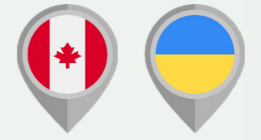




# THREE PERSPECTIVES ON CONVERGENCE: AN ACADEMIC, A MEMBER OF GOVERNMENT, AN IMF OFFICIAL



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A citizen of Canada, born in the Ukraine, Oleh Havrylyshyn completed his PhD in Economics at MIT. He has pursued a diverse career, which has included academic positions in several countries, being Deputy Minister of Finance in Ukraine, and a senior official at the Board of Directors and Management of the IMF. His numerous writings on international economics and transition have been widely cited and translated. From 2014 to 2016 he was an advisor to senior officials of the Post-Maidan Ukrainian Government. His latest books include *Institutions Always Mattered: Economic Prosperity of Mediaeval Ragusa-Dubrovnik* (2015), *The Political Economy of Independent Ukraine* (2017), and *Present at the Transition: An Inside look at the role of history, politics and personalities* (forthcoming 2019). He is currently Adjunct Research Professor at Carleton University.



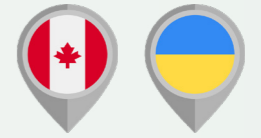
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The November 1989 fall of the Berlin Wall means much more than historical symbolism; after its fall there occurred truly momentous changes in the former communist region of Europe. I was fortunate to participate in this historical episode when about two dozen countries were transformed from communist central plan systems to market democracies, and particularly fortunate to be involved in three different capacities: first as an academic, then as a member of the independent Government of Ukraine, and then as a senior official of the IMF. Now, having returned to academia, my contribution to this important volume will use this triple perspective to discuss these countries' reintegration and convergence with the European and global economy. I will focus on the popular desire for a 'return to Europe'; the effects that EU membership and integration requirements have had on institutional changes; and the convergence resulting from this three-decade journey.

As an academic researcher, I, like many colleagues, enthusiastically switched interests to the question of how best ('optimally' in economics jargon) to achieve the transition. The euphoria of the people in these countries was shared by large numbers of western scholars who, with funding from equally enthused organisations and governments, assembled at innumerable conferences to address this question. The dispute between proponents of a



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'Big-Bang' approach vs. Gradualists may or may not have had a big influence on frontline policy-makers. Some needed no convincing that rapid reforms were the best path forward, while others preferred to move gradually, either based on ivory-tower arguments, or simply to buy time and preserve their former elite status. While 'how to do it' was not always clear, what was clear to the majority of citizens and leaders was the goal of reintegrating with Europe, preferably as new EU members but at least in close association.

Research soon went beyond debating strategy and began to analyse the actual integration process and its impacts. Early studies predicting that the EU accession process would 'anchor' reforms and institutional progress, were later proven right by econometric studies (e.g. [Bohmelt and Freyburg 2013](#)) showing that the greater a country's membership prospect the greater its progress in market liberalisation, institutional development and democratisation. A corollary finding - critical in cases like Ukraine and Moldova - was that non-membership mechanisms like partnerships provided too little incentive to have much impact on policy.

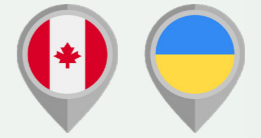
For citizens, the expectation that their daily lives would improve and catch up to Western European standards, proved far more important, as also predicted by early research ([Baldwin Francois](#)

[and Portes 1997](#)). Again, later studies strongly confirmed these predictions -particularly for membership candidates. Thus, a surge in FDI inflows even before 2004 in anticipation of EU accession helped boost export growth even stronger and earlier than expected, with trade reorienting from its pre-1989 intra-socialist bloc patterns towards European and global destinations (e.g. [Mrak and Rojec 2013](#), [Drabek and Benacek 2013](#)). This globalisation and reorientation of trade towards Europe by transition countries was less marked in non-candidates but still substantial. Today, 25%-40% of exports from Ukraine, Moldova and even Belarus now head towards the EU. Together with the adjustment effects of reforms, the export boom helped incomes to catch-up, as hoped. Calculations vary depending on methodology but all show roughly the same trend: GDP per capita in new Member States, which had been about 35%-40% of the EU average in 1990, had by 2016 risen to at least 65%, and as high as 80% in Czechia and Slovenia ([Havrylyshyn 2019](#)). Not all of the catch-up is directly attributable to EU membership, but careful econometric research estimates this from one third to one half of the gains (e.g. [Buti, Szekely, Keereman 2009](#)).

Despite these significant, real achievements, some citizens have been disappointed and politically disaffected for reasons that are now being studied. One answer, may be that expectations of a full catch-up were unrealistic. However, there may also be



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completely unrelated factors and populist trends at work too.

From the perspective of an IMF official, the same three issues prevail but have some unique aspects. The 1989 euphoria was immediately reflected in the Fund and other organisations by what a cynic might label bureaucratic expansionism; a substantial number of additional staff in new departments and structures arose -though only because major western countries also recognised this big moment in history. That it went beyond expansionism is nicely symbolised in a favorite phrase of Michel Camdessus, the IMF Managing Director at the time who described it as a 'window of opportunity' to make a historical contribution by developing a strategy to address transition, including not only more resources but developing regional expertise, recruitment in the region, language capacity, technical assistance customised to the long-isolated technocracies in the region, softer initial conditionality given the non-existence of markets, etc.

