day for the Eradication of Poverty. Reported as involving almost 20,000 trade unionists, the action was organised by the FPU; the "official" unions, despite their wariness of defending workers in shop-floor battles, were prepared on occasion to mobilise their members around general slogans. In this case the FPU called on the government to ensure timely wage payments, to promote the development of national industry, to halt rises in utility and transport charges, and to respect trade union rights.[172]

Labour actions of this kind could impress on all concerned the huge social and potentially, political weight of the working class. But the protests risked being absorbed into the background noise of day-to-day popular experience unless backed by a type of left and labour practice that in Ukraine was being glimpsed only fleetingly. The need was for a brand of trade unionism, democratic and rooted in shop-floor concerns, that took up the dissatisfactions of workers in direct fashion. In large workplaces with particular traditions of struggle, practices of this kind might appear spontaneously in the heat of disputes, but fostering and developing such a mode of organising was alien to the FPU, and only relatively less so to the rival KVPU. Meanwhile, self-acting, grass-roots unionism needed to be backed by political organising and agitation that refused co-option by employers and their parties, maintaining an independent struggle for workers' rights regardless of the cost to profits.

Building left and labour bodies with these characteristics has posed a huge challenge even in countries where the material and political resources available to workers are much greater than in Ukraine. But for activists of the Ukrainian left, the political setting in the country nevertheless held one promising feature: a broad constituency for far-reaching if ill-defined change. Various surveys in the course of 2018 showed between two-thirds and four-fifths of respondents considering that the country was "moving in the wrong direction".[173] A poll in May by the SOCIS organisation found that when respondents were asked to define which ideological current they felt closest to, 52% of those who expressed a preference opted for the left or centre-left. Nationalist and "national-democratic" currents together had the support of 27%, and liberal tendencies, just 8%.[174] Equally obvious was that Ukrainians felt almost no allegiance to the politicians they currently had. In January 2019, some three months before the next presidential elections, an IRI survey showed the incumbent Poroshenko with the support of only 11% of electors. Of other declared or likely candidates for the presidency, only a handful reached double figures; the most popular, gas industry oligarch and former prime minister Yuliia Tymoshenko, could look forward to the votes of just 16%.[175]

Such surveys underline the fact that as organisations with a broad pool of potential supporters, Ukraine's left and centre-left groups had proven strikingly unsuccessful since the Euromaidan. By 2018 the surviving left parties were moribund, lacking electoral representation and with tiny, ageing memberships. During that summer the Communist Party suffered a further blow when its website was shut down by the authorities "due to the demonstration of communist symbols". The offence, it appeared, lay in the posting of a photo of Soviet-era Ukrainian Communist leader Volodymyr Shcherbytskyi.[176]

The explanations usually given for the failure of Ukraine's left currents — lack of access to a media industry monopolised by the oligarchs, and especially in the case of far left and professedly communist groups, the effects of state repression and neo-fascist terror — do not absolve them completely. Also responsible, in almost all cases, were the ambivalent loyalties of party leaders pursuing business funding, as well as gross political confusion that reflected liberal influences on one hand and on the other, still-toxic survivals of Soviet political practice. Party leaders had sought to insert their groups into one or another niche of the capitalist political process — as local proponents of Western-style social democracy, or as a "left" face of pan-Slavic nationalism — rather than applying themselves to the consistent, independent defence of working-class interests. The result was a widespread retreat by workers into cynical attitudes toward the political process as a whole, and dismissal of its possibilities. To the extent that working people in Ukraine still participated in elections, their votes were mainly taken over by populist currents.[177]

Capital's shock troops: the ultra-right

Enjoying extraordinary privileges in a largely impoverished society, Ukraine's capitalist elite could not stake its survival completely on its control over the formal mechanisms of state power. The organised left was small and weak, but sterner forces than the police and regular army were needed to keep the plutocrats secure. If the country's rich at the beginning of 2014 had any illusions on this score, these were surely dispelled soon after when conscript troops in the Donbas turned their armoured vehicles and retreated from barricades defended by pensioners and laid-off miners, and when police in the region abandoned their strongholds, full of weapons and ammunition, to rebel civilians.

For reasons such as these, Ukrainian capitalism even before the Euromaidan had begun to foster a well-organised and belligerent nationalist ultra-right. After playing a key role in the "Revolution of Dignity", the unofficial militias then provided backbone to the dispirited armed forces in combating the Donbas insurgents. In their home cities, the ultra-rightists singled out elements in the population they identified as "non-Ukrainian", harassing and beating government opponents and smashing up attempts at dissident organising.

