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TRANSFORMATION OF THE UKRAINIAN ECONOMY – TOWARDS EU INTEGRATION

Poland's unprecedented experience of economic transformation in the 1990s makes it possible – despite obvious differences from Ukraine – to identify some analogies and guidelines. The transformation of the political system in Poland consisted of revolutionary changes in the functioning of the state. They consisted in the implementation of three fundamental points:

- 1) macroeconomic stabilisation,
- 2) microeconomic liberalisation and
- 3) fundamental institutional reconstruction combined with privatisation [1, p. 179].

Macroeconomic stabilisation is the process of rebalancing a country's economy after a period of change and uncertainty. It involves reducing inflation, the budget deficit, maintaining a stable exchange rate and rebuilding investor confidence in the country's economy. To do this, monetary and fiscal policy methods are usually used, such as changing interest rates, controlling the money supply, changing taxes and government spending.

Microeconomic reorientation consists of transforming microeconomic economic institutions, such as enterprises, trade unions and market institutions, into more efficient and competitive entities capable of fighting effectively in the market. To this end, methods of enterprise restructuring, deregulation and privatisation are usually applied.

Institutional reconstruction refers to changes in state, legal and social institutions to establish a more democratic and more effective system. It also

refers to changes in the law and order system to introduce more transparent and efficient procedures, reduce corruption and ensure the protection of individual rights. Institutional reconstruction aims to establish a sustainable and balanced basis for a new political and economic system.

All three processes are key to successful systemic transformation. Microeconomic reorientation helps transform the country's economy into a more competitive and efficient one, which is crucial for the country's success in global competition. Macroeconomic stabilisation is essential to restore stability in the country and restore investor confidence in the country's economy. Institutional reconstruction helps to establish a stable and sustainable political and social system, which is essential for the country's further development, especially in the context of EU accession.

The process of systemic transformation in Poland began in 1989 and was one of the most important events in the country's history. The transformation involved political as well as economic and social changes. The evaluation of this process is difficult and controversial, as its results are diverse and depend on many factors [5].

One of the main achievements of the political transformation in Poland was the establishment of a democratic political system, in which power derives from the will of the people. Poland became a free and sovereign state and its citizens gained the right to freely choose their government and freedom of speech, assembly and the press. The achievement of this goal was very important for Poland, as it strengthened its position in the world and brought many foreign and economic policy benefits.

In the economic context, Poland's systemic transformation led to the introduction of a market economy and the privatisation of many state-owned enterprises. The introduction of market economic mechanisms and the liberalisation of the economy have resulted in an increase in foreign investment, increased productivity and competitiveness of Polish enterprises and increased the wealth of society.

However, the transformation also had negative effects. The privatisation of many state-owned enterprises was often carried out in an irrational manner and encouraged the oligarchisation of the economy. As a result, many private companies were taken over by a narrow group of

people, which contributed to large social inequalities. In addition, the process of systemic transformation was combined with the restructuring of enterprises and an increase in unemployment, which caused many social difficulties.

The evaluation of Poland's systemic transformation process depends on many factors, including the perspective from which it is assessed. Despite some drawbacks, the process has brought many benefits to Poland, such as freedom and sovereignty, the development of a market economy and increased wealth of society. It is worth noting that the transformation has been a difficult and demanding process, which has nevertheless brought many benefits to Poland and its citizens. The most important of these is the anchoring of the country in the defence structures of NATO (1999) and the economic structures of the EU (2004). The benefits in terms of security, both militarily and economically, are an undeniable achievement of Poland's transformation from a planned economy to a market economy [3, 5].

The success of the economic reforms in Poland initiated more than three decades ago is evidenced by the macroeconomic data that Poland achieves against the EU countries. According to Eurostat [4], in the last decade, the rate of economic growth in Poland was ahead of the corresponding measure in both the euro area countries and the EU as a whole (cf. Figure 1), which allowed convergence towards Western European countries.

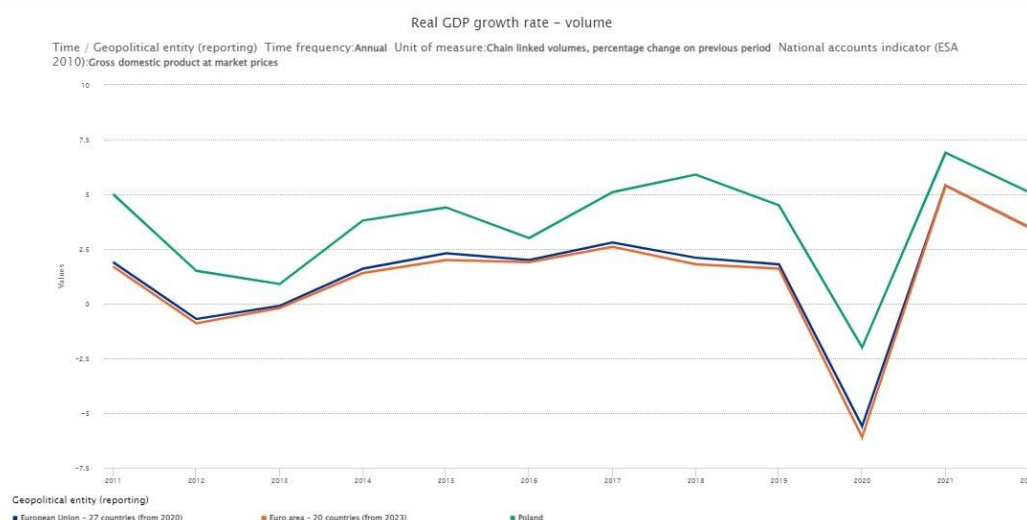


Figure 1. GDP growth rate.

