Appendix C – Country Setting

1. The Russian setting

After the dissolution of the USSR, Russia's economic system lurched from a centrally planned economy to a market economy. However, the initial rapid social and economic transformation was catastrophic, though the accelerating collapse of the Soviet system limited alternative options. The reforms and policies of the Yeltsin government did generate economic recovery, and at least initially, they did not counteract the negative impact caused by the collapse of the communist system. As Figure C shows, adjusted GDP decreased about 30 percent from 1992 to 1998, and Russia also experienced a high inflation rate during this period – nearly 900 percent in 1993. Russia's population number also decreased during this period, reflecting both reduced births and an exploding mortality rate (Becker and Bloom, 1998; Becker and Hemley, 1998). The low birth rate is also related to poor economic performance, and with reduced income and living standards, people tend to have fewer children. Following a nascent economic recovery in 1996-97, in August 1998 Russia defaulted on its international debt, resulting in the renewed collapse of the Ruble and causing a further recession. The reasons for the financial crisis were too large a budget deficit, limited monetization, and the disorder of the fiscal system (Åslund 1998). While population decline was especially acute in the far north and east, many cities throughout Russia experienced considerable population outflows during this period, including Saint Petersburg, Nizhniy Novgorod, Yekaterinburg, showing that with the production decline, the city development and urbanization may also stagnate.

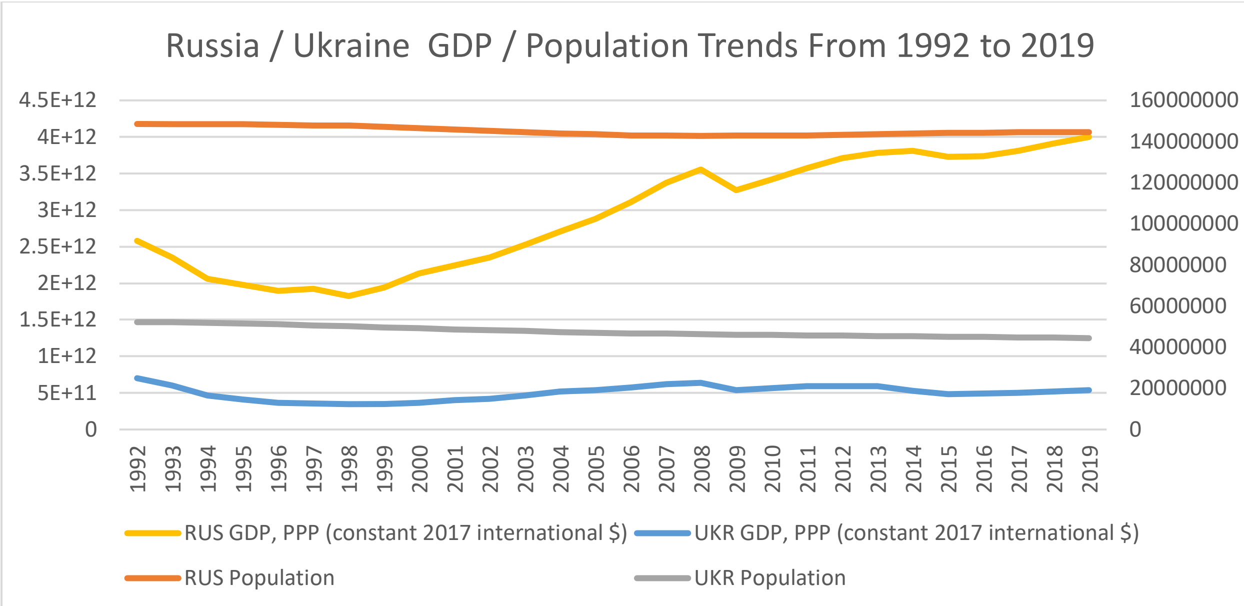

FIGURE C: RUSSIAN AND UKRAINIAN GDP AND POPULATION TRENDS, 1992-2019[1]

After the 1998 financial crisis, Russia experienced an exceptionally rapid economic recovery. As Figure C shows, real GDP increased over 90 percent from 1998 to 2008. Living standards soared as real wages rose by 240 percent and real pensions nearly tripled (Kudrin & Gurvich, 2015). The global financial crisis of 2008 affected the Russian economy, but its large reserves made it possible to cushion the economy. GDP dropped sharply from 2008 to 2009, but Russia recovered from the financial crisis in late 2009. After 2009, Russia experienced a rapid economic recovery from the financial crisis, followed by a period of the decelerating development compared with the rapid growth period. In sum, after the dissolution of the USSR, the Russian economy experienced five periods: the economic decline (1992 – 1998), the recovery and rapid growth (1999 – 2007), the financial crisis period (2008 – 2009), recovery from the financial crisis (2010 – 2012), and relative stagnation (2013 onward).

[1] https://data.worldbank.org/country/russian-federation

2. The Ukrainian setting

Most former USSR members shared similar development patterns after the collapse of the Soviet Union. Russia suffered economic decline in the 1990s, and many other former USSR member countries also faced similar problems or even worse recessions. The economic transition in Ukraine faced many challenges: due to easy monetary policies, Ukraine suffered from hyperinflation in the early 1990s, a problem that continued until 1996 when the government stopped expanding the money supply faster than GDP growth. GDP also dropped sharply, and the GDP in 2000 was only around 40% of that in 1991, which was even worse than in Russia. After 2000, the Ukrainian economy started recovering with a high annual growth rate until 2008, as Figure C shows. However, such high growth was hit by the 2008 financial crisis. After that, and until the present, Ukrainian economy has suffered from stagnation and even decline, also shown by Figure C In short, without providing detail, Ukraine's economy severely lagged that of Russia and other successfully managed former Soviet republics. Indeed, it seems plausible that its economic weakness encouraged predatory behavior by Russia, though that behavior in turn further damaged the Ukrainian economy, especially with the seizure of the coal and metal-producing areas of the Donbass.