

Ukraine Backgrounder: Select Resources & Reforms, Post-Soviet Period & Global Financial Crisis to the Annexation of Crimea

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Ukraine achieved independence from the Soviet Union 24 August 1991. It is the second largest country in Europe by land area, and shares borders with seven countries, including 498 km with Poland, 601 km with Romania, 1111 km with Belarus, 128 km with Hungary, 97 km with Slovakia, 1202 km with Moldova.

Ukraine's shared border with Russia is its longest, at 1944 km. In early 2022, over 100,000 Russian troops amassed in the region. If distributed evenly, these troops would make up roughly one Russian soldier per every two meters of the Russian-Ukrainian border.

Strategic Resources, Geographic & Extractive

Ukraine has 2,782 km of coastline. Of particular note is Crimea, a peninsula with long-established strategic value in the region, which Russia covertly annexed in 2014 in a move largely denounced by the international community.

Beyond the imminent military and otherwise strategic value of Crimea, Ukraine is rich with natural resources. Prominent natural resources include iron ore, coal, manganese, natural gas, oil, salt, sulfur, graphite, titanium, magnesium, kaolin, nickel, mercury, timber, and arable land, with agricultural land making up roughly 71.2% of total land use as of 2018.

These natural resources poised Ukraine to become integral to the former Soviet economy:

After Russia, the Ukrainian Republic was the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile black soil accounted for more than one fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Likewise, its diversified heavy industry supplied unique equipment such as large diameter pipes and vertical drilling apparatus, and raw materials to industrial and mining sites in other regions of the former USSR (CIA Factbook, 2022).

The richness of Ukraine's natural resources may have proved to be a double-edged sword, however. Among issues including public lack of trust in the post-Soviet Ukrainian government, and Ukraine's relative economic isolation compared to much of Europe and the US, reliance on substantial natural resources has been cited as a contributing factor in Ukrainian hesitance to institute full fledged reforms (Kholod 2012).

These factors continued to play out as Ukraine's economy—while showing signs of progress—lagged behind with regard to structural reforms needed to achieve growth parity with European peers:

...Ukraine's economic transformation to a full-fledged market economy remains incomplete. Formal market institutions—private property rights, a private sector, and private markets—were established, but the state has remained an important player in the economy due to its ownership of a substantial part of productive assets. A commitment to protect property rights is undermined by a high level of corruption and a weak court system. Many segments of the economy still remain distorted—the legislature has extended the land market moratorium seventeen times, and household gas prices remain heavily subsidized (World Bank, n.d.).

While Ukrainian industry and agriculture were economic powerhouses relative to other republics within the Soviet Union, agriculture's current contribution to the post-Soviet Ukrainian economy is only 12.2% of its GDP, with industry making up just 28.6% of GDP as per a 2017 estimate. As of 2017, the Ukrainian economy was primarily service-based, with services making up roughly 60% of GDP.

Although a number of factors have influenced Ukrainian economic trajectories, one undeniably significant component of this shift is the 2014 Russian annexation of Crimea and ongoing aggression in the eastern portion of the country, where heavy industry and supporting natural resources/extractive industries are prominent. Of note is ongoing violence in the Donbas region, home to Ukraine's largest coal reserves. In total, approximately 7.1%, or 43,133 sq km of Ukraine is currently Russian-occupied, including *"all of Crimea and about one-third of both Luhans'k and Donets'k oblasts"* (CIA Factbook, 2022).

Stalled Reforms and a Global Economic Crisis

Despite Ukraine's former importance to the Soviet economy, post-Soviet efforts at crafting a legal structure for privatization and other economic reforms were met with resistance within government and the legislature throughout the 1990s, and by the end of the decade, economic output had fallen to *"less than 40% of the 1991 level"* (CIA Factbook, 2022).

With encouragement from the IMF and other international parties, Ukraine instituted reforms in the early 2000s which were largely successful at economic stabilization despite a tumultuous political environment (Kholod 2012). However this relative economic success would be short-lived, as Ukraine suffered a devastating economic contraction in 2009 amid the global financial crisis. The Ukrainian economy shrunk nearly 15% that year (*ibid*), *"among the worst economic performances in the world"* (CIA Factbook, 2022).

Although the International Monetary Fund initially supported Ukraine with a pledged \$16.5 billion USD support fund, this fund was canceled after payment of only three tranches at a total of

\$10.5 billion USD, with the IMF citing a lack of advancement on macroeconomic reforms it viewed as necessary for sustained economic progress. The injection of cash helped to stabilize the Ukrainian financial system and allowed Ukraine to ride out the storm until early 2010, when world economic growth overall drove an increase in demand for Ukraine's primary exports, resulting in a 4.8% growth in GDP (Kholod 2012). Nevertheless, the IMF reported that the public policy process in Ukraine remained consistent and no significant policy reforms had taken hold (International Monetary Fund 2011).

In April 2010, Ukraine negotiated a trade deal allowing Russia to extend its lease of the Sevastopol naval base in Crimea in exchange for a price discount on Russian gas imports ("Ukrainian parliament ratifies agreement extending Russian Black Sea Fleet's presence in Crimea - Apr. 27, 2010" 2010). This agreement, commonly referred to as the Kharkiv Pact, would be the last in a series of treaties around Russia's use of the base for its Black Sea Fleet. Russia maintained this lease until 2014, when it annexed the region and Russian President Vladimir Putin ended multiple Russia–Ukraine agreements, returning the base to Russian control.

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