

Breaking Out of an Institutional Trap

UKRAINE'S SURVIVAL AND THE ROLE OF THE WEST

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Strained by the Euromaidan revolution and Russian reaction, Ukraine's ineffective institutions have brought the country to a state of near systemic collapse. To develop more capable institutions, Ukraine must build stronger ties to the West than Ukraine's current association agreement with the European Union can provide. This can only happen, however, if Western states stop treating Ukraine as a component of their Russia policy and concentrate on Ukraine itself. Key steps the West could take are developing a new Eastern Partnership policy, enhancing Ukraine's security through special status in the EU and NATO, and offering a rescue plan that prioritizes long-term institution building over short-term financial stabilization.

Trapped in Hybridity

One way to explain Ukraine's reform impasse is by the concept of an "institutional trap." That is to say, the Ukrainian state is governed by inefficient institutions that major actors are not interested to change. In this system, informal politics has the upper hand. Side deals, clientelism, and corruption prevent elites from developing shared rules of the game. "Political expediency" enjoys precedence over formal decisionmaking procedures, which leads to systematic violations of the rule of law. This is a system that was established in the mid-1990s, inhibiting the rise of a functional democracy, effective state, integrated nation, and growth of a full-fledged market. Incomplete reforms left Ukraine with a plethora of problems that continually reinforce one another. Ukraine is in a systemic institutional trap.

Although elections and two mass protests (2004 and 2014) have brought about changes of power, the essence of Ukrainian governance remains unchanged. Ukraine's Freedom House democratization index has always been within the range of a single point (4.00–4.97) marking it as a "transitional government or hybrid regime." While the Baltic and

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East European states democratized and most Eurasian states digressed to authoritarianism, Ukraine remains at a developmental crossroads.

Most Ukrainians, including many of the country's elite, and their Western supporters want Ukraine to join the club of democracies. Against them, however, are Ukrainian populists and rent-seekers, as well as Vladimir Putin's aggressive regime. Which side prevails depends not only on Ukraine but on the policies of external actors.

Can Ukraine Break Out of the Trap?

Ukraine's political trajectory since 1991 has involved a series of governments that were "captured" by various clans and then, finally, "seized" entirely by Viktor Yanukovich and his family. During its first decade of independence, Ukraine evolved from a quasi-state into a quasi-modern state. Then the behavior of the predatory elite (the Yanukovich clan) strangled the state.

Where does Ukraine stand now, two years after the Euromaidan brought new leaders to power? The new government has declared an all-encompassing reform program, but its implementation is sluggish, leading to [declining confidence](#) in the new leadership.

What could change this? It is well established that a change toward a more developmental trajectory often stems from severe internal or external shocks, particularly when a ruling group faces the threat of losing power (or their lives). The [theory of systemic vulnerability](#) posits that:

"political elites will only build such institutional arrangements when simultaneously staring down the barrels of three different guns: (1) the credible threat that any deterioration in the living standards of popular sectors could trigger unmanageable mass unrest; (2) the heightened need for foreign exchange and war materiel induced by national insecurity; and (3) the hard budget constraints imposed by a scarcity of easy revenue sources."

Unless political leaders are confronted by all three constraints at the same time, they can find a way to stay in power without major institutional upgrades. Though the theory was developed based on the examples of South Korea, Taiwan, and Singapore, it holds for the post-Soviet region as well.

Unfinished revolution, Russian aggression, territorial losses, and a steep economic decline mean that since the end of 2013 Ukraine's leaders have been confronting all three facets of "systemic vulnerability." The experience of the three South Asian states, the Baltic states, and especially Georgia suggests that under such constraints, we can expect elites to initiate a total reset of the system. Indeed, Ukrainian leaders have sparked an ambitious reform program. But the question remains whether their attempts will

succeed or they will succumb to the fate of regimes that have only been able to implement partial reforms.

This is because upgrades require having viable institutions in place. A closer look at the situation in Ukraine and the elite's inconsistent handling of "systemic vulnerability" suggest that the requisite condition of development—effective institutions—is currently missing. As German sociologist Max Weber theorized, bureaucratic institutions are an important part of a modern, functional, and rational state.

Of the six Weberian components of bureaucratic (rational) state organization, Ukraine only has three—written guidelines prescribing performance criteria, a division of labor and authority, and hierarchical organization. The other three—compliance with formal rules, meritocracy, and salary-based compensation—exist only on paper. A number of contradictory internal instructions make compliance with these rules difficult. The principle of merit-based selection is subverted by quota-based clientelistic appointments. Low wages in the civil service sector are compensated through the so-called "corruption tax."

Moreover, the theory of "systemic vulnerability" posits that acute geopolitical and fiscal constraints prompt elites to create a broad coalition. At the same time:

"Broad coalitions are best constructed and sustained with side payments to popular sectors; but the provision of such payments is rendered difficult by security threats, which siphon revenues into the defense sector, and by resource limitations, which impose hard budget constraints. Systemic vulnerability thus makes the reconciliation of coalitional, geopolitical, and fiscal constraints a matter of ruling elites' political survival."

However, sustaining a broad coalition requires the ability to export high value-added goods, which is impossible without major institutional upgrades.

To secure political survival, then, Ukrainian elites have chosen to rely on building a narrow rather than a broad coalition and have pursued a "soft" response to Russian aggression, following advice given by the EU and the United States. The result has been a deepening of the gap between the government and society and a complete loss of initiative in countering Russian aggression. The absence of a viable institutional base and the dependence on external actors are variables that distinguish Ukraine from other states that experience systemic vulnerability.

