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**Master's Thesis of Public Administration**

**The impact of political regimes on  
economic performance in Ukraine**

우크라이나의 정치체제가  
경제성파에 미치는 영향에 관한  
연구

**August 2014**

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# **The impact of political regimes on economic performance in Ukraine**

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# **Abstract**

## **The Influence of Political Regimes on Economic Performance in Ukraine**

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This study provides an in-depth analysis of the influence of political regimes on economic performance in Ukraine. The period investigated is from 1999 till 2013. Qualitative and quantitative analyses were provided in research. The main purpose of this study is to test the hypothesis that democratic political regimes are better for economic performance of Ukraine than authoritarian ones. In order to test this, statistical and survey analyses were conducted. The findings of this research indicate that democracy may be better than authoritarianism. However, there are also some cases that do not support such claim. Due to data limitation, this study could not conduct a more rigorous statistical analysis, which I will leave for future research.

**Keywords:** political regime, democracy, authoritarianism, survey

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# **I. Introduction**

## **1.1 Purpose and background of study**

The main objective of the study is to identify whether democracy can bring more benefits to the economic performance of Ukraine than authoritarianism and analyze the influence of political regimes in Ukraine on economic performance during period from 1999 till now.

Democracy and economic growth are one of the most important characteristics of the state. Every person nowadays is willing to be a citizen of a free democratic country with stable economic growth. But the question is: how do this two characteristics correlate with each other? What comes first: democracy or economic growth? Different scholars have different opinions about this question. Some of them say that democracy is a basis for economic growth, another claim that economic growth is a first step, and only after achieving the high level of economic growth the democracy can be provided. Also there is an opinion that there is no correlation at all or that democracy can even worsen the economic situation in the country.

Most developed countries nowadays are democratic, so this question is not of the high importance for them. Of course, the issue remains open about the opinion, that democracy can negatively influence the economic growth. If this statement is true, then many developed democratic countries today are in a serious danger. However, it is very unlikely that these countries can come back to the undemocratic forms. Unlike the developed countries, the

developing countries are now on the way to achieving democracy and economic growth. And for them this question is of high importance, because the direction to be reached should be chosen correctly. Otherwise, these country's situation can remain unchanged or become even worse.

One of the good examples of such countries is Ukraine. Being a very young country, Ukraine has over 70 years of totalitarianism behind and hundreds years of dependence on Russian empire. It gained its independence in 1991 when the Soviet Union broke up. Since then the history of Ukrainian politics started. As Soviet Union was a communist country, after Ukraine became independent all the government remained the same. That is why it is hard to say, that there was a regime at the beginning. Ukraine has a great potential for development, but still it is not being used. Officially, Ukraine is a democratic state; however it is not recognized as fully democratic. Many scientists say about presence of authoritarianism in Ukrainian regimes.

The first president of independent Ukraine was Leonid Kravchuk, a former Chairman of the Verkhovna Rada of Ukraine (Parliament). The next president was Leonid Kuchma, elected in 1994. He was in power for two terms (10 years). Then Victor Yushchenko was elected in 2004. And the last and the present president of Ukraine is Victor Yanukovich, elected in 2010. First few years of independence are characterized by uncertainty and creation of new legislation and transition from communist regime to democratic one. So, three main periods can be defined during the independence: Ukraine under Kuchma, Ukraine under Yushchenko and Ukraine under Yanukovich. Each

period has its own characteristic. The Kuchma's regime is characterized by decline of democratic principles, Yushchenko's regime brought some democracy and Yanukovych's one is getting even more authoritarian than Kuchma's.

Talking about economic performance of Ukraine, first of all it is important to mention that the country was second most important economic component in USSR, producing four times more than the next rated republic in USSR. On the fertile black earth of Ukraine the fourth part of all USSR agricultural products was produced. Also, Ukraine was a second largest producer of energy, and largest metallurgy center in USSR.

After Ukraine became independent it could reach a high level of economic development easily, considering its past. But unfortunately, it did not. Instead, the economy of Ukraine is declining. Equipment wear is very strong, and each year more and more enterprises are forced to be closed because of no profit. The government plays a key a role in this, because it should make efforts not only to support, but to develop enterprises, but in fact it just take part in closing them. Also, many government officials illegally privatized enterprises, which also did not contribute to the economic growth, because the only purpose of such privatizing is to take everything possible from the enterprise and after that close it.

The purpose of the thesis is to provide a deep research of these three regimes, to analyze and to explain the occurrence of each of them. First the theoretical aspects should be defined, to evaluate each regime, to point out

key characteristics. After the theoretical analyses it is important to make a research about quantitative data, to see how each of the regimes directly or indirectly influenced economic aspects. Overall this research can give a clear idea of how each regime affected Ukraine's economy, which regime was better in general. Also, the results of the research can provide the readers with deeper understanding of choosing the regime on the following president elections in 2015.

Finally, this research will be a case study to analyze if the democracy should come first, or it should be an economic growth that comes first. Ukraine is a very young country and now it should choose a right way for development, otherwise the situation may become even worse. The current neighbors of Ukraine, like Poland, Hungary, and Slovakia became developed after democracy came first. But it is not certain whether Ukraine should choose the same way of development or first the economic growth rate should reach certain level. Each political regime in Ukraine is characterized by different amount of democracy level. That is way it is important for the current research to compare political regimes with economic indexes, to see whether the level of democracy influenced the economic growth or not, and if yes then how.

## **1.2 Theoretical overview**

There is no single opinion regarding the question, whether democracy can bring more benefits to economy or not. And all the scholars have their own arguments based on researches and investigations. Some scholars, like

Adelman and Morris, Huntington and Dominguez and Marsh, claim that democracy is not as efficient as authoritarianism for economic performance, and the last has a tendency to promote economic growth. Also, the supportive case for authoritarianism is development of Republic of Korea, Taiwan and China which showed high temps of economic growth during authoritarian regime being in power. The scholars which support the idea of authoritarianism include Hall and Jones; Acemoglu, Johnson and Robinson; Easterly and Levine; Dollar and Kraay; Rodrik, Subramanian, and Trebbi and others. They conclude that limited government cause economic growth (Glaeser et al. 2004).

Other scholars say that democracy comes first and bring economic growth. Such scientists as Helliwell, Barro and others agree that democracy have some positive effect on economic growth. Przewoski and Limongi (1993) mention that politics affects governmental policies, which in turn has an influence on performance. The benefit of democracy is that people can make the ineffective government official quit from his/her position and put somebody more suitable there, while under authoritarian regime people do not have real power (Lustzig et al. 2006).

Authoritarian government is not interested in good economic performance of the country. It rather use its power and possibilities to increase oneself wealth (Przeworski and Limongi 1993).A very important issue regarding this question is corruption. It comes out that in more democratic countries level of corruption in general is lower than in authoritarian countries.

Authoritarian governments are usually more corruptive, which is a great barrier on the way to economic growth.

Another important issue is whether the democracy comes first, or economic growth brings democracy, while the start for growth is more likely to have place under authoritarian regime. Here it is very important to understand, that authoritarianism may of course provide a much higher economic growth. The problem is that under such regime, the rulers are much more likely to use their power not to improve the economy, but to improve personal welfare and position. That is the main risk. And under such circumstances there is no chance for economic growth. That is why, in general, democracy is more likely to cause growth, because it gives the country and its citizens the ground and provide with favorable conditions to promote growth, while the conditions are impossible under high level of governmental control, corruption and monopolies, which are usually the result of authoritarian regime.

### **1.3 Research question, method and hypothesis**

The basic research question that the study would like to address is: How do political regimes influence economic performance in Ukraine? The research sub question is: Does the more democratic regime bring more benefits for Ukrainian economy than less democratic one?

The hypothesis for current research is the following: “Political regimes with the higher level of democracy are better for economic performance of Ukraine than less democratic political regimes”.

The data used in this study can be divided in several categories. The first category is secondary data for quantitative analysis. The data was collected from such international organizations like World Bank, Freedom House, Heritage Foundation, and International Monetary Fund. The correlation analysis is provided. The second category is primary data. For improving the findings, the survey is provided.

## **II. Literature review**

### **2.1 Description of political regimes in Ukraine**

As Gel'man (2009) states, a political regime is a special type of political “game” that includes “players” and ‘rules”. In case of uncompetitive regime only dominant “player” is important, whereas in competitive regime all the “players” are significant. Scientists mostly relate Ukraine to competitive regime.

Gel'man (2009) also says that there are three different paths that led to hybrid regimes. The first one is the decay of full-blown authoritarian regime. The second – collapse of another authoritarian regime. Third – the decay of democratic regime. Ukraine is definitely related to the second path, because it was created after the decay of USSR authoritarian regime.