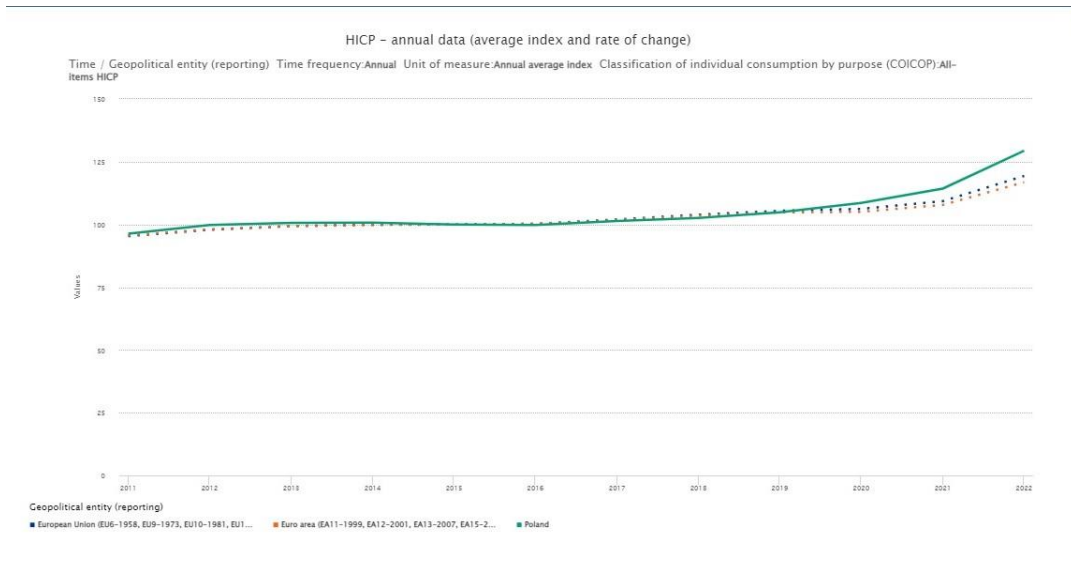


Figure 2. Inflation rate (HICP).

This was accompanied by a lower unemployment rate than in the EU (cf. Figure 3). The level of inflation was close to the EU average (cf. Figure 2), with the exception of post-pandemic inflation caused by the overheating of the economy in Poland, which coincided with an overly expansive mix of state fiscal and monetary policies.

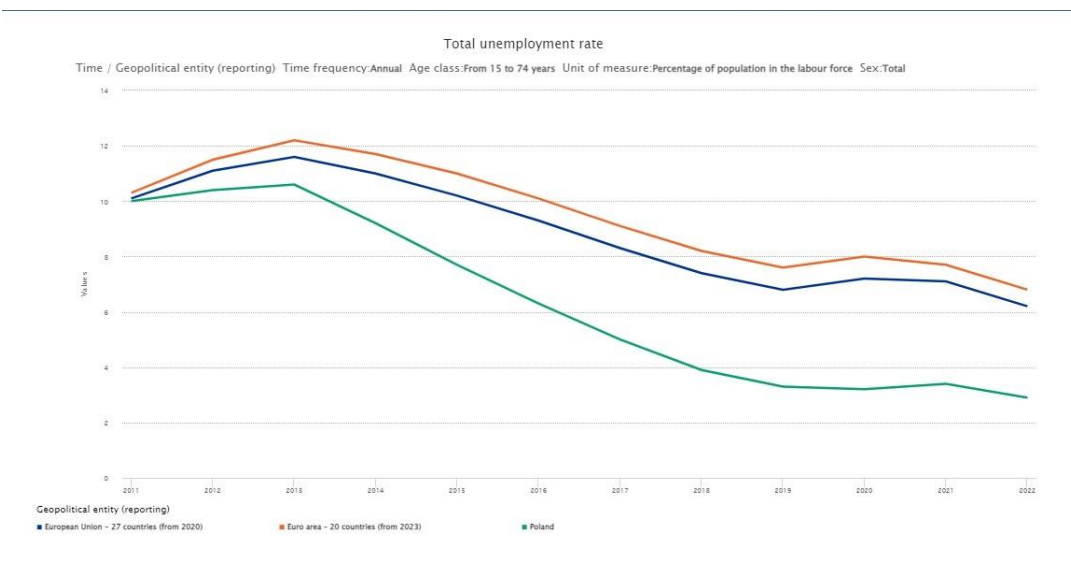


Figure 3. Unemployment rate.