Structural Constraints in Ukrainian Politics

Thus, to help Ukraine move forward requires an awareness of the following trends.

Changes in governing procedures in Ukraine do not necessarily lead to a change of the system, at least in the short run.

Even while experiencing acute political, fiscal, and geopolitical constraints, Ukrainian leaders have chosen not to reset the system but have adapted it to internal and external pressures. A reset would have required the revolution to produce a genuine renewal of Ukraine's elite and institutions. Although the new government is the youngest of any prior government and more than 60 percent of parliamentary deputies are new, the effectiveness of the parliament in developing a legislative base for reforms [remains](#) poor. The president and the prime minister rely on old practices (informal deals and cleintelism) and people (oligarchs). It is naïve to expect the current government to succeed in implementing reforms. Some, such as police reform, have been successfully started, but it is doubtful they will be implemented in full. Keep in mind that partial reforms have never led to a change of the system and even risk its total collapse (as in the case of the Soviet Union, for example).

Taking a broader perspective, Ukraine is experiencing three processes: an unfinished revolution, the further decline of a weak post-Soviet state, and the birth of a political nation.

The Euromaidan revolution is unfinished—the new leadership is poorly delivering important changes: a real system of justice has not taken root, living conditions are worsening, and the conflict in eastern Ukraine persists. Revolution and Russian aggression have precipitated the decline of Ukraine's quasi-modern state even though it has stimulated a certain degree of national unity and civic activism. While the state is sick, society is well and alive. But while the real driver of reforms is civil society, civic activists cannot implement reform. They can only pressure the government to do so. Yet as the previous discussion shows, Ukraine can hardly reform itself given its existing set of leaders and institutions.

In order to break out of the institutional trap and step onto the path of development, Ukraine needs stronger ties to the viable institutions and structures that under current constraints only the West can provide.

Here Ukraine faces a dilemma. The West may want to help Ukraine become a normal developing country, but it is also prepared to accept a frozen conflict in the Donbas on Russia's terms—placing the burden of rebuilding the Donbas on Ukraine while preventing it from gaining full control over the region and its borders with Russia. Partial support, like partial reforms, brings poor results. If the current Western approach to the Ukraine conflict prevails, Ukraine will simply be kept afloat and only partially reformed. This can lead Ukraine into a new wave of chaos. In order to prevent such a risk, the West must anchor Ukraine to its own institutions and structures.

What Can the West Do?

To achieve this outcome, the EU, the United States and NATO should act in concert in several ways:

First: have the EU develop a new Eastern Partnership (EaP) policy with Ukraine, Moldova, and Georgia, the three states that have signed Association Agreements (AA) with Deep and Comprehensive Free Trade Areas (DCFTA). This is an urgent task, especially in Ukraine's case. The core of the new EaP policy should be a special status in the EU with a membership perspective. DCFTA implementation has been compromised by Russian pressure. It is critical to have no further delays. A new EaP policy and the DCFTA constitute the first step in anchoring Ukraine to European institutions. Such anchoring will create an additional normative pressure on Ukrainian elites to address three objectives that happen to be the West's primary strategic interests in Ukraine: reforms, democracy, and peace. In addition, while the institutional binding of Ukraine into European institutions can help promote economic growth and restore governance capacity, a special status in NATO could ultimately bring peace and stability to Ukraine.

Of course, the growth of Euroscepticism within the EU, the Eurozone crisis, and concerns about mass migration will hardly bring the issue of EU enlargement back to the table over the next decade. Nonetheless, the prospect of EU membership might make Ukrainian elites not only more consistent in implementing reforms but also attract foreign direct investment (FDI). Prospects for greater FDI inflows will press Ukrainian authorities to reduce state interference in the business sector and make property rights more secure. This, as Anders Aslund has [argued](#), could allow Ukraine to become part of the European supply chain and stimulate economic growth.

Second: develop in coordination with the International Monetary Fund a robust economic plan for Ukraine. This plan should prioritize long-term institution building over short-term financial stabilization. Although Ukraine successfully [restructured](#) its \$15 billion private debt for a four-year term, what it really needs is a long-term grants program rather than new loans.

Third: engage more closely with the real driving force behind reforms, the public. Ukraine has a vibrant civil society, but this has not created a broad political movement or a party that could bring new leaders to power. Hence, the West should double its support for grassroots initiatives while doubling the pressure on Ukrainian authorities to listen and to respond.

Fourth: abandon the instrumental view of Ukraine as a part of Western-Russian relations. Without Russia's direct interference and covert operations in the east, separatism there would hardly have been possible. Since the start of the war, the West worked on "freezing" the conflict while remaining primarily focused on Russia's

reaction. The Western signatories of the Budapest memorandum (the United States and the United Kingdom) failed to provide any robust “security assurances” to Ukraine and failed to recognize Russia as party to the conflict. The result was traumatic for Ukraine, which had to accept asymmetric concessions.

Fifth: uphold a uniform stance on sanctions on Russia. Whenever there is a trend of de-escalation in the conflict, Russia is viewed less and less as a party to the conflict. Easing sanctions, however, can ignite a new wave of Kremlin adventurism that could ultimately destroy the postwar international order.

Sixth: the U.S.-Ukraine strategic partnership should be filled with appropriate substance. Many in the U.S. Congress (as well as leading analysts) have been [calling](#) for a new bilateral engagement between the United States and Ukraine. This engagement should not be based on promoting any particular leader or party but on advancing good solutions to Ukraine’s problems.

In sum, developing a single, coherent Western policy toward Ukraine with a heavy focus on institution building will go a long way toward assisting Ukraine’s recovery. The absence of such a policy jeopardizes Ukraine’s future.