Ukrainian first political regime was founded by former president Kuchma. We cannot say that there was a previous regime of first president of independent Ukraine Leonid Kravchuk, because he was in power only from 1991 to 1994. At that time Ukraine was just starting its historical way and there was no chance to build any kind of regime. In 1994 Leonid Kuchma came to power. Here the history of Ukrainian regimes starts. As Lucan A. Way writes: “Rarely has a regime been so competitive with a government as undemocratic as Ukraine’s under Kuchma” (Way 2005). The situation was not certain. On the one hand, Ukraine was not similar to Belarus, where president Lukashenko created a totally authoritarian regime with no chances



for opposition. On the other hand, Ukraine was not definitely a democratic country. This case is called “hybrid regime”, which combines both democratic and authoritarian forms of rule. Another popular name of Kuchma’s regime is competitive authoritarianism (Kuzio 2005). As Lucan A. Way (2005) states: “In such regimes, democratic institutions exist and are regarded as the principal means of obtaining and exercising political authority, but powerholders violate those rules so often that the regime fails to meet minimal democratic standards. Incumbents regularly harass opposition leaders, censor the media, and attempt to falsify election results. Yet, elections are regularly held and remain competitive, and opposition can and sometimes do win.” This regime took place from 1994 to 2004. There were many distinctive features of Kuchma’s regime, but here are the main. The first one – Kuchma always created effective balances between centers of influence (political institutions or just individual figures in the government). From the point of view of the functioning of the political system in whole, such attitude provides good quality of work of all the structures of the government rather than closing all the power into one center. The second – before making important decisions for the society and citizens Kuchma always acted strategically, forecasting the possible consequences of any solution and public reaction on them. The third – during Kuchma’s regime the Parliament was a real powerholder in the country, even sometimes going against the president, especially during his first term. The fourth – Kuchma’s power was never based on the one region, he always gave different regions the opportunity to take part in ruling process. The fifth – for two terms being a president Kuchma did not have his own

political party; he was like an arbiter above all other parties. The sixth – Kuchma did not choose between relationships with Russia or Europe and USA. He equally cooperated with both sides. The seventh – Kuchma often claimed that he does not have enough power to achieve his goals, and also he did a lot of steps to gain this power. However, he did not succeed much. The eighth – during his two terms Kuchma had been developing Ukrainian language all over the country. All these are unique features of Kuchma's regime that were not repeated by two other regimes in Ukraine (Myselyuk 2010).

The decline of Kuchma's regime started with an accident in 2001, when Kuchma's bodyguard publicized the records which proved the Kuchma's direct relationship to the death of famous opposition journalist Gongadze. After this accident the ruling power faced a big challenge from opposition with a help of world's protest against Kuchma and his regime. Finally, all this ended with election of opposition leader Victor Yushchenko as a president in 2004 elections.

Yushchenko came to power through the peaceful revolution that took place in the end of 2004. As Katchanovski (2008) writes: "Previous studies almost universally have regarded the "Orange Revolution" in Ukraine as a democratic breakthrough because it replaced a semi-democratic or semi-authoritarian government with a democratic government that instituted free and fair elections."

This election confirmed theories of many scientists about hybrid regimes that states, that even though the regime has many features of authoritarianism, nevertheless the elections are held in regularly and the result is sometimes unpredictable. “Elections in competitive authoritarian regimes – even if highly unfair – generate genuine uncertainty. Opposition in competitive authoritarian regimes can – by gaining enough electoral support – win the election and take power from the incumbent” (Way 2004). That is exactly the case of Orange Revolution. Yushchenko had enough support to win and he did it.

Yushchenko was believed to be a strong person, who is able to change to political and economic situation in Ukraine. But in fact, he could do many changes during his presidential term. Instead of strengthening his own political power he shared it with his political opponents from Party of Regions, whose head (Yanukovych) was the competitor on the president elections (Kubicek 2009). Some of the ministers appointed by Yushchenko were from the Kuchma’s regime. Also, the Parliament of Ukraine, having the majority of the Party of Regions, increased the power of the Parliament and at the same time decreased the presidential power by providing changes to the constitution.

Overall, several distinctive features can be pointed out about Yushchenko’s regime. First – the area of Ukrainian export significantly expanded. Ukraine even got to the markets that traditionally belonged to USA. Also, important decision was joining WTO. Second - foreign policy was bad for Ukraine. The country was not able to establish good relations between any

key world players. Also, the relationships with Russia were deteriorated. Third – Ukrainian language got a chance to become popular again, partly due to administrative tools of the president. Forth – Yushchenko did not complete any of his social obligations. He did not create even half of the new working places that he promised, citizen's income fell down, medical service was not improved. Fifth – the freedom of press was not protected. Of course, Yushchenko did not control the media and it was free, but he did not create any protection for media, which resulted in total control under the next president. Sixth – Yushchenko implemented unified state examination in schools, which definitely reduced corruption in educational sector. But on the other side, Yushchenko did not provide any financial support to science. Seventh – all the promises about Ukrainian army were left undone. The army didnot transfer into contract base. Financial support was also miserable. The only positive moment is reducing the term for obligatory serving from two to one year (Kolesnyk et al 2010).

Kuzio (2011) states “Yushchenko was never a revolutionary”, but nevertheless, Ukraine definitely became a more democratic country than it was under the Kuchma's regime. Yushchenko thought that revolution itself was a great turnover, but in fact, it was just a chance for his regime to provide positive changes that Yushchenko failed to do (D'Anieri 2005).

After his fail on 2004 elections Yanukovych asked big foreign consultant company to create him a new image. Thanks to the weakness of Yushchenko and huge support of eastern oligarchs Yanukovych became a

president on 2010 elections, which were recognized by OSCE and CIS as fair (Herron, 2011). Unlike Yushchenko, who failed to keep the promises and to deal with previous bandit power, Yanukovych after becoming a president, started to provide active movements. Among his “greatest achievements” was returning the full power to the president, that Yushchenko did not have (Kuzio 2010). Also, Yanukovich turned more to Russia, but at the same time he did not turn back to Europe (Pardo 2011). Some scientists even compare his regime with Putin’s authoritarianism. He was doing everything possible to weaken the opposition power. All the main positions in the government are taken either by Kuchma’s term politics or by Donbas region people, who are close to Yanukovych or his family members (Kuzio 2010). The regime in Ukraine under Yanukovych is getting similar to what it was under Kuchma, sometimes even worse.

As in previous regimes, Yanukovych’s regime has its distinctive features. First – having won his elections, Yanukovich started building his own ruling system - rigidly hierarchical power vertical with a president as a center of power. Second – Yanukovych refused to follow the goals of his predecessors, but instead he did not propose his own. For example, he refused to enter NATO, but did not propose any alternative. Third – Yanukovych does not care about people’s opinion about his decisions. For example, few weeks after being elected, he authorized a lot of resignations and dismissals. Forth – Yanukovych is making the Parliament only a formal institution, he does not want it to be influential and significant, like in Russia. Fifth – Yanukovych relies only on one region – Donbas region. Most of key positions in the

government are given to people from that region. Sixth - unlike Kuchma, Yanukovych has his own political party and he works hard to defend its interests everywhere. Seventh – Yanukovych turn Ukraine from the main relationships with Europe and USA to Russia. Eighth – Yanukovych takes steps to expand the influence of Russian language (Myselyuk 2010).

## **2.2 Influence of political regimes on economic performance**

That was all regarding political regimes in Ukraine. Now, it is important to overview the general ideas about democracy and economic growth. As it was stated in the introduction, there are different opinions about what should come first: democracy or economic growth. The question about the influence of political regimes on economic performance is still a big debate among scientists. There are various opinions and different arguments for and against. Previous investigations did not provide an answer to the question of the relationship between regimes and economic performance.

Many scholars state that democracy should come after certain economic growth and even some scientists claim that democratic regimes affect the economy negatively. For example, Adelman and Morris, Huntington and Dominguez and Marsh conclude that “authoritarianism tends to promote economic growth, while democracy tends to retard it” (Weede 1983). J. Tavares and R. Wacziarg say that in their studies they found that the overall effect of democracy on growth is negative and moderate. Also they

found evidence that democracy increases human capital accumulation and decreases physical investment rates (Tavares, Wacziarg 2001). Other scholars, like Gerring et al say that countries with authoritarian political systems are predicted to grow as rapidly as democracies, or maybe faster. But still they say that democracy may have some positive indirect effects – for example, greater stability or more extensive property rights (Gerring et al 2005). The opinion that democracy does not influence economic growth positively is quite popular. But also the statement that democracy helps economic growth is present beyond some scientists. For example, Helliwell (1994) writes that there is a positive relation between per capita income and the adoption of democracy. Also, he states that negative effect of democracy on economic growth is non-significant. And for example (Heo and Tan 2001) in their research conclude that it is likely that economic growth causes democracy as that democracy causes economic growth. In his paper Barro (1996) writes that democracy is not the key to economic growth, although it may have a weak positive effect for countries that start with few political rights. As Leblang (1994) says: “The last few years have seen the publication of over twenty empirical studies; however, the results are far from conclusive. In their recent review of twenty-one statistical findings investigating this relationship, Przeworski and Limongi explain that ‘eight found in favor of democracy, eight in favor of authoritarianism, and five discovered no difference.’ Of the thirteen studies surveyed by Sirowy and Inkeles, three find a negative effect of democracy on economic growth, four find this negative affect in some

situations, and six find no relationship whatsoever. These conclusions are far from reassuring or instructive.”

