Ukrainian economy suffers sharp fall in 2009

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Five years after the "Orange Revolution," which brought Ukrainian politician Viktor Yushchenko to power in January 2005, the Ukrainian economy is in the deepest crisis since the post-Soviet economic and social implosion of the 1990s.

Yushchenko's bid for office, and his subsequent campaign to overturn the declared electoral victory of the more pro-Russian candidate Viktor Yanukovich, were financed and politically supported by the United States. Washington saw Yushchenko as a means of weakening Russian influence in the country and opening up its markets to transnational companies and global finance capital.

Yushchenko had earned his support from Washington during his tenure as the head of the central bank of Ukraine, where he oversaw the privatisation of Ukrainian state assets in the 1990s. While prime minister under President Leonid Kuchma from 1999 to 2001, he also campaigned in favour of economic "liberalisation."

Following his ascendancy to the presidency, Yushchenko was universally praised in the Western corporate media as a reformer who could usher in a new era of prosperity and democracy in the former Soviet republic.

Washington's man in Kiev is today a despised figure whose pursuit of unpopular "free-market" economic policies and a pro-NATO foreign policy has left him with polling figures in the single digits. Having campaigned in 2004 as an anti-corruption candidate, Yushchenko has presided over a regime every bit as corrupt and in thrall to oligarchic business interests as that of Kuchma.

Economic and social conditions for Ukrainian workers are worse now than when Yushchenko came to office, and remain lower than what they were under the Soviet Union. The Ukrainian economy only recorded its first year of post-Soviet GDP growth in 2000. Largely driven by strong global demand for the country's main exports of steel and steel products, the economy grew rapidly over the next six years, recording growth rates of nearly 10 percent in 2003 and more than 7 percent in 2006 and 2007.

Foreign direct investment (FDI) in the country increased over the past decade, especially after the Orange Revolution, as international big businesses and financial companies sought to buy up industrial facilities and other commercial real estate.

The country's economy was badly hit by the 2008 financial crisis and the ensuing global recession. Ukrainian industrial exports plummeted as global demand fell, while the country's financial system faced default. The state was saved from bankruptcy by an emergency loan from the International Monetary Fund (IMF) of US$16.5 billion, which has come with demands from the fund that Kiev restructure its economy to cut public spending and further enforce the demands of global capital.

The problems of the worldwide recession were particularly deeply expressed in the economies of Ukraine's neighbors and main trading partners in eastern Europe, Turkey and the former Soviet Union. After a decade of growth brought on by high commodity prices and the movement of western European factories eastwards in order to take advantage of cheaper labour, the region has suffered from a collapse of FDI as well as property and financial bubbles.

Traditionally, Ukraine has had a close economic relationship with Russia, with the two former Soviet republics having a high level of economic integration under the USSR, many vestiges of which remain to this day. Russia has been very hard hit by the economic crisis, with revenue from its main exports of oil, gas and minerals plummeting from highs in 2007, while its financial sector was among the worst affected in the world.

Compounding these problems, the strained relations between Kiev and Moscow since the US-sponsored Orange Revolution have damaged commerce between the two neighbours, especially in the transit of Russian natural gas across Ukraine en route to the West. In January of this year, Russia's Gazprom shut off natural gas supplies to Ukraine—and thus to much of the rest of Europe—in a dispute over payments. Gas prices have since gone up, deepening the pain of recession for ordinary Ukrainians.

Ukrainian gross domestic product (GDP) fell by 20 percent in the first quarter of 2009, with industrial production falling year-on-year by a third in the same period. The economy suffered another steep fall in the second quarter, with GDP dropping 18 percent. The World Bank expects Ukraine's

GDP to shrink by 15 percent over the whole of 2009.

The official unemployment rate is predicted to reach 9 percent by the end of the year, while the real employment problem is far worse, with many people having given up looking for work or been forced to accept part-time jobs.

Volodymyr Gryshchenko, chairman of the Federation of Employers, whose members employ about a third of the Ukrainian workforce, stated that the official unemployment rate underestimated the scale of cutbacks: “Employers are trying to find ways to avoid firing workers outright, and so they’re cutting hours or sending workers on unpaid leave.”

Inflation stands at more than 16 percent, and the currency, the hryvnia, has sunk badly against the euro and the dollar. Earlier this year, the Ukrainian Central Bank froze savings deposits in the country’s banks to prevent mass withdrawals amid public fears of a banking and/or currency collapse. The move angered millions of working class savers, especially retirees, whose modest savings were locked up in precarious financial institutions to suffer depreciation from rampant inflation.

Former Ukrainian finance minister Viktor Pynzenyk stated in July that he believed the economic decline since 2008 had pushed the size of the country’s economy back to its level in 2003. Pynzenyk and several economic commentators, as well as the Ukrainian government and the World Bank, expect the country’s economy to grow by around 1 percent in 2010—if the world demand for Ukraine’s exports improves and the financial sector is not rocked by a new crisis.

Even if this modest predicted growth occurs, the scale of Ukraine’s public debts will ensure that whichever candidate wins the presidency in January’s election will form a government of austerity that will force workers to pay for the crisis through cuts in welfare and services. Meanwhile, employers will use mass unemployment to drive down wages in a bid to make them more competitive on the world market.

Despite a period of economic growth from 2000 to 2007, some economists have calculated that the standard of living for the average Ukrainian has fallen by 50 percent since the liquidation of the USSR, largely as a result of high inflation rates in the 1990s and again in recent years, combined with cuts in social welfare and a large increase in the number of unemployed and working poor.

In 1999, the Ukrainian economy was less than half of its size when it declared independence from the USSR in 1991. The liquidation of the Soviet Union by the Stalinist bureaucrats ushered in a decade of economic chaos and social disaster in Ukraine and across the former Eastern bloc, as the economic “shock therapy” of privatisations, mass lay-offs and welfare cuts destroyed vast swathes of Soviet social and economic infrastructure.

All the while, a new ruling elite, largely made up of ex-bureaucrats, looted the economy to amass enormous personal fortunes. Among this nouveau riche in Ukraine are the two leading figures fighting for power in the upcoming presidential election, Yulia Tymoshenko, a former Comsomol (Communist youth organisation) leader whose fortune was made in the privatised gas transit industry in the 1990s, and Viktor Yanukovich, a Soviet-era factory manager who became the main political representative of the eastern Ukrainian oligarchs.

The candidates standing in January’s presidential election offer nothing to the working people, unemployed and youth of Ukraine. Yushchenko’s main rivals, Tymoshenko and Yanukovich, despite some populist phrases, are committed to securing the fortunes of their rival political cliques while carrying out the IMF-dictated “reforms” designed to cut taxes and social spending in favor of international finance capital and big business.

Arseniy Yatsenyuk, a former parliamentary speaker and foreign minister, who at 35 years old only just qualifies to stand for president, is another presidential candidate. Currently projected to win over 10 percent of the vote, Yatsenyuk was a longstanding Yushchenko acolyte who only formed his own political party in 2008.

Considered a political clone of Yushchenko, Yatsenyuk is widely understood to be a sort of political hedge bet for the presidential camp. There is speculation that Yushchenko, faced with the prospect of a humiliatingly low vote in the election, may pull out of the race and back Yatsenyuk or at least agree not to campaign against him. Dmytriy Firtash, the billionaire owner of energy trading company RosUkrEnergo and the principal domestic backer of Yushchenko, has given some support from his television station, Inter, to Yatsenyuk.

Faced with the decimation of their living standards, working people in Ukraine will draw conclusions, not only about the phony “Orange Revolution” that saw one clique of oligarchs take over from another, but about the entire post-Soviet experience.