The trade unions, suffering at least incidentally from ultra-right violence, were reluctant to take stances that might offer a pretext for further attacks. Meanwhile, the avowedly anti-capitalist left was forced into clandestinity or exile, and public activity by feminists, environmentalists and human rights campaigners, as well as by ethnic and sexual minorities, had to be sharply curtailed. While occasionally deploring the violence, governments took no effective steps to end it; members of ultra-right groups who committed even flagrant assaults were rarely prosecuted. With wide areas of repression effectively privatised to the ultra-right, the capitalist elite in post-Euromaidan Ukraine was able to promote itself as among the few ruling groups in the former Soviet Union to show a regard for democratic process and civil liberties — at the same time as its most consistent opponents lived in fear. In a country where the record of capitalism was abysmal, protest against the system as such was kept subdued, and public discourse was thrust substantially to the right.[178]

Paradoxically, the Ukrainian ultra-right despite its political impacts has never possessed a genuinely large core of popular support. As noted earlier, Svoboda as the strongest ultra-right grouping channelled anti-Yanukovych sentiment in the 2012 parliamentary elections, scoring 10.5% of the national vote. But in October 2014 this protest factor was absent, and Svoboda, falling beneath the 5% cut for party-list representation, lost most of its deputies. The political bloc between liberals and ultra-rightists that had helped the Euromaidan to prevail then disintegrated, with the three Svoboda members who held posts in Yatseniuk's government resigning the following month.

Yatseniuk, however, remained dependent on the ultra-right minority, without whose militants he could not prosecute the Donbas war and thus maintain credibility among his conservative-nationalist allies. The advances the government had achieved in the conflict by mid-2014 owed much to the action of oligarchs who poured money into raising and equipping volunteer battalions, to which the far right provided eager recruits. By the end of 2014 the ultra-right militias were in theory being integrated into the Interior Ministry forces, but in practice they retained broad autonomy within the formal command structure. This applied particularly to the Azov Battalion, described by one source as "effectively an autonomous special operations detachment."[179]

The relationship between the authorities and the organised ultra-right was not without strains. In August 2015 far-right demonstrators tried to invade the parliament building in Kyiv; the assault sparked a mêlée during which a reported four people, including several Interior Ministry personnel, were killed.[180] In January 2017, as related earlier, nationalist militias blocked coal shipments coming from rebel-held territory. In endorsing the blockade, the Hroisman government acknowledged implicitly that it was not prepared to risk open conflict with the significant number of ultra-rightists in state organs such as the security and law enforcement agencies. But the militias' actions dealt serious damage to the economy, and the response from the population was unsympathetic. Backing for the ultra-right, as measured by opinion polling, continued to slide. In the Rada elections of 2019, the 4.71% of votes gained by Svoboda in 2014 was to fall to 2.15%.[181]

The ultra-right, however, did not rely for its influence on its general level of public support. The movement's power stemmed from its discipline and ability to mobilise its support base; from its possession of substantial armed forces in the shape of its militias; and also from the backing it received in state institutions and the corporate world. As the fighting in the Donbas declined and militia members returned to civilian life, many of them found that the personal ties they had forged during their service were the most meaningful elements in otherwise impoverished, alienated lives. In cities throughout most of Ukraine, the battalions acquired a broad penumbra of politico-military organisations. The potential impact on society of these forces was demonstrated in October 2017, when an estimated 20,000 ultra-rightists marched through Kyiv to celebrate the 75th anniversary of the founding of nationalist leader Stepan Bandera's Ukrainian Insurgent Army.[182]

The war also multiplied the existing contacts between far-right political activists and Interior Ministry personnel. After serving at the front, militia veterans often sought careers in the National Police, and especially in the case of former commanders, their ascent through the police ranks tended to be swift. Expediting this process were long-established ties between far-right activists and a number of key government officials, including Interior Minister Arsen Avakov. From his days as Governor of Kharkiv Province, Avakov retained close relationships with prominent members of the "Patriot of Ukraine" group, which along with Kharkiv football "ultras" furnished the Azov Battalion with many of its initial cadres. Founded in 2006 by Andrii Biletskyi, Patriot of Ukraine was described by human rights activists as espousing "xenophobic and neo-Nazi ideas", and as engaging in "violent attacks against migrants, foreign students in Kharkiv and those opposing its views."[183] In 2014 Biletskyi became the Azov Battalion's first commander, and in August that year he was appointed by Avakov to the rank of police lieutenant-colonel.[184] Another long-time Avakov crony was Patriot of Ukraine activist Vadym Troian, who became the Azov Battalion's deputy commander, and who was later named by Avakov to head the Kyiv Regional Police Force. In 2016, as noted earlier, Troian was appointed first to the post of acting head of the National Police, and then to that of Deputy Interior Minister.