What can be stated for sure is that almost everybody will agree that policies affect performance and in turn, politics affect policies (Przeworski and Limongi 1993). According to Drudy, Kriekhaus and Lustzig (2006), the democracy has only indirect effects on economic performance, while such factor as corruption is generally accepted by scholars as having a direct negative impact on economic performance. But corruption is a consequence of the political regimes. All the changes, positive or negative begin from the head. When the new president comes to power, he/she usually surround him/herself with his own team. And the behavior of this team is a guideline for all governmental and non-governmental structures. That is why when the political regime is for example corrupted, this corruption comes from top to bottom, and this, in turn, influence economic performance. That is why it is hard to agree, that political regimes have only indirect effects on economic performance. In this case, corruption should be seen not as a separate area of study, but as an instrument though which the regimes influence economic performance. In total, economic performance of countries with higher level of democracy is better than of those with low level of democracy.

Research shows that among 87 countries which are considered as free by Freedom House, 60 has the highest GDP per capita according to International Monetary Fund in 2012 (Appendix B). Also among 30 countries, which have the lowest corruption index according to Transparency



International, 24 has the highest GDP per capita according to International Monetary Fund in 2012 (Appendix C).

The question of what is the cause and what is the effect is still undecided, but anyway this data cannot be ignored, and the conclusion can be done that regime type and economic performance is correlated. Krieckhaus and Lustzig (2006) in their article show how the democracy can cause a positive effect on economic performance. For example, democracy allows citizens periodically to evict politicians, who hurt the economy, while authoritarian leaders have few checks on their power and thus engage in cronyism and corruption. Also, democratic country may become more innovative. Innovation is not something you can create in government ministries or corporate boardrooms (Schuman 2010).

Of course government can invest more in R&D, but they cannot make people more innovative. That requires a change in mindset. Creativity goes on inside people's heads. That is much more difficult without an open political environment. In order to be innovative, you need full access to information, a confidence to speak your mind and a willingness to take risks. Fear caused by political control does not foster an atmosphere conducive to free thinking. Censorship and limitations on information curtail the knowledge and debate necessary for the generation of new ideas (Antic 2004). Sirowy and Inkeles (1990) write that the extension and protection of civil liberties and basic freedoms are thought to generate security of expectation necessary to motivate citizens to work, save, and invest. This is true especially for Ukraine, where

nowadays people are simply afraid to invest anywhere because of many reasons, like corruption and instability. Democratic process and the existence and exercise of fundamental civil liberties and political rights generate the societal conditions most conducive to economic development (Sirowy and Inkeles 1990). In other words, democracy is the basis for economic growth. The market is efficient, and people always know better what to do and where to invest. But it is possible only under democratic regimes. Under authoritarian regimes people cannot decide by themselves what to do, and this, in turn, cause inefficiency and poor economic performance. Also, under authoritarian regimes the level of corruption is very high, which also cause a barrier for small and middle business in particular and everyday actions in total.

Another important issue that influences economic performance is economic instability. Two countries can be seen here as an example: Argentina and Japan. In the first half of the twenties century Argentina was one of the most economically developed countries in the world. In 1960, Argentina's income per capita was in the top twenty in the world and was higher than that of Japan. In the last thirty years, however, Argentina has often come close to economic collapse. In 1960, Japan had a per capita income below Iraq, Ireland, and Argentina and was not even in the top twenty-five in the world. Since then Japan has experienced one of the fastest growth rates in the world. Argentina has had a history of political instability, with several coups and much political violence. In contrast, until very recently Japan has been a model of political stability, with the same

political party in office continuously from 1960 until 1993 (Alesina et al 1996).

This example of course is not a reason to claim that political issues are the only and the main reasons for economic growth, but still it would be reasonable to say that it is a very important issue for countries' economy and its effect should be studied carefully. In their paper Alesina, Ozler, Roubini, and Swagel conclude that political instability reduces economic growth (Alesina et al 1996). Scully says that for the 115 market economies studied over the period 1960-1980, the politically open societies that subscribe to political, civil and economic liberty grow at three times the rate of societies in which these freedoms are restricted. Also Barro shows in his work that from a sample of 98 countries clearly can be seen that restricted political rights are associated with lower per capita growth (Haan and Siermann 1996).

Democratic regimes have no monopoly while authoritarian regimes can simply paralyze the economy by letting only small amount of people close to the ruling group to run big business (Sirowy and Inkeles 1990). Also, authoritarian rulers do not have any interest in maximizing total output of the country's economy (Przeworski and Limongi 1993). Democratic government is more likely to provide less volatile economic performance, than authoritarian government. Also, democracies rarely engage into military conflicts, which is a disaster for economy (Doucouliagos and Ulubasoglu 2006).

Sirowy and Inkeles while making a review about relationship between political regimes and economic development conclude that democratic processes create such social conditions in the country, which are the friendliest to economic development. Also, HuiyunFeng argues about the following causality: economic and political freedom improves property rights and market competition, and these improvements directly influence economic growth positively (Heo and Tan 2001).

According to Olson (2000), dictatorships may produce economic miracles for a short period of time but only democracies produce long lasting economic success. He also argues that the main advantage of democracy is better protection of property rights. These rights stimulate economic activities because people know that they will enjoy the rewards of their work. In contrast, dictatorships produce much more uncertainty because they are prone to success crises (Antic 2004). Among the scholars that support the idea about the influence of political regimes on economic growth there are different assumptions of how exactly this happens. For example Kormendi and Meguire argue that political regimes influence economic performance through the investment-income ratio (Heo and Tan 2001).

According to North (1990), only democracy can force a government to act in the interest of the general population. The lack of democratic control enables dictators to steal resources instead of using them for economic development. In contrast, democracy enables the replacement of politicians

that use resources inefficiently or only for the wellbeing of the ruling elite. In other words, democracy imposes accountability on governments.

Also, authoritarian government quite often use resources by transferring them to the electorate to get support, while democratic government use resources to produce public good and by this gets the support of the population. Briefly, authors who think that democracies produce faster economic growth claim that democracies allocate economic resources better than dictatorships. Of course the influence of political regimes on economic performance may be different. For example, Adam Przeworski and Fernando Limongi are sure that political regimes have an influence on economic situation in the country, however, each regime's influence is different and in each case there are positive and negative effects.

So, as we can see, there is no single opinion about this. Different studies show different results and make different conclusions. Perhaps it is because there is no universal answer for this question and each case should be studied separately. In current research Ukraine will be a case study and the results will be provided based on the deep analysis.

Ukraine is country with such conditions, that economic growth could be one of the fastest in the world, if there were no interference. Ukraine has many unique features, which could be used as a starting point for increasing economic performance. For example, a well-known fact that Ukrainian soil, so called black earth, is one of the best in the world for agricultural purposes. During the Second World War German government ordered to dig out black

earth and transfer it to Germany. This is a great chance for Ukraine to develop the world's greatest agricultural production with good-quality products. Unfortunately, in Ukraine it is not highly developed, though still the country produce enough wheat and other ingredients to export abroad. Instead of efficient use of unique characteristics, soil is used to grow, for example, colza and other plants for European market, which are used for biofuels production. On the one hand this is a profitable business, but the problem is that after growing those plants, the soil cannot be used to grow anything for the next several years. Of course, growing agricultural goods would be more profitable and useful, but in order to do it Ukrainian government should invest into this field and also provide good conditions for private businesses. But all these important issues are not done and growing colza or just simple downtime is only way out. According to Food and Agriculture Organization statistics, for each of the last twelve years Germany produced more wheat than Ukraine, although the initial conditions in Ukraine are better. This is one of the many examples, which prove the ineffectiveness of Ukrainian government to support and develop Ukrainian economy. Unfortunately, the government nowadays not only performs poorly, but also hinders the economic growth. All the laws that are being accepted, all official and unofficial orders are not supposed to improve the situation.

Ukraine since the times of USSR was second most important industrial region. The amount of steel produced was enormous. There are still some big manufactures of steel in Ukraine, but as time goes by, they are being closed one by one. To be competitive the government (if it is public and

owners, if it is private) should renew the equipment, also always check for the latest trends. But the only thing done in Ukraine is the following: rich businessmen, usually those people who are related to the government privatize big enterprises for small amount of money, after that they try to get as much profit as possible, and when the enterprise or factory is not profitable no more they just close it. As a result, people lose jobs, factories are closed and the economy declines.

Another way how government influences economic performance in Ukraine is low support of small and medium business in Ukraine. People are simply afraid to start business because they do not know what will be tomorrow. Also, corruption plays a huge role in this case, because when a person starts its own business, he/she meets with different public agencies, as fire service, sanitary epidemiological service, police and others which all requires to buy different expensive alarm systems, which search just any even small violation to put and owner into condition, when he should either close his business or bribe the services.

The laws regarding small and medium business also do not support them. Only big companies have a real chance to survive and act freely. Mostly all big companies (except international, like Samsung, Microsoft etc.) belong to high ranking government officials, who do not want to create a suitable economic and legal environment to competitors. In simple words, the government is the only business owner in the country, who do everything to keep the situation as it is.

Of course, some scientists can argue that the situation is bad because of the bad inheritance of the USSR, and as time goes on the economic and legal aspects in the country will become better. But here it is important to have a look at such countries as Poland, Hungary, Slovakia, and Czech Republic, which were the same members of USSR as Ukraine. At the time of USSR those countries were even less developed economically, then Ukraine. Nevertheless, after they became independence, the economic growth is much faster than in Ukraine. All those countries became members of European Union and Schengen Agreement a long time ago, while Ukraine is still far from it. So with equal or even lower starting point those countries today have a very high level of economic development. At the same time, the level of democracy is also much higher than in Ukraine.