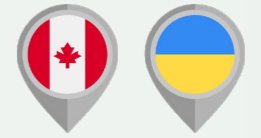
All international financial institutions generally endorsed more rapid reforms but these were far from the 'straw man' that critics called the neo-liberal Washington Consensus. Many critics simply misunderstood the concept. For a start, it was developed by academics not the IMF or World Bank and was never intended as a 'cookbook' as critics claim. Rather, it went far beyond free markets and private ownership to the long-term

evolution of social safety nets and institutions. Furthermore, while the IMF encouraged some countries who were eager to pursue Big-Bang like Estonia, Poland and Czechoslovakia to go slower, it also considerably eased the loan conditions for recalcitrant reformers waiving underperformance to allow funds to be disbursed. [Boughton 2012](#) illustrates this with numerous examples. As to the myth of 'cookbook austerity', I note just two counter-examples. From about 1995, a new management directive required that in any fiscal consolidation, expenditure on education, health and social programs should at least maintain their share of GDP. Even more counter-austerity was the proposal around 2000 by the Kazakhstan Mission Chief Peter Keller to recommend a large increase in budget expenditures for social programs and infrastructure, as oil-revenues surged. As Deputy Director, I supported him in putting this unorthodox proposal to Management, but we were knocking at an open door and it was readily endorsed.

How much IMF programs contribute to growth is not easy to determine because many other factors play a role but two conclusions are clear. By the end of the nineties, all transition countries had stabilised to single-digit inflation, quiet and steady IMF involvement achieved great gains in macro-management capacity. Tens of thousand of staff-days for technical assistance and repeated high-level consultations on fiscal and monetary



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institutions, policies and aims, played an immeasurable- but unmeasurable- role. There was agreement on all sides that stabilisation was a first, necessary step towards growth recovering, with the EU and the IMF always in lockstep on this, EC Annual Progress Reports invariably urging countries to keep to IMF program targets.

From the perspective of a Ukrainian Government official these issues do look somewhat different. The first, the post-Berlin Wall euphoria, was present in Ukraine, related to the centuries-long desire for independence and global recognition as a nation, but the 'return to Europe' element was far less explicit. Partly this was because only westernmost Galicia had a European history under what Austrian specialists call 'Franz-Josef's Shadow', partly because of the longer period under communism, but also partly because early leaders missed the opportunity and even propagated the misconception that 'we were not invited' – which many people came to believe. As Deputy Minister of Finance for External Relations and then Ukraine's Alternate Executive Director at the IMF Board until 1996, I and others who believed knocking at Brussels' door was the best way forward, found it difficult to convince the hesitant leaders of the first government. From 1995, official declarations of EU integration and even membership intent began to be expressed ,but with very little of the real reform actions central Europeans had

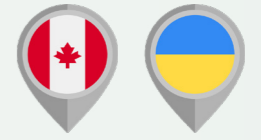
taken to back up this intent. By the time of the first meaningful EU-oriented government policy under President Yushchenko, lagging reforms had taken their toll on the economy, new vested interests opposing reforms were entrenched, and 'enlargement fatigue' had caught hold. The last perhaps contributed to EU initiatives such as The Neighborhood Policy, which confirmed research findings that non-membership arrangements carried little incentive for real reforms. In Ukraine and other 'neighbors' the very title was enough to say- 'you are NOT family'; which reduced popular desire to move towards Europe.

And yet, despite ambivalent enthusiasm towards the EU, lagging reforms, and weak signals from the EU, Ukraine too saw considerable reorientation of its trade towards Europe. The powerful gravitational pull of these large and rich markets raised Ukraine's share of exports to the EU15 from about 10% in 1990 to well over 20% in 2013 and above 40% for all EU28.

I conclude with a word on the Association Agreement and the Deep and Comprehensive Free Trade Agreement. While the new start in EU-Ukraine relations of 2005 was sidetracked by internecine Orange Revolution disputes, in fact, a tremendous amount of the footwork had been achieved by negotiators, enough to be picked up by the EU-sceptical Yanukovich government and reach agreement in principle and initialisation.



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President Yanukovich reneged on signing the Agreement in Vilnius in November 2013, sparking the conflagration known as the EuroMaidan or Revolution of Dignity. After he fled to Russia, the new government led by President Petro Poroshenko, signed these key agreements in June 2014. He must certainly be accorded great credit for this action even if the paperwork had been done under previous governments. But the greatest credit is due to Ukrainian people who have added to the euphoria of Independence, the conviction of a European future as western neighbors had done two decades earlier. The symbol of this carved in my mind is the encampment on the Maidan in 2013-2014 of demonstrators from the town of Kolomeya, the small historical center of the Hutsul region deep in the Carpathians. Riffing on the lyrics of a traditional folk-song 'Kolomeya's not a backwater/ Kolomeya is a CITY", they put up a signboard saying "Kolomeya's not a backwater / Kolomeya is EUROPA.'