Among the combat veterans, it was former members of the Azov Battalion who prospered most egregiously within the state apparatus. The Azov veterans also spawned a series of would-be popular organisations with an ethnocentric, white-supremacist cast. Most notable was the National Militia, described by journalist Oleksii Kuzmenko as "Azov's aggressively expanding street branch" and as "a vigilante street movement".[185] In January 2018 some 600 young members and supporters of the National Militia gathered in Kyiv to swear an "oath of loyalty to Ukrainians", before staging a torchlit procession.[186]

Through the National Militia and similar formations, the foot-soldiers of the ultra-right came to take on the role of highly politicised auxiliary police. Early in 2018 the National Militia, taking advantage of a law on "citizen participation in the protection of public order", was organising groups of fatigue-clad young people in Kyiv and other cities to "patrol the streets and counter drug and alcohol dens."[187] Another ultra-right organisation, the obscurely-named C14, signed an agreement with a Kyiv city district to have a "municipal guard" perform patrols. By mid-2018 three such militia-run patrol forces were reported as operating in Kyiv, and at least 21 elsewhere.[188] The civilian patrollers were legally permitted to carry out a range of minor law enforcement functions, but only when accompanied by police; this latter condition, however, was clearly interpreted very loosely. The patrollers were also banned by legislation from carrying firearms or weapons such as knives, but the National Militia website and Facebook page featured images of weapons training.[189] A video prepared by the closely-associated National Corps political party declared in an accompanying text: “There are many of us. We are not afraid to use Force to establish Ukrainian Order on the streets!”[190]

As revealed increasingly during 2018, the “Ukrainian order” favoured by the ultra-right militias included assaults on anti-fascist, environmental, feminist and LGBTI protest actions. On March 8 that year, International Women’s Day events were violently attacked in cities across Ukraine. A Freedom House report stated that law enforcement agencies typically failed to stop the attacks, where they had not banned the protests in advance on the grounds that the safety of participants could not be guaranteed.[191] Following the March 8 assaults Amnesty International, whose own activists were among those targeted by the neo-fascists, issued a statement that warned: “Ukraine is sinking into a chaos of uncontrolled violence posed by radical groups and their total impunity. Practically no-one in the country can feel safe under these conditions.”[192] In June 2018 Amnesty was among four human rights organisations that wrote to the Interior Minister and General Prosecutor condemning the failure of the authorities to respond to most incidents, and speaking of “an atmosphere of near total impunity that cannot but embolden these groups to commit more attacks.”[193]

Perhaps the most sinister element in the violence unleashed by the ultra-right was its pogroms against Ukraine’s Roma (Gypsy) minority. Between April and June 2018 at least five organised attacks were mounted on Roma encampments near Kyiv and in western Ukraine. In the first of the attacks, in the Lysa Hora nature reserve near Kyiv on April 21, members of C14 filmed themselves as they drove 15 families from makeshift dwellings. A video was posted later showing “whole families with small children fleeing in terror, chased by masked men who hurled stones and sprayed them with gas canisters, before setting their tents ablaze.”[194] Near the town of Rudne in Lviv Province on May 10, the European Roma Rights Centre reported,

> …a 30-strong gang of masked men descended upon Roma shacks at 2am … dragged people out of their beds, beat them and set their homes alight, destroying all their belongings and forcing them to flee. Police and ambulance responders were on the scene, but no arrests were made.[195]

On June 7, 2018 the National Militia in Kyiv posted an explicit threat on Facebook, then six hours later attacked a Roma camp in the city’s Holosiivskyi Park. Men dressed in T-shirts with the militia's insignia chased out residents and smashed their huts, with the attack recorded and placed on the organisation's Facebook page.[196] The deadliest assault was staged on a camp in a forest near Lviv on June 23. A Roma man died of stab wounds, and four other people who were hospitalised included a woman and a ten-year-old boy. On this occasion police were forced to act, making eight arrests.

Through attacking dissidents and the marginalised — and showing that the state authorities had little will to prevent or investigate the violence — the Ukrainian ultra-right cast a pall of intimidation over civil society. In more oblique fashion, the influence of the ultra-nationalists also posed an obstacle to the reformers' dream of dismantling the characteristic structures of oligarchic capitalism. Quasi-military discipline and an abundance of weapons meant that groups such as the National Militia were superbly equipped for racketeering. Even before the Euromaidan the Patriot of Ukraine organisation, operating in Kharkiv under the patronage of then-governor Avakov, had gained a reputation for seizing businesses on behalf of oligarchic interests.[197] In later times, paramilitary groups were to play a notable role in commercial conflicts surrounding construction projects in Kyiv and other cities. In 2018, as the emboldened ultra-nationalists moved their activity increasingly onto the streets, the touting for racketeering business grew more brazen. The C14 group took to Facebook to offer its services to potential "donors", stating: "Which of your enemies would you like to make life difficult for? We'll try to do that." Accompanying the message were the organisation's bank account details.[198]