All these facts show that the only thing that could influence the Ukraine's economy is politics. There are many evidences and facts, when the politics has a direct influence on economic performance. Of course, there may be some third factors, which are not as obvious, but which can also be significant. Anyway, simple logic shows that the economy of Ukraine cannot grow until there are too many restrictions. These restrictions are created by the government, which means that the government is the main destroyer of the country.

Of course, there are some other factors which are not mentioned. For example, people attitude. In developed countries (European Union countries, Korea, Japan, Canada, USA) most people respect each other, help each other,



do not steal or make any other illegal actions. In such countries as Ukraine, Russia and other middle Asian countries, people are more likely to commit various illegal actions. They like to talk about the circumstances, which do not allow them to live like developed countries do, and justify their bad behavior by the environment. But in fact, the democracy begins from the individual. When the majority of Ukrainian will understand that, the situation may be changed.

Anyway, qualitative analysis does not give a certain answer for the question, if the political regimes influence economic performance. In order to prove this, the quantitative analysis will be provided in the next chapter.

# **III. Statistical analysis of the influence of political regimes on economic performance**

## **3.1 Theoretical background**

Every country wants to achieve economic growth. Some countries have good geographical position and do not need to work hard to achieve growth. For example, countries which have huge amounts of oil or gas have this advantage. For some countries, like South Korea, which has no natural resources the only way is to develop human skills and knowledge. This way is harder to follow, but as the experience shows, it is possible.

Ukraine, in turn, does not have many natural resources on its territory, but also the geographical position cannot be called unsuccessful. Ukraine has a very good soil, which is perfect for agricultural purposes. Also, Ukraine's territory has many different types of nature, like mountains in the West and sea in the South. Carpathian Mountains and Crimean peninsula are unique places, where the development of tourism is likely to bring huge income. Also, there are many coal mines in the east of the country. Position of Ukraine is also favorable, because it is located on the border between Asia and Europe, which makes it an important trade point in the world arena. Also, it is important to mention, that Ukraine, being a part of USSR, was a huge industrial state for the whole USSR, and after gaining independence all the industrial centers are left just for one country. Such fields, like aircraft

manufacturing, metallurgy and others are very profitable and unique and also can be a source for development and growth.

But with all this opportunities, Ukraine nowadays is one of the least developed countries. Moreover, countries with less opportunities to develop, and similar starting point, like Poland, Hungary are today developed and democratic countries, unlike Ukraine.

So, the question arises: Does the democracy level influence the economic performance in Ukraine? And what should come first: democracy or economic growth? There are several opinions about what exactly should come first, and each opinion has its own background. As it is shown in the literature review, some scientists say that economic growth should come first, and when it will be high enough, democracy will come. These statements can be proven for example by the case of South Korea, where authoritarian government stimulated economy to grow up and only after 35 years the democracy became slowly replacing authoritarianism. On the other side there is an opinion that democracy stimulates economic growth. This statement can be proven by the case of most countries of European Union, where democracy definitely came first. Of course nowadays, the economic growth in those countries is not so fast, as in some developing countries, like China, Brazil or even some African countries, but still the level of economic growth itself in European countries is much higher than in developing ones. At the same time the case of Indonesia shows that democracy is not the condition that definitely leads to economic growth.

So, this question has been of current interest for a long time and scientists still cannot find a universal answer. The only way is to look at each country separately and take to consideration different factors. Only after that some conclusions can be made.

In current research the country under investigation is Ukraine. As Thomas Jefferson said “The purpose of government is to enable the people of a nation to live in safety and happiness. Government exists for the interests of the governed, not for the governors.” And this statement is true for every county. Each government exists to promote general welfare of the people in the country, but not to provide profit for the governors.

Ukraine is not an exception. Theoretically, it is a democratic country, in which people are the main power holders. But in fact, the situation is totally different. Among three regimes, only one is recognized as democratic. But this is only the social part of welfare. Economic part is not so definite. Despite the undemocratic regimes the economy of Ukraine is in decay. As it is shown in the literature, many scientists recognize two of three regimes in Ukraine as undemocratic. They call these regimes semi-authoritarian, where democracy sometimes have place and citizens can sometimes cardinaly change the political situation in the country, but still many features of authoritarianism is present.

So, the democracy level is low in Ukraine, and some features of authoritarian regimes can be seen. Then, according to some scholars, the economic growth rate must grow up. The further research will show exactly

the situation with economic growth rate in Ukraine, but the overall evaluation can show that unless Ukraine has various factors that can promote fast economic growth, in fact it does not happen.

A purpose of the current research is to discover the situation that occurred for the last 12 years at least and see whether the democracy level in total and political regimes in particular influenced the economy of the country and how, whether there are any relationship between changes in political regime's behavior and economic growth rate. The main research question of this research is: "How do political regimes influence economic performance in Ukraine?"

Political regimes are very likely to influence economic performance. As an example an authoritarian regime can be taken, where all main decisions are taken by the ruling political power. For example the last years are found to be influenced a lot by the president of Ukraine and his team. The most significant examples of this influence for the last years were providing changes in Tax Code of Ukraine, which result in bankrupting of thousands of medium businesses, Criminal Code of Ukraine, some paragraphs of which even contradict with Constitution of Ukraine, or also the president wants to provide changes to Constitution of Ukraine in the future.

### **3.2 Methodology**

Now it is important to define the exact variables that are researched. First, the independent variable is political regime in Ukraine. As stated above,

three regimes can be defined for the period of Ukraine's independence. But, political regimes itself is not a very good variable, because it does not change through the period. We can only have regime one, regime two and regime three. This variable does not allow providing a research. So, as an indicator of political regimes in particular, and democracy level in total it is better to use the index of political freedom and democracy, published by Freedom House Organization. This index is a good representation of political regimes, because it is relatively old, so data for previous years is available. Also, Freedom House Organization is big and independent, so the information is unlikely to be influenced by some governments or somebody else and can be trusted.

Now, when the independent variable is defined, dependent variable should be defined. The dependent variable will be economic performance. Of course, there are various indicators that can be taken here to calculate economic performance, but only five main of them will be used in this research. So, the first measurement of dependent variable will be the index of economic freedom published by Heritage Foundation. The index covers ten freedoms – from property rights to entrepreneurship. This index is very important, because economic freedom capital and good move freely, individuals are free to work, produce, consume, and invest in any way they want. In a state, where the level of economic freedom is high enough, the freedom both protected by the state and unconstrained by the state. This index is being issued annually since 1995, so it will be a good and full source of data for the first measurement of dependent variable. Heritage Foundation

freely provide the data for 185 countries, and what is important, the data is full and annual.

The next measurement of dependent variable will be Gini index. Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Income distribution is very important indicator, because in the countries with authoritarian regimes average citizens are likely to receive much less than the ruling group. So, this index will show, if the income distribution is dependable on the democracy level or not. The data can be found at World Bank Statistics, so, the source is famous and competent and data can be considered to be truthful.

Another measurement of dependent variable will be economic growth rate. To be exactly, annual percentage growth rate of GDP at market prices based on constant local currency will be used. GDP is considered to be a universal measurement of welfare of the country. There are various sources of GDP, for example it can be taken from the Ukrainian Committee of Statistics, but considering the fact that Ukraine's level of corruption is high, it will be much more reliable to take the foreign independent source, for example World Bank, which provides the GDP growth (annual %).

One more measurement of dependent variable will be unemployment rate. It is a direct representative of economic situation in the country, because in any efficient government unemployment is one of the most important

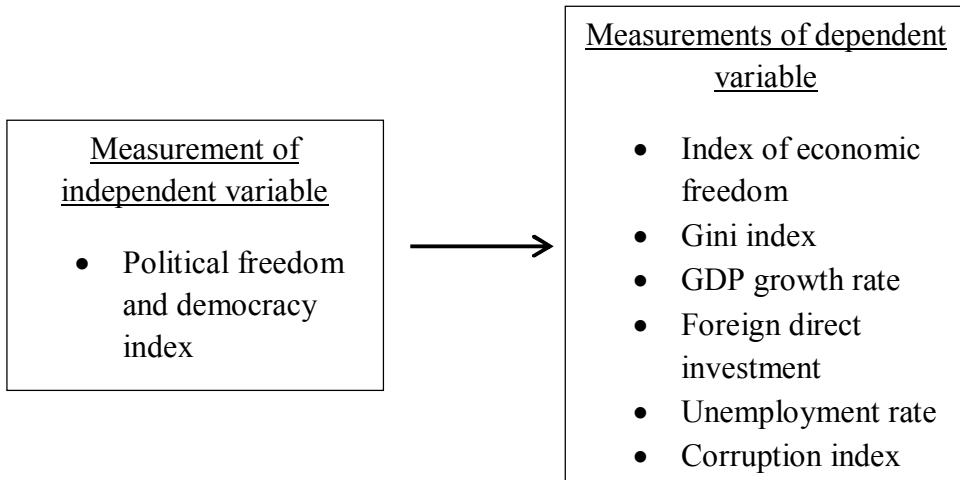
issues. The high level of unemployment in the country means economic problems – government is not able to create enough working places.