The break-up of the Soviet Union in 1991 was one of the most important events in the history of the 20th century and had a huge impact on the political, social and economic situation of many countries. One of the countries that emerged after the collapse of the USSR was the independent and sovereign Ukraine. The main difference between Poland and Ukraine

was the depth of the transformational economic collapse, which Ukraine has not yet recovered from [2].

The emergence of an independent Ukraine had its roots in a number of processes and events that took place in the 1980s and 1990s. During this period, ethnic, national and religious tensions began to rise in Ukraine and other parts of the USSR, leading to an internal crisis within the Soviet system. The growing tensions also accelerated political reform processes, such as Gorbachev's perestroika and glasnost reforms [6, p. 172 ff].

During the 1990s, Ukraine experienced a period of turbulent change that included economic reforms, political changes and the development of civil society. In 1991, in a national referendum, 90% of the Ukrainian population voted in favour of the country's independence, which became a reality on 24 August of the same year.

After independence, Ukraine faced many difficulties, including economic reforms, political changes and challenges arising from conflicts on its eastern border with Russia. One of the most important challenges for Ukraine was to establish a strong and stable market economy, which was difficult due to the Soviet legacy, as well as a result of ongoing economic problems such as inflation, budget deficit and foreign debt.

The Ukrainian economy has been in a difficult situation for several years, which is often referred to as the 'Ukrainian economic collapse'. This is caused by a number of factors, including corruption, political instability, opaque regulations and poor economic performance.

Over the past decades, Ukraine has witnessed numerous political crises, including the Orange Revolution in 2004 and the Maidan in 2014, which have destabilised the political situation and caused concern among foreign investors. In addition, corruption is widespread in many areas of the economy, and the lack of transparent legislation and social inequalities lead to an inefficient tax and administrative system.

Another problem is poor economic performance, which is due to a number of factors, including outdated infrastructure, lack of innovation, poor quality of education and vocational training and insufficient protection of intellectual property. All these factors have a negative impact on

competitiveness and foreign investment, which contributes to further economic decline.

One of the major problems facing the Ukrainian economy is the conflict with Russia, from 2014 in eastern Ukraine and from 2022 throughout the country. As a result of the hostilities, many businesses have been destroyed and the number of internal refugees in the country and external refugees - mainly to Poland - has increased significantly. The conflict has also negatively affected foreign trade, including exports of agricultural and industrial products.

Ukraine's economic collapse has had serious consequences for society, including rising unemployment, low incomes, deteriorating living conditions and lack of access to basic services such as healthcare and education. The Ukrainian authorities have taken numerous steps to improve the economic situation, including through administrative and economic reforms, the fight against corruption and the development of infrastructure and private sector investment. However, these measures have proved to be ineffective and stabilising the economic situation in Ukraine remains a further challenge. The primary concern is the end of the armed conflict with Russia.

Modern Ukraine is a democratic state with strong economic potential and strategic importance in the region. Nevertheless, it still faces many challenges, such as political crisis, conflict with Russia and growing ethnic tensions. However, Ukraine's independence is one of the most important events in the country's and Europe's history, and the continuation of the political and economic reform process can bring further positive changes for Eastern Europe.

Attempting to identify guidelines for the future economic transformation of Ukraine, three key factors can be identified, following the example of the transformation in Poland. These are:

- 1) the transformation of the war economy into a civilian economy,
- 2) macroeconomic stabilisation after the shock of transition, and
- 3) uncompromising institution-building of a strong democratic state.

The transformation of a war economy into a civilian economy is a process of change that aims to adapt a country's economy to post-conflict

conditions or to reduce the military's impact on the country's economy. In the case of war-to-civilian economy transformation, the aim is to transform enterprises and sectors related to military production and supply, such as the arms industry, into civilian sectors.

The transformation of a war economy into a civilian economy can contribute to the development of innovative economic sectors, such as the space or digital industries, which accelerate a country's development and introduce new technologies. Properly carried out, the transformation can also stabilise the political situation and improve international relations, as countries that make the transition may incline towards more peaceful actions and international cooperation.

The next step is to stabilise the macroeconomy as a consequence of the inevitable destabilisation phenomenon caused by the negative economic shock caused by the transition from the military to the civilian economy. In particular, it is necessary to neutralise the negative impact of structural unemployment as well as inflation and further weakening of the hryvnia exchange rate.

Finally, the last element is the continuation of institutional reforms. The 1996 constitution established the foundations of a democratic parliamentary system. An important step towards institutional reconstruction was the introduction of the administrative-territorial reform in 2015, which aimed to increase administrative efficiency and decentralise power. However, institutional reconstruction in Ukraine is still a difficult and ambiguous process. The transformation to lead to EU accession requires further uncompromising reforms to build a democratic rule of law with a tripartite government, a strong state and independent courts, an independent and free media, and harmonisation of the tax system, the financial sector, including the banking services market, and state economic policy. Efforts on the part of the Ukrainian authorities and civil society should create a stable, free and democratic state.

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