In the market for street toughs, the Kyiv-based political scientist Viacheslav Likhachev pointed out in May 2018, the ultra-nationalists held important competitive advantages: unlike regular thugs, they could "mobilize additional support with the help of radical propaganda and lend an ideological purpose to an exclusively commercial dispute".[199] They were thus well placed to supplant old-style criminal groups in the role — essential to large-scale business in the conditions of Ukraine, and with a long history — of private enforcers. As early as 2016, a Carnegie Endowment report spoke of paramilitary organisations becoming integral parts of Ukrainian financial-political groups.[200] Early in 2019 the historian of Ukraine Tarik Cyril Amar told an interviewer: "We know that the far right is partly linked to Ihor Kolomoisky, [and] to Renat Akhmetov. Dmytro Firtash, probably, is also involved."[201]

The traditional fusion of oligarchic capital with organised crime was beginning to be replaced by a new mix: of oligarchic capital with the neo-fascist right. This in turn suggested an enhanced ability of the oligarchic groups to resist unwanted reforms. Meanwhile, and as Likhachev noted, the paramilitaries' easy access to weapons "changed and increased the nature and extent of illegal business seizures and other violent actions in Ukraine's general economic and political struggle."[202] Far from evolving toward "modern" and "civilised" forms, it follows, Ukrainian capitalism in these respects was seeing some of its most retrograde features reinforced.■

Far-right Azov Battalion parades in Kiev.

VI. Conclusion: Toward Renewed Crisis

During the first quarter of 2019 signs were accumulating in the world economy that another global recession was not far off. World manufacturing output was shrinking, as was global trade, and business activity indicators in the US were in decline.[1] On the US bond market an "inverted yield curve" had appeared, and economic commentators, citing historical parallels, were interpreting it as a harbinger of a coming slump.[2] In a number of top economies, corporate profit rates were falling, and growth forecasts were being lowered.[3]

Most vulnerable to an international downturn were a number of "emerging economies" that combined heavy debt loads with dependence on exporting a narrow range of mostly raw and semi-processed commodities. Any sag in world demand for these goods would reduce the export earnings of the countries concerned, at the same time as bleak global economic prospects increased the caution of lenders and raised the cost of borrowing in foreign currencies. Along with Argentina, Turkey and South Africa, Ukraine was now being listed as "near the top of the pile for a debt crisis".[4]

Paradoxically, these warnings were being uttered at a time when Ukraine had just registered one of its strongest quarters of economic recovery since the first years of the decade. Year-on-year growth for the last three months of 2018 had reached 3.5%.[5] But the encouraging overall result had rested on a record grain harvest permitted by unusually good weather, as well as reflecting higher consumption backed by wage rises and by increased remittances from citizens working abroad. None of these factors would necessarily apply in years to come.

More crucially, Ukrainian industrial production by the end of March 2019 was technically in recession, having declined for two consecutive quarters, and compared to the same period of 2018 was down by 0.9%.[6] Debt payments agreed in earlier years were also falling due. Of the state revenues anticipated in the 2019 budget, more than 40% would need to be spent on servicing past loans.[7] There would be little government money available to plug shortfalls in the pension funding system, or to continue lifting state employees out of poverty. Outlays to prevent the further decay of broad areas of state-owned infrastructure would be scant.

If well-informed Ukrainians in the spring of 2019 felt a sense of foreboding at these prospects, they at least had available to them the diversions of the electoral process. The two rounds of voting in the presidential elections were to take place on March 31 and April 21. Among more than 40 candidates on the ballot, the leading contenders included Poroshenko and former prime minister Yuliia Tymoshenko. Favoured by a large margin in polls of voter intentions, however, was Volodymyr Zelenskyi, an actor-entrepreneur who had never held public office, but who had won national fame playing a fictional president of Ukraine in a television comedy series.

In the campaigning, Poroshenko sought to retain the presidency by waging an aggressive nationalist campaign around the slogan "Army, Language, Faith", and by styling Russian President Putin as his main opponent. Tymoshenko, while outstripping all other candidates in her spending, inveighed against what she identified as Ukraine's "oligarch clan model of governance", and promised to halve the price to households of gas and other utilities.[8] Zelenskyi, by contrast, staged a highly unconventional run for office in which he gave almost no interviews; instead, he toured the country with comedy troupes, and recorded satirical skits that were immediately posted on social media. Presenting himself as an honest *naïf* angered by the state of the country's governance, he railed against oligarchy and corruption, but otherwise kept his plans mostly enigmatic. "'No promises, no disappointment' is one of the few memorable things he's said," a BBC report noted.[9]

The leading place held by an "anti-politician" in the race for Ukraine's highest political post spoke volumes about the alienation of citizens from the country's political process, and of their contempt for most of those who held office or aspired to it. Millions of people had clearly concluded that a media personality known for ridiculing the powerful could not be worse than the politicians they had. Many citizens seem also to have surmised that Zelenskyi, with his lack of political experience, might be free of the entanglements of corruption and favouritism in which other candidates were known or assumed to be caught up.