Another measurement of dependent variable will be foreign direct investment. This indicator is very important, because when the country develops and its economic growth index grows up, foreign countries are interested in investing money into it. So, foreign direct investment will partially display the economic situation in Ukraine. The data will be provided by World Bank Statistics.

The last measure of independent variable is corruption index. Corruption is a very important index, because usually the level of corruption in developed countries is very low and vice versa, in undeveloped countries it is high. Corruption is a good measurement for economic performance because the political regimes are the one that directly influence it, and this, in turn result in poor economic performance. Transparency International is an independent organization, which publishes data about the corruption level in more than 100 countries, including Ukraine, so it is a good measurement of independent variable and reliable source of information for the research. In order to see the external factors that can influence variables the Dow Jones Industrial Average will be used in order to explain some critical variables, if they occur.



**Figure 1. Research model**



### **3.3 Correlation analysis**

To make a correlation analysis the Statistical Analytical Software (SAS) will be used. So, in analysis we have two independent and five dependent variables. Here is a table of data, imported in SAS.

**Table 1. SAS data**

<b>The SAS System</b>								
<b>Obs</b>	<b>year</b>	<b>FH</b>	<b>CPI</b>	<b>EF</b>	<b>Gini</b>	<b>FDI</b>	<b>UR</b>	<b>GDP_gr</b>
1	1999	3.5	2.6	43.7	29.0	0.496	11.900	-0.2
2	2000	.	1.5	47.8	.	0.595	11.483	5.9
3	2001	4.0	2.1	48.5	.	0.792	10.769	9.2
4	2002	4.0	2.4	48.2	28.3	0.693	9.629	5.2
5	2003	4.0	2.3	51.1	28.1	1.424	9.057	9.4
6	2004	4.0	2.2	53.7	28.1	1.715	8.588	12.1
7	2005	3.5	2.6	55.8	28.2	7.808	7.185	2.7
8	2006	2.5	2.8	54.4	29.7	5.604	6.810	7.3
9	2007	2.5	2.7	51.5	29.6	10.193	6.351	7.9
10	2008	2.5	2.5	51.0	27.5	10.700	6.363	2.3
11	2009	2.5	2.2	48.8	26.4	4.769	8.843	-14.8
12	2010	3.5	2.4	46.4	25.6	6.451	8.097	4.2
13	2011	3.0	2.3	45.8	.	7.207	7.856	5.2

In the table above some abbreviations are used: FH is Freedom House index, CPI is Corruption Perceptions Index, EF is Economic Freedom index, Gini index, FDI is Foreign Direct Investments, UR is Unemployment Rate, GDP\_gr is Gross Domestic Product growth.

The next two tables show the results of correlation analysis.

**Table 2. Correlation analysis results**

The SAS System							
The CORR Procedure							
7 Variables:		FH CPI EF Gini FDI UR GDP_gr					
Simple Statistics							
Variable	N	Mean	Std Dev	Sum	Minimum	Maximum	Label
FH	12	3.29167	0.65569	39.50000	2.50000	4.00000	FH
CPI	13	2.35385	0.33069	30.60000	1.50000	2.80000	CPI
EF	13	49.74615	3.56338	646.70000	43.70000	55.80000	EF
Gini	10	28.05000	1.29722	280.50000	25.60000	29.70000	Gini
FDI	13	4.49592	3.77447	58.44700	0.49600	10.70000	FDI
UR	13	8.68700	1.85315	112.93100	6.35100	11.90000	UR
GDP_gr	13	4.33846	6.63709	56.40000	-14.80000	12.10000	GDP gr

The table above is important for analysis in order to check on the critical values of the variables.

The next table shows the correlation matrix including all 7 independent and dependent variables.

**Table 3. Correlation analysis results (2)**

Pearson Correlation Coefficients Prob >  r  under H0: Rho=0 Number of Observations							
	FH	CPI	EF	Gini	FDI	UR	GDP_gr
<b>FH</b>	1.00000	-0.50097	-0.11628	-0.10438	-0.75865	0.63178	0.46459
FH		0.0971	0.7189	0.7741	0.0042	0.0275	0.1281
	12	12	12	10	12	12	12
<b>CPI</b>	-0.50097	1.00000	0.30392	0.66816	0.52041	-0.60486	-0.01393
CPI	***		0.3127	0.0347	0.0683	0.0285	0.9640
	12	13	13	10	13	13	13
<b>EF</b>	-0.11628	0.30392	1.00000	0.33168	0.32588	-0.61259	0.27229
EF	**	0.7189		0.3491	0.2772	0.0260	0.3681
	12	13	13	10	13	13	13
<b>Gini</b>	-0.10438	0.66816	0.33168	1.00000	-0.05676	-0.05842	0.45835
Gini	**	0.7741	0.0347		0.8762	0.8726	0.1828
	10	10	10	10	10	10	10
<b>FDI</b>	-0.75865	0.52041	0.32588	-0.05676	1.00000	-0.88233	-0.14642
FDI	*	0.0042	0.2772	0.8762		<.0001	0.6331
	12	13	13	10	13	13	13
<b>UR</b>	0.63178	-0.60486	-0.61259	-0.05842	-0.88233	1.00000	-0.05744
UR	**	0.0275	0.0260	0.8726	<.0001		0.8521
	12	13	13	10	13	13	13
<b>GDP_gr</b>	0.46459	-0.01393	0.27229	0.45835	-0.14642	-0.05744	1.00000
GDP gr	**	0.1281	0.3681	0.1828	0.6331	0.8521	
	12	13	13	10	13	13	13

Now the interpretation of the received data is needed. The purpose of this analysis is to show the correlation between independent and dependent variables. Different significance levels were used in the above analysis, which are indicated by different amount of stars in the table above.<sup>1</sup> As it is seen from the table, 90% significance level was used to see correlation between Freedom House index and corruption index (CPI), 95% was used with Freedom House and Economic Freedom index, Gini index, Unemployment

<sup>1</sup>\*\*\* - 90% significance level, \*\* - 95% significance level, \* - 99% significance level.

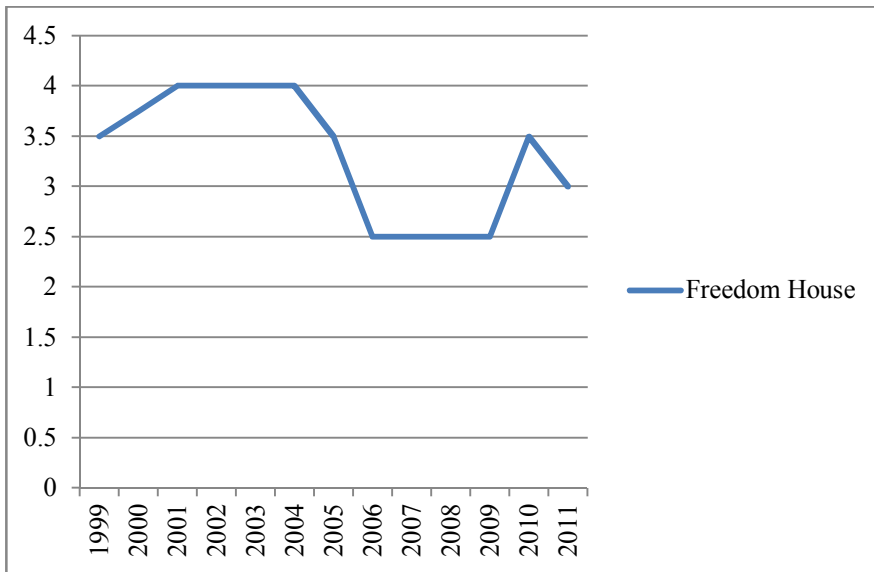
rate and GDP growth. The 99% significance level was used in correlation between Freedom House index and Foreign Direct Investments.

Freedom House index and CPI has a correlation coefficient equal to -0.50. This correlation shows that more democracy makes corruption level lower. The p value is equal to 0.09, so it is possible to conclude, that the result supports the hypothesis. Freedom House and Economic freedom indices have a correlation equal to -0.11, which is very weak. Also, p value is equal to 0.71 which makes the coefficient insignificant. The situation with Freedom House and Gini indices is almost the same: correlation coefficient is -0.10, and the p value is 0.77 which also make this correlation insignificant. Correlation between Freedom House index and FDI is significant with p value equal to 0.0042 and correlation coefficient equal to -0.75. The interpretation can be made, that more democracy increase foreign direct investments in Ukraine. Unemployment rate also has a strong correlation with Freedom House index with correlation coefficient equal to 0.63 and p value 0.02. The interpretation is that the higher is democracy level in Ukraine – the lower is unemployment rate. Finally, the correlation coefficient between GDP growth and Freedom House index is equal to 0.46, but it is not statistically significant, because the p value is 0.12.

