

# Poland and Ukraine: A tale of two economies

by **Simon Tilford**

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Ukrainians would be forgiven for casting envious glances at their Western neighbour. Poland – especially its deprived eastern regions – may still be relatively poor compared with most of Western Europe, but it looks like a veritable Tiger economy compared with Ukraine. In 1990 the two economies seemed pretty similar: both were populous, one a former Soviet state and one a Soviet client state. Both shared a legacy of uncompetitive, inefficient Soviet heavy industry, environmental degradation and poor physical infrastructure. Why have the two countries fared so differently since being freed from communist control? Partly, because they were less similar than they seemed and partly because Poland was treated by the EU, Russia and the US as a sovereign country with the right to determine its own future. Ukraine was not.

Poland faces no shortage of challenges. Slowing growth rates and weak productivity growth suggest that the country could struggle to make the transition to a high-income economy, languishing instead in the ‘middle income trap’. Still, the contrasting fortunes of Poland and Ukraine since 1990 could not be starker. In 1990 the Polish economy was just 20 per cent larger than the Ukrainian one, but by 2012 it was three times bigger. Between 1990 and 2012, Ukraine’s economy shrank by over 30 per cent; Poland’s more than doubled in size, with the result that Polish per capita incomes are now five times those of Ukrainians. Polish exports increased six-fold between 1991 and 2012, whereas Ukraine’s fell 40 per cent. Meanwhile, Ukraine’s population

declined 12 per cent between 1990 and 2012; Poland’s edged up slightly.

Ukraine has performed particularly badly even by the standards of ex-Soviet republics. This is partly down to the country lacking significant mineral resources, coal notwithstanding. The Russian economy, for example, would look little different to Ukraine’s were it not for the bounty of oil and gas. But Ukraine’s dire performance also reflects the legacy of competing identities, a high degree of sovietisation of its economy, Russian meddling and a cynical EU.

Poland is an old nation-state, albeit one with mobile borders. There was a robust sense of Polish

identity in 1990, and the basis for a resurgence of civil society was stronger in Poland than in Ukraine. The latter has been ruled by and divided between other states through most of its history; its regions, though not as neatly split between Russia and the West as is often claimed, have distinct identities and cultural affiliations. To craft representative national institutions and the civil society to underpin them would have been hard at the best of times. It was all but impossible with Russia (Ukraine's biggest trade partner and supplier of gas, as well as a cultural reference point for a significant minority of its population) dedicated to thwarting it.

Ukraine also laboured under Soviet rule for considerably longer than Poland. For example, agriculture was less collectivised in Poland than in Ukraine, and Polish trade was far more diversified than Ukraine's: just seven per cent of Poland's trade was with the Russian Federation in 1992, with over 60 per cent going to the EU. By contrast, in 1994 (the first year for which reliable data is available), just 14 per cent of Ukrainian trade was with the EU against over 40 per cent with the Russia Federation. By 2012, three-quarters of Polish trade was with the EU, compared with just a quarter of Ukraine's.

This is no surprise. Ukraine's economy is monopolised by politically-connected oligarchs and has been starved of the modern commercial management and investment it urgently needs. Much as in the case of Russia, Ukraine's industrial structure has essentially fossilised and been sustained by cheap energy (subsidised by Moscow). A weak business environment, uncertain property rights and politicised tax authorities mean that Ukraine has attracted little foreign investment, and has made strikingly little progress in diversifying its economy into consumer goods production and services. The country has largely failed to exploit its hugely fertile agricultural land due to the legacy of collectivisation. Investment accounted for just 17 per cent of GDP in 2012, an amazingly low level for such a poor country.

A country with centrifugal tendencies, deeper Soviet scars, a weak basis for civil society and a powerful neighbour intent on frustrating its development explains much of the difference in economic performance with Poland. The EU accounts for much of the rest. From the mid-1990s, the EU's drive to engage with Russia and build commercial links with it took precedence over the needs of Ukraine. Indeed, many EU governments were happy to consider Ukraine as part of Russia's legitimate sphere of influence. And the country's opaque politics and extraordinary levels of corruption provided them with a useful justification for condemning Ukraine to this fate.

Ukraine is a mess, and its own politicians share much of the responsibility for that. We cannot know whether Ukraine would have done better if it had been given a perspective of EU membership in the 1990s at the same time as the Central European states. Poland had some key advantages over Ukraine, and the Russians had fewer levers with which to interfere. The Poles took tough decisions on painful reforms knowing that the carrot of EU membership was there. It is perhaps no surprise that it is Polish politicians, led by the country's foreign minister, Radek Sikorski, who best understand the relevance of this to Ukraine today.

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The EU must not allow its commercial interests in Russia and an excessive deference to Russia's undefined 'legitimate interests' in its neighbourhood to dictate its policies towards Ukraine. This approach has proved a miserable failure. Russia is further from becoming a normal European liberal democracy than it was 20 years ago, as demonstrated by its decision to invade and annex Crimea. Accommodating Russian claims to its self-proclaimed 'near abroad' would condemn Ukrainians to a bleak future.

Instead, the EU should be magnanimous towards Ukraine, implementing as soon as possible the wide-ranging Association Agreement that it has negotiated, and offering substantial funding. The EU also needs to make clear to Russia that it does not have a veto over Ukrainian accession to the EU and that if Ukraine meets the criteria then it will be allowed to join. It is this membership perspective that galvanised reformers in other post-communist countries in Central and Eastern Europe, and which will be indispensable if Ukraine is to clean up its politics and challenge the oligarchs' suffocating grip on its economy.

There are grounds for some optimism. Russia's annexation of Crimea has been a rude awakening for those who have stressed the need for engagement and 'partnership' with Russia. And for Germany, a leading advocate of this failed strategy, Poland is now arguably as important a partner as Russia. If France, Germany and the UK were to come out in favour of EU membership for Ukraine, the EU might yet fulfil its moral obligation: to treat it like any other sovereign country trying to escape Russia's grasp.

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