A further Zelenskyi trait that numerous voters clearly found attractive was his lack of interest in matching the strident anti-Russian nationalism of Poroshenko. In his public appearances Zelenskyi spoke Russian freely along with Ukrainian. While his few stated positions included favouring membership for Ukraine in NATO and the EU, he also indicated a readiness to negotiate with Russia on a settlement to the conflict in the Donbas. By this time, Zelenskyi evidently realised, public patriotism held little sway with voters when matched against their anger at the everyday trials being inflicted on them. In a February 2019 survey, the Kyiv International Institute of Sociology found that 77% of respondents expressed a positive attitude toward Russians, and 57% toward Russia as a whole, despite a large majority remaining hostile to the Putin administration.[10] Above all, Ukrainians were sick of the war. Late in 2018 a Razumkov Centre poll had recorded backing for "war until victory" at no more than 17%,[11] and in January 2019, a Rating Group survey found support for a diplomatic resolution of the conflict at close to 60%.[12]

Zelenskyi, meanwhile, was by no means the guileless figure he portrayed in his comedy program. His business assets, consisting principally of his successful television production company, were estimated to be worth tens of millions of dollars.[13] Despite his anti-oligarchic rhetoric, he was known by the well-informed to have long-standing ties to Ihor Kolomoiskyi, whose television company 1+1 had run many of his shows. "There's no doubt that 1+1 has given its full backing to the comedian," the BBC observed.[14]

Like the three leading presidential contenders, none of the dozens of other candidates who littered the first-round ballot paper in March 2019 offered the developed political program, together with a substantial, organised popular base, that might have suggested a serious alternative to oligarchic rule. Several candidates aligned with the Rada opposition raised important issues — reindustrialisation, and a peace settlement in the Donbas — that Poroshenko and Tymoshenko had left alone. But with negligible "grass-roots" followings, and speaking for discredited provincial business factions, these candidates were to perform poorly.

Significantly, consistent proponents of Western-style liberal democracy were impossible to identify among the presidential hopefuls. Political currents of this type existed in Ukraine, but as the small size of the reformist caucus in the parliament indicated, no crucial degree of elite financial support had ever come their way, and they had made little impact. The professional strata, business managers and minor entrepreneurs who yearned for Western-style living standards often depended directly on oligarchic clients, employers or patrons, and were much less wedded to liberal concepts than Western commentators mostly assumed. For these middle layers of Ukrainian society, challenging the oligarchic system made little sense; it promised much greater risks, and lesser potential gains, than the accustomed pursuit of advancement while employing the system's methods and living by its premises. Meanwhile, Western-style liberal concepts had never resonated with the experience of the broad Ukrainian masses to the point that might have turned liberalism into an independent political force, seeking reform in defiance of oligarchic pressures and blandishments. If the bulk of the population were aware of Western socio-political models at all, they were likely to associate these forms with the ravages of neoliberal austerity.

Also absent from the ballot paper in March 2019 were candidates of the left. Perennial Communist candidate Petro Symonenko had been endorsed by a congress of his party in December 2018, but his registration as a candidate had been refused on the grounds that the party's "statute, name and symbolism" were in breach of the 2015 decommunisation laws.[15] Of other small formations identified in some way with the left tradition, none could contemplate paying the deposit — equivalent to some $90,000, and non-refundable in the case of candidates who failed to proceed to the second round of voting — that was required by electoral legislation.

As the first-round election tallies were reported, it became evident that voters had not been much impressed by any of the candidates on offer. Among the modest 62.8% of potential electors who took part, Zelenskyi was the choice of 30.2%, Poroshenko of 16.0%, and Tymoshenko of 13.4%.[16] In making his way to the run-off vote, Zelenskyi had demonstrated the support of only about 19% of the eligible electorate.

The first-round results also confirmed the small popular appeal of the nationalist ultra-right — at least insofar as that current could now be distinguished from Poroshenko and his administration. The Svoboda candidate Ruslan Koshulynskyi, though supported by various smaller ultra-nationalist formations, polled in ninth place with only 1.62% of votes.[17] Despite the expanding street presence of the far right, Svoboda had been able to persuade barely 1% of the electorate to turn out and cast a vote in its favour.