There are many reasons why in above analysis three out of six correlation coefficients are not significant. First of all, the data is available only since 1999 till 2011, which make 13 observations. This is not much and may cause the p value to be high in other cases. Another reason is extreme

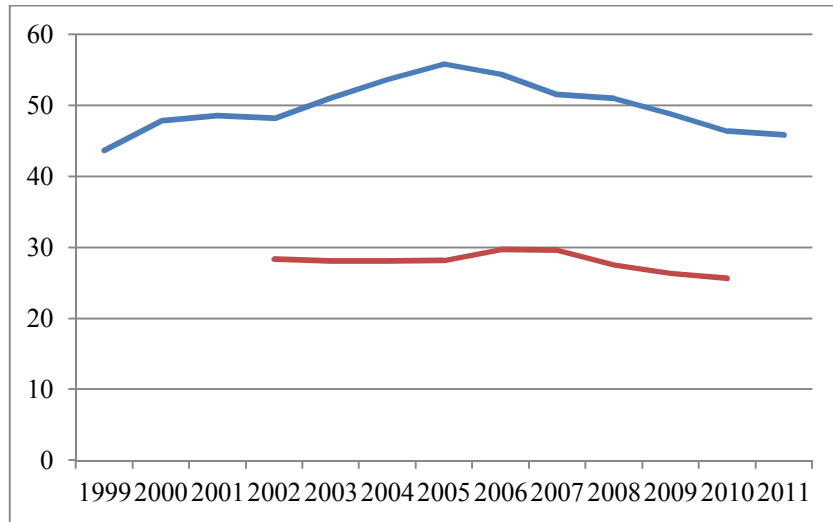
values. For example in GDP growth index there are few extreme values (years 2004 and 2009), which also influence the analysis. Overall, the conclusion can be made according to current correlation analysis, that although only half of measurements of dependent variable correlate with measurement of independent variable, the result is significant and may be used as an argument for further analysis. Additionally, the separate analysis should be provided by looking at graphs to see the simple relation between dat0061.

**Figure 2. Freedom House index**



In general, Freedom House index is getting lower with more democratic regime of Yushchenko. After next regime, much less democratic came to power, the index increased. This graph should be seen together with other dependent variables that do not show correlation in analysis (GDP growth, Gini index and Economic Freedom).

**Figure 3. Economic freedom and Gini index**



The graph above shows the economic freedom and Gini index. They are shown separate in order to see the relationship between them. As it is seen from the graph, both indices are higher under second, more democratic regime. And if the first regime at least showed some growth, in case of economic freedom, the last regime, which is the least democratic, shows only decline in both indices. If to compare these two indices with Freedom House index, some relationship may be found. The lowest score in Freedom House goes together with the highest score of Gini and Economic Freedom. The SAS analysis did not show correlation between these variables because of the reasons stated above, but still the relationship is obvious.

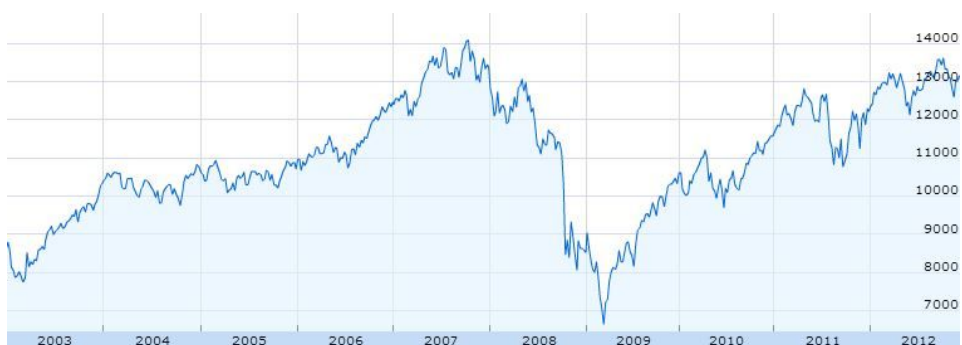
A separate look should be given to GDP growth. The figures of GDP growth index are very unstable. There are few extreme values during the investigating period and the permanent change from low to high and even to minus values (negative GDP growth) make it very hard to find any

relationship between GDP growth and independent variable. Partly it was influenced by external factors. For example economic crisis in 2008 resulted in extreme value of GDP growth equal to -14.8. The external factors can be clearly seen from the Dow Jones Industrial Average, which reflects most global economic shocks.

**Figure 4. Dow Jones Industrial Average**



**Figure 5. Dow Jones Industrial Average (2)**



From these graphs we can see that in 2008 and 2009 the world economy was in great decline, world economic crisis influenced every country, including Ukraine, and this is the reason why there are extreme



values in 2008 and 2009. Talking about Gini index, the correlation is absent because there are three missing variables out of thirteen. But a precise look at the diagram of Gini index also gives some information to analyze.

As it is seen from the above analysis, the more democratic regimes in Ukraine have a relationship with better economic performance. Although, it is impossible to say with 100% confidence that the democracy cause economic growth in Ukraine, the connection is undoubted. As it was mentioned before, there are many reasons, why the quantitative analysis cannot answer the main question. First of all, the main reason is a short data set, with only 13 observations. Unfortunately, official data from such sources as World Bank, OECD, and Eurostat do not provide the data before 1999 year, and other sources cannot be considered as reliable. Even the Statistic Committee of Ukraine is not a reliable source, because the corruption nowadays in Ukraine is so high, that it can reach even such a high institution and influence the result. Also, the fact that Ukraine has only 23 years of independence does not allow to make a regression analysis anyway, because the data set is still not big enough to be significant for regression. Another reason is presence of extreme values (like in case with GDP growth data set) and missing data (like in case with Gini index).

But despite all these facts, the correlation analysis together with comparison and diagram analysis shows, that the relationship between type of regime and economic performance exists in Ukraine, and the periods of higher performance go together with regimes with higher democracy level.

## **IV. Influence of political regimes on economic performance**

### **4.1 Survey analysis**

As it was stated in previous chapters, the data available for analysis for Ukrainian case is available only starting from 1999 year, which means that it is impossible to run a regression analysis to define exactly, what is the cause and what is the effect in political regimes – economic performance relationship. That is why in order to prove the statement that economic performance is influenced by political regimes, a survey was provided.

The respondents for this survey are public servants, who works in the governmental institutions, which are related to economic issues, who started working not later than 1999, so that can compare the situation during investigated period. The governmental structures are the following: National Bank of Ukraine, Ministry of Finance of Ukraine, Secretariat of Cabinet of Ministers of Ukraine, and Ministry of Economic Development and Trade of Ukraine. Each governmental structure is represented by one high-ranked official. The survey questions were carefully chosen in order that they can prove the influence of political regimes on economic performance in Ukraine, or to refuse it.

The chosen governmental structures all deal with economic questions, but still the area is different in each one. That is why the questions were divided into several parts:

- the first question is general and similar to all respondents;
- other questions differ according to governmental institution.

The respondents provided answers in Ukrainian language, so the translation will be provided in analysis. Also, some answers were too broad and for easier understanding they were summarized. So, the first question was regarding the organization work. These organizations were stated above.

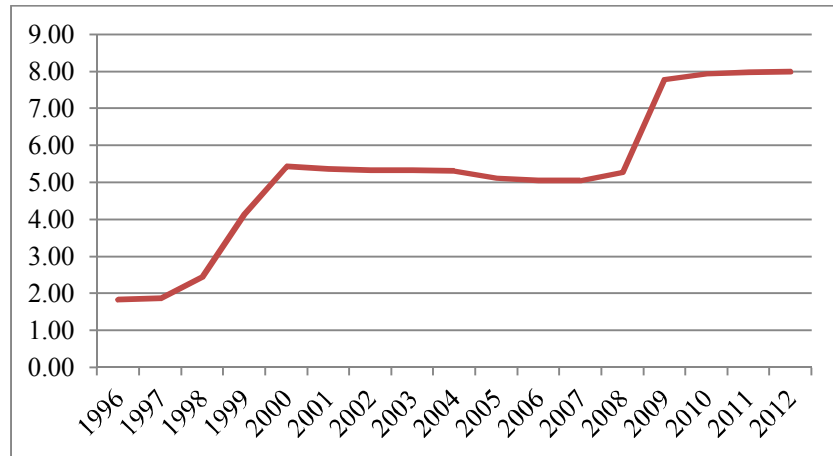
1. Organization
2. Which of the three political regimes do you think was the best from an economic point of view for the country in general? Which was the worst?

The question was supposed to be answered in a broad way with describing main arguments, but in general, respondents agree on the fact that the last regime is the worst one. Regarding the best regime – three out of four respondents voted for second one. All respondents agree that the current regime do not allow Ukrainian economy to grow, because it took under control all main institutions in the country and acts mostly for the one's own benefit. Corruption is getting stronger and economic freedom is getting weaker.

Here are the questions to the respondent from National Bank of Ukraine:

3. Was the instability and value reduction of Ukrainian currency caused by ineffective policy of certain political regimes?

**Figure 6. UAH for 1 USD rate**



The two depreciations of Ukrainian currency can be observed on the graph: the first one was from 1998 to 2000, and the second one started in 2008. The first depreciation was during the Kuchma's regime, while the second one is Yushchenko's regime. In 2008 there was a global economic crisis, which could have some influence, but in 1998 there were no serious economic shocks and the reason is likely to be the bad governance of that regime.

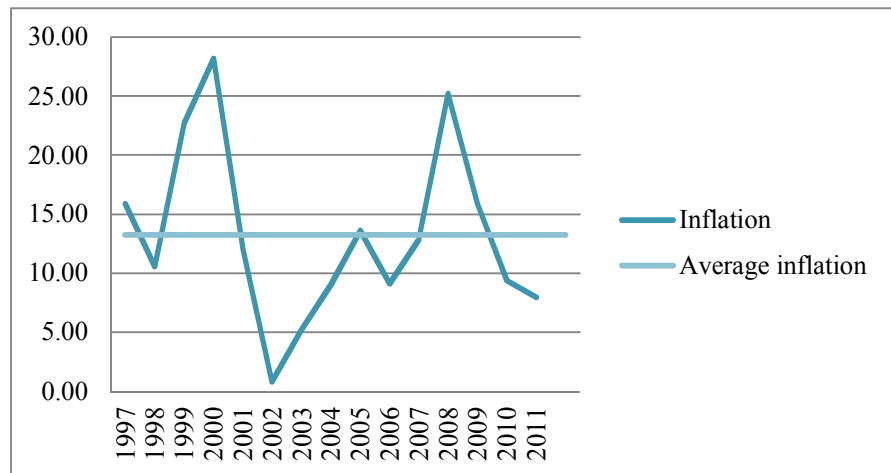
The respondent's answer proves this: "The depreciation of Ukrainian currency in 1998-2000 was caused by bad macroeconomic and budget policy provided by Kuchma's team. The depreciation in 2008 can hardly be tightened to the Yushchenko's regime, because during that time there was a great fighting between political powers in the country. Also, during the

presidentship of Yushchenko his power was weakened by changes in constitution, which established parliamentary-presidential system instead of presidential-parliamentary. The second depreciation was more likely caused by the populist approach of some prime-ministers, which increased salaries and pensions without having real money to pay them and without increasing prices for exported resources. Only one of prime ministers from Yushchenko's team made an unpopular decision and increased the prices for gas".

So, the second depreciation was not caused by president and his team, but by competing teams, which were trying to buy the votes of people to win on parliamentary elections in 2006. From the graph it is seen, that right after Yushchenko came to power, the currency was getting stronger until 2006. If the president at that time remained his power, the situation would not be so bad and the currency of Ukraine would be more stable.

4. Was the fluctuation of inflation caused by the different policy of each political regime?

**Figure 7. Inflation rate**



As it can be seen from the graph, the inflation in Ukraine has been very unstable during 1997-2011. Although, the National Bank of Ukraine has always been relatively independent institution, under the Kuchma's and Yanukovich's regimes it was influenced more. The high inflation in 2000 is believed to be caused by government, while 2008 inflation was caused by global economic crisis. In general, Yushchenko's regime is believed to be more effective in terms of inflation stability and reduction, than others. Probably, if global economic crisis did not happen, the inflation rate would be more stable.

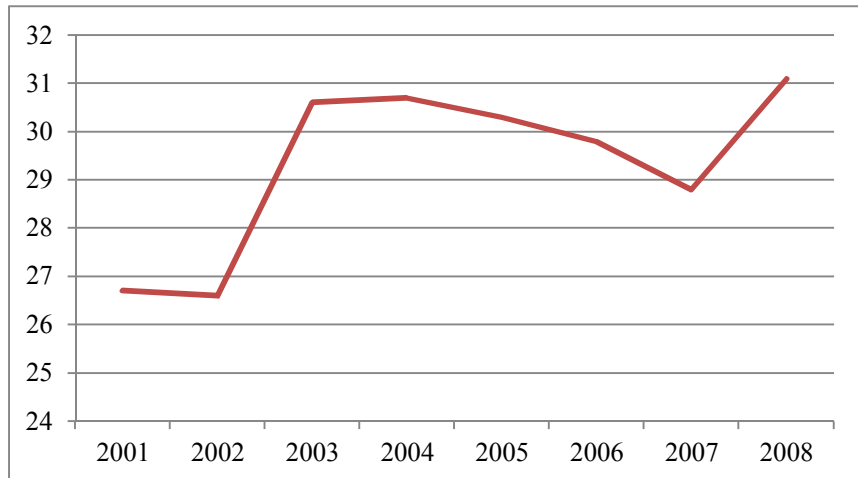
Here is what the respondent said regarding this question: "The high inflation was a result of poor macroeconomic, fiscal and social policy of the government. It was not the National Bank of Ukraine, who provoked crisis in 1998, but it was trying to hold the inflation artificially. As a result – the inflation was uncontrolled. The guilt laid on the leadership of the government who provided wrong policies. As it can be seen from the graph, Yushchenko

while having power succeeded to reduce the inflation, while after parliament gained the power, its populist approach caused the increase. In the middle of 2008 the monthly inflation sometimes reached 31%. Another negative aspect here is volatility, which is around 12%.”

So, partly the guilt is on the regimes, which did not provide good policies to prevent high level of inflation. Another part of guilt is on the global issues, which cannot be controlled. Only the negative consequences of global shocks may be reduced by effective policies. Although, the inflation by itself is not good, it should not be hold artificially, because it may result in much worse outcome.

5. Were the changes in the amounts of underground economy connected with political regime changes in Ukraine?

**Figure 8. Shadow economy**



In general, the more stable is the economy of the country – the less amount of shadow economy exists. The less democratic regime of Kuchma

forced people to hide their income. Also, rich people, including those from government, used to move their money abroad. Under the Yushchenko's regime people believed increased their trust to the government and country's economy and the amount of hidden money decreased. The situation with current regime is probably the worst ever been. There is to stability and rule of law at law and people are forced to hide their income. Also, the big number of oligarchs, which at the same time are high-ranked government officials, moves a lot of capital abroad.

The respondent agrees with this: "In total, the amount of shadow economy was very high before 2000 (around 50% from total size of economy of the country), Increases of shadow economy were a reaction for different events. After 2000 it decreased a little bit. The next increase was during the crisis in 2008, when people started to hide some income etc. The current regime encourages people to increase the amount of hidden income. But shadow economy exists on all levels, not only on low levels, but also among financial-oligarchical structures, that continue to move their capitals out of the country. Again, the current regime moves the highest amount (by different calculations around 180 billion US dollars). A big amount of that money comes back to continue privatizing public structures, which increase even more shadow economy."

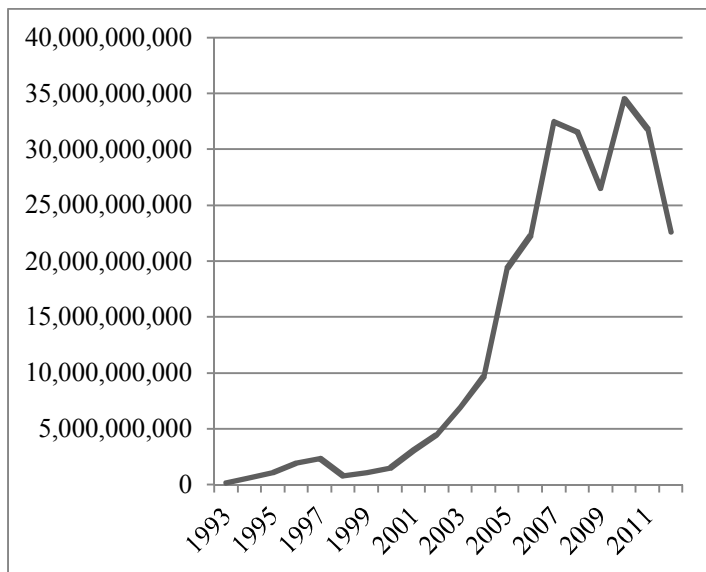
So, there were two factors, which influenced the amount of shadow economy – crisis and regimes. In case of the crisis in 2008, the fault was on external factors, while today's increase is caused only by current regime,



which made business in Ukraine much more complicated. Also it occupied all main financial institutions and uses its power and possibility mostly for personal enrichment. There was nothing even close during Yushchenko's term.

6. Was the fluctuation of the amount of total reserves in Ukraine caused by the changes of political regimes in Ukraine?

**Figure 9. Total reserves**



Total reserves are very important for the country. Usually, they are kept in case of unexpected events such as unusually large net withdrawals by customers etc. But that is done in democratic governance. In authoritarian governance, where corruption is high, reserves may be used to artificially hold the stability of the currency, hold the increase of inflation and many other things. Unfortunately, this is the case of the last political regime in Ukraine, which uses reserves to hide their ineffective governance. As it is seen from the

graph, the amount of total reserves during the global crisis was higher than it was in 2011.