As the second round of voting drew closer, the mask behind which Zelenskyi had concealed his political positions began to slip. Fitting together the candidate's known circumstances, his personal associations and the gist of his public statements, observers began to construct a picture that belied his image as an unpractised innocent who might, through his lack of involvement in existing power structures, find novel answers to Ukraine's problems. Zelenskyi's hints at his future program emphasised transparency and accountability, to be pursued through measures such as stripping legislators of their immunity from prosecution and making it easier to impeach a president. But details were progressively being unearthed of his ties to Kolomoiskyi; the actor, it emerged, had built his wealth through a close association with the most notorious oligarch of all. Zelenskyi had not merely sold the broadcast rights to his satire of the Ukrainian presidency to Kolomoiskyi's television empire; he and Kolomoiskyi had been business partners in a series of entertainment initiatives. Investigative journalists established that during 2017 and 2018 Zelenskyi had made 13 trips to Israel and Switzerland, where the now self-exiled oligarch had his main bases.[18] Andrii Bohdan, a lawyer for Kolomoiskyi, was serving as an influential advisor to Zelenskyi's election campaign team. It seemed implausible that in a political and business culture where personal connections were a prized asset, Zelenskyi as president would, or could, proceed to sever these ties.

Clues also began emerging to the specific economic policies that would be favoured by a Zelenskyi administration. In impromptu statements, the candidate hinted at support for a relaxation of business regulation, an amnesty for delinquent taxpayers, and an end to the moratorium on the sale of farmland.[19] As key advisors, journalists noted, Zelenskyi had engaged two prominent reformers, erstwhile economy minister Aivaras Abromavièius and former finance minister Oleksandr Danyliuk, both of whom had served under Poroshenko and had been forced from office after objecting to corruption. Abromavièius was recorded as favouring "tight financial policy under IMF guidelines." Danyliuk, who in his former post had overseen the cleansing of the value-added tax system, was described in the press as hoping that Zelenskyi would push a "radical agenda" of reform in areas including the judiciary and the intelligence service.[20]

On April 18, three days before the second-round voting, Zelenskyi was defeated by journalists in a table tennis tournament, and rewarded them with an extensive interview. No longer the blank sheet onto which voters were invited to project their hopes, the candidate revealed himself as a conventional Westernising liberal who despite distancing himself from the more intolerant positions of Ukrainian nationalism, deferred to its key shibboleths. Endorsing euro-integration and membership in NATO, he categorised Russian President Putin as an "enemy". Second World War nationalist fighter and Nazi collaborator Stepan Bandera was described as "a hero for a certain percentage of Ukrainians," a perception Zelenskyi accepted as "normal and good." While favouring talks with Russia on ending the Donbas conflict, Zelenskyi ruled out any special status for the Donbas, also rejecting the call for an amnesty for rebel combatants.[21] Together with his earlier suggestion that the US and Britain be invited to participate in the negotiations — something Moscow would certainly oppose — Zelenskyi's refusal of these concessions seemed intended to make sure that the talks would go nowhere, if they occurred at all.

For those paying adequate attention, the "mystery candidate" Zelenskyi was no mystery at all; his policy approaches had been tried before, by much more tested operators, in the years since the Euromaidan. During that time, the essence of the oligarchic system had not yielded to individuals as experienced, abrasive, and equipped with Western backing as Arsenyi Yatseniuk. The national economy had, indeed, been reoriented toward the West, but the results had been mediocre where they were not positively destructive. Numerous attempts at reform had been sabotaged where they infringed on important oligarchic interests. Meanwhile, Zelenskyi if he became president seemed destined before long to face a world economic setting much more bleak than the slow international growth and weak commodity prices that had bedevilled Ukraine in 2015 and 2016.

In the run-off polling on April 21, 2019 Zelenskyi won an overwhelming victory, scoring no fewer than 73.2% of the votes. In 23 of 24 provinces he gained solid, often crushing majorities; only Lviv Province, the heartland of the country's west, voted for Poroshenko. Support for Zelenskyi — or perhaps more accurately, rejection of the incumbent president — was especially high throughout the Russian-speaking south and east. In Odesa Province Zelenskyi won a remarkable 87.2% of the vote, and in Kharkiv 86.9%.[22] Almost as telling was the vote against Poroshenko in the heavily working-class centre-east provinces of Zaporizhia and Dnipropetrovsk.

If Zelenskyi's hatred of oligarchism and zeal for corruption-busting were genuine, he was now armed with a formidable mandate for change. Nevertheless, his powers as president, under a constitution that placed extensive authority with parliament, were inadequate in themselves to recast government policy and practice. Within the parliament, his notional following was limited to the perennially small caucus of reformist deputies, at least until the Rada elections set for October 2019. Early parliamentary elections might be called, but Zelenskyi would have to reckon with the fact that his Servant of the People party, being organised for him by Kolomoiskyi lawyer Andrii Bohdan among others, was at an early stage of formation. If, on the other hand, the existing parliament were to see out its term, the months until October would be a period of near-paralysis, with Poroshenko ally Volodymyr Hroisman still in the prime ministership and meaningful reformist initiatives almost impossible to contrive. By the time of the elections, Zelenskyi would have been in office for some five months — ample time for disillusionment with the inexperienced president to become widespread. Swift, bold moves were thus indispensable.

At his inauguration on May 20 Zelenskyi announced that the Rada would be dissolved forthwith, and early elections held. In the voting on July 21 the Servant of the People party, despite its unpreparedness and rudimentary platform, gained an absolute majority with 254 of the 424 positions contested. The president's party had won an unprecedented 43.16% of the vote.[23] Participation, however, was only 49.84% of eligible voters, continuing a long decline.[24]

Whether the new Rada would represent a real break from the venal institution of past years remained unclear. Zelenskyi had insisted that Servant of the People should not endorse candidates who had previously served in the parliament, and his half-formed party went to the polls with an array of candidates united by little except contacts with the Zelenskyi machine and a desire to embark on political careers. "The president's party," a Chatham House commentary noted in August 2019, "is an eclectic group that includes among others a wedding photographer, an owner of a pizza restaurant and many MPs that are registered as unemployed."[25] According to the liberal Euronews site, a sizeable category among the Servant of the People candidates consisted of people who had worked in the past as assistants to Rada members[26] — suggesting that once elected, they would not diverge far from the practices, or patronage networks, in which they had participated earlier. More disturbing was the number of candidates with known links to Kolomoiskyi. "There are Kolomoisky operatives littering the Servant of the People's party list," an Atlantic Council report stated, going on to note that more than 20 such people had also been identified among the party's candidates for single-member constituencies.[27] Kolomoiskyi himself had returned from his self-imposed exile in May 2019.

By the end of August the key appointments had been made to the new presidential administration. Andrii Bohdan filled a crucial post, becoming chief of staff. In this position, an Atlantic Council article noted, the former Kolomoiskyi attorney would become "the second most important decisionmaker"[28] in Zelenskyi's executive team. The new Prime Minister was Oleksii Honcharuk, a 35-year-old lawyer with a background in property development and regulatory reform. As head in the preceding months of Zelenskyi's economic team, he had urged agricultural land sales and greater access for foreign investors to extractive industries.[29] Reportedly a close Bohdan associate, Honcharuk was described by an analyst from the Razumkov Centre research institute as "a technical figure, who will convey the interests of the group of people linked to Kolomoiskyi and Bohdan."[30] Other cabinet members were summed up by the RFE/RL news organisation as "the president's friends, former business partners or associates — technocrats, civil society activists, and two holdovers from the previous system."[31]

To the consternation of reformers, one of the holdovers was Arsen Avakov, who kept his post as interior minister. The reappointment was made despite 24 Ukrainian non-government organisations urging publicly against it. Their joint statement maintained:

> Avakov is responsible for failing to reform the police, sabotaging the vetting of police officers, keeping tainted police officials … in key jobs, failing to investigate attacks on civic activists, and numerous corruption scandals linked to him and his inner circle.[32]

The pressures applied to Zelenskyi by oligarchs and others to retain Avakov had clearly been formidable. Real power within society, it was evident, had barely shifted.

Zelenskyi's hand would have been incomparably stronger had he possessed a committed, ideologically formed mass political base, its unity rooted in shared material interests. His following, however, rested mostly on unfocused resentment at the general injustice of society, merged with hopes in a familiar, if fictional, television persona. Meanwhile, there was no sign, especially in the case of the Rada elections, that the social make-up of the people who turned out to choose the new president and parliament had changed much from the traditional voter cohorts: pensioners, state employees, professionals and related categories within the big-city middle strata, and various members of the intelligentsia.[33] It was fantastical to expect that from these disparate elements, a force would cohere that could meaningfully challenge the power of big money directed into suborning the state apparatus.

Especially in the Rada elections, the majority of working people had remained on the sidelines of the political process, sullen and disdainful. Unless this force moved into resolute political action, the newly elected politicians could present no important danger to the rule of the oligarchs — even supposing the politicians had such a thing in mind. Against what must be interpreted as the wishes of the great majority of Ukrainians, control over the economy and key elements of political decision-making would therefore remain with the primitive, violent elite of which Yanukovych had been an earlier exemplar.

The democratic hopes that had been placed in the Euromaidan by significant numbers of its participants thus remained thwarted. Claims that the brash campaigning of electoral rivals in Ukraine meant that the country's political process was in some fundamental way superior to its Russian or Belarusian counterparts missed the point. In the latter countries a single oligarchic-bureaucratic group had managed to consolidate its power to the degree where challenging it became unprofitable and dangerous. Ukraine's polity was more fractured, making for newsworthy electoral clashes and meaning that fraud and demagogy were more likely to be exposed and condemned. But in this simulacrum of democracy, only the occasional player was other than a shark or trickster.

Behind the impossibility for most Ukrainians of winning representation of their interests through the electoral process lay the weakness and confusion of the labour movement. Neither of the country's two main union federations had ever sought to construct a party that campaigned for the characteristic interests of workers and peasants, while rejecting a reliance on capitalist support. Only in part was this due to the small resources of the federations, and to their tenuous position amid a dominant political discourse that viewed them, at best, as Soviet holdovers. In the history of the global left, independent, combative labour movements, with associated political organisations, had been built in more adverse settings. The absence of a worker and peasant pole in Ukraine's politics stemmed crucially from the lack of strategic political grasp of the labour leadership, more ready to foster hopes of successful deals with oligarchs and populists than to build traditions of independent struggle.

How was an adequate labour leadership to be constructed, and to carry forward the task of cohering working-class grievances into militant proletarian consciousness through a combination of active struggle and political education, so that the sordid charades of Ukrainian politics might be transcended?

The classical answer foresees advanced political consciousness as being implanted in workers by radical intellectuals of middle-class origin. But in Ukraine, as the experience of 2014 had shown, the narrow middle strata were in times of crisis far more likely to break in the direction of Svoboda than in that of the radical left. In 2019, the signs pointed to the construction of an adequate working-class leadership being the work of many years, pursued at least initially by a tiny cadre of people prepared to operate in conditions of great difficulty and real personal danger.

Nonetheless, the entry of the organised working class into Ukraine's political process corresponded in obvious ways to historical necessity. Nearly three decades into its existence, Ukrainian capitalism was failing even to keep the population from being rapidly depleted. Further, the country's rulers were failing the challenge, placed by history before any bourgeois class, of establishing and defending national self-determination. The state administration, answering to the dictates of international financiers, had lost any meaningful control over economic policy. True, Ukraine had not sunk into outright semi-colonial subjection, but this was for the perverse reason that the oligarchs, by keeping the business environment primitive and dangerous, had deterred all but minor amounts of foreign investment. Meanwhile the realisation of a distinct, self-respecting national identity and culture was being thwarted as the country, now the poorest in Europe, lost many of its most gifted and energetic young people to emigration, and as the place of the cultural memes they might have created was taken, all too often, by the low-grade detritus pushed by Western marketers. Any revival of Ukrainian national dignity, like that of the economy, was unimaginable without the bursting onto the political scene of a social force that had decisive weight and that unlike the country's "middle layers", had no reason to want the rule of oligarchic capital — or of capital in any of its varieties — to be preserved.

An irruption of labour into Ukrainian political life was most unlikely to occur in isolation, on the basis of the country's own impoverished left traditions. A strong international impulse would almost certainly be required, with workers learning from political ferment in countries of the immediate region and beyond. Paradoxically, Ukraine's national catastrophe promised to help fill this ideological and experiential gap; it was scattering millions of young workers through diverse countries where the conservative distractions of Ukrainian nationalism had no hold on them. In at least some of these countries, the labour movement was a developed and assertive force, whose most advanced elements were putting forward arguments more apposite and compelling than any that the young migrants had previously encountered.

The in-situ Europeanisation of these migrant workers would not drive them to the political right — their status as an insecure, highly exploited layer of the European proletariat, subject to the menaces of local chauvinists, would make certain of that. And sooner or later, a serious crisis of the European economy would see their labour power redundant, and the workers themselves, either from compulsion or for want of alternatives, heading homeward in large numbers.

On the trains and airliners from the West, they would bring with them insights into advanced capitalism and the class struggle. The longed-for process of Ukraine "joining Europe" would then proceed on a much more fundamental basis, impelled not by the yearnings of naïve intellectuals, but by the common-cause instincts of the country's worker majority.■

Huge Odesa Portside Plant chemical works, a key target for privatisation.

Notes

Preface

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Introduction

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I. Building the Oligarchic Order

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Fluent in Russian, he worked as *Green Left* correspondent in Moscow from 1990 to 1999. He has translated numerous works by left-wing Russian writers including Nikolay Bukharin, Boris Kagarlitsky and Aleksandr Buzgalin.■