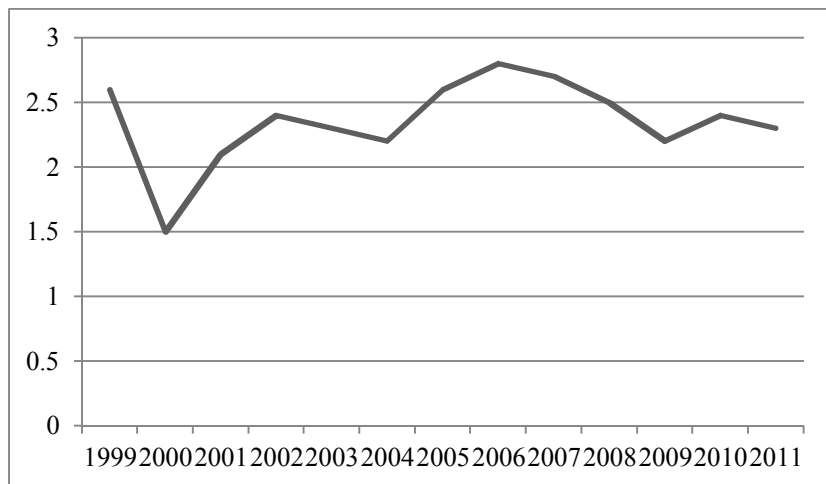
The respondent's opinion explains the situation: "The crisis in 1998 was caused because of the absence of structural reforms, which were of the first need. Government tried to hold the crisis with a help of reserves, and that was the reason why they decreased. After that the government realized their mistake and started to increase the amount of reserves. By 2004 the amount was quite big. In 2004 during "Orange revolution" some of reserves were lost, but not much. And again they began to increase after Yushchenko became a president. During the crisis in 2008 some amount was lost, but after that increased again. The situation became totally different after Yanukovich came to power. For the last years National Bank of Ukraine tries to hold a stable currency, because it is a good index of government. But in order to do this, current regime loses big quantities of reserves. Moreover, among current reserves at least half are loans. Also under the last political regime National Bank of Ukraine is selling reserves using the corrupted schemes."

So, it is obvious, that under the democratic regime of Yushchenko the situation with reserves was much better than under the authoritarian regime of Yanukovich. Reserves are used by this regime as a tool for personal purposes, such as keeping artificial stability to get more votes on upcoming elections. Such negative situation did not happen under previous regimes, although their policies were not perfect. Such a careless behavior is likely to have negative impact on economy of the country.

The next part is the one for respondents from Ministry of Economic Development and Trade of Ukraine:

7. Was the anti-corruption policy affected by different regimes, and was the different level of corruption index caused by the different policies of each regime?

**Figure 10. CPI**



In general, the more democratic is the country – the less is corruption level. Previous research showed that the corruption is much lower among the countries which are recognized as free by Freedom House index. In Ukraine the situation was same – the lowest corruption was under the democratic regime of Yushchenko, while the first regime and especially the last one are increasing its level. The anti-corruption policy cannot be strong under the regime, which provokes corruption.

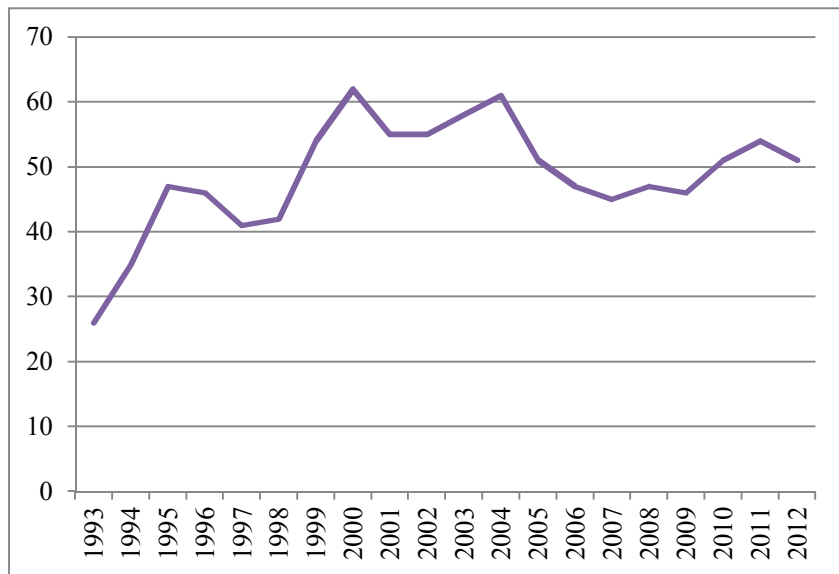
The respondent's answer confirms the above: "The anti-corruption policy was the most effective under Yushchenko's term, when he took the

process of fighting corruption under his personal control. Several effective decrees and legislative acts were adopted under his regime. The corruption during Kuchma's two terms was high before 2000, and after that some improvement had place. But still, the current regime has caped the climax in terms of corruption, because it is getting much deeper and broader. All the main structures in the government are taken by only one group of people, controlled by president and his close team. Under the Kuchma's term corruption also had place but it was diversified among different groups."

So, the anti-corruption policy was the most effective under Yushchennko's term, while it is very poor under current regime. Same situation is with corruption. It became an integral part of life in Ukraine in general and its economic area in particular. Under current regime policies are not discussed from the point of effectiveness, but from the point of personal interest.

8. Was the fluctuation of amount of export of goods and services connected with change of political regimes in Ukraine?

**Figure 11. Export of goods and services**



The government cannot export by itself, but it can provide the conditions, under which the amount of export will increase or decrease. Also this cannot be the only one factor which has influence. Global economy's condition, demand and the quality of goods are also very important. The government plays only the second role in this relationship, but this role is also very important and may affect the result. From the graph it is seen that there is no single trend regarding amount of export, it fluctuated a lot. That probably proves that the government is not the most important factor.

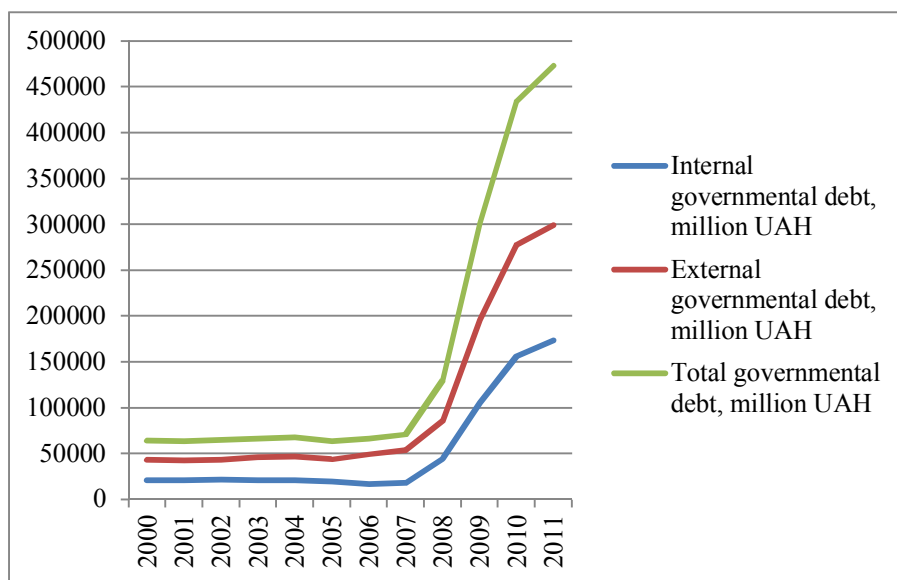
Respondent's answer also indicates that this relationship is not very strong: "The fluctuation of amount of export of goods and services was partly connected with change of political regimes in Ukraine. Of course amount of export depends on many different factors. But the good example of influence of political regime would be current situation with export to Russia. Russia is

one of the most important exporting destinations, but from the beginning of 2013 it started to reduce Ukrainian import and recently it closed the borders for Ukrainian production because of political reasons. This may seriously affect Ukrainian economy (decrease GDP, increase unemployment etc.). This is the first time something similar happens and the fault of current regime is great. Previous regimes did not influence export seriously.”

Regimes are not the first factor that influence amount of export of goods and services, but of course it is still important. Because the decision making process and correct policies should be provided by the government, and sometimes, like the respondent describes in example with Russia, these decisions comes into contradiction with economic interest. Current government does not consider much the interest of small and medium businesses, which are important source of income in developed countries.

9. Is the current high level of governmental debt having place because of the type current regime? Was the level governmental debt under previous regimes low because they were more democratic?

**Figure 12. Governmental debt**



From the graph it is seen that governmental debt was more or less stable until 2007, when it began to grow rapidly. One of the crucial factors must have been a global economic crisis. Since then the amount of it keeps growing, the difference is only in the speed of growth. The current regime, which is the least democratic, however reduced the speed of growth. The question is in the price of this decrease.

The respondent's answer explains the situation with debt: "Governmental debt of Ukraine is not totally caused by political regimes. Mostly the amount of it depends on the macroeconomic policy of the government and a lot on external factors. From the diagram it is seen that under the current regime the pace of growth is slowing down, but the price for it is loss of big amount of reserves. The debt by itself, especially external one is good if the money taken is used properly. If not, it may affect negatively.

Under the Kuchma's regime the amount of governmental debt was the smallest and it began to grow under Yushchenko's regime. Unfortunately that was the price for bad economic policies that led to crisis in 1998. Until the crisis in 2008 the amount of it was still small enough because of relatively good reforms, but then there were no way to avoid because of the world crisis.”

Although the current political regime cannot be accused of increasing the amount of governmental debt, the policy regarding it is not good. Still, the increase of debt was mostly caused by external factors together with ineffective macroeconomic policies of the government in total. In general, policy of Yushchenko's team regarding governmental debt was better than the one of the current regime.

10. Was the distribution of the budget into local areas better under certain regimes? Did the regimes influence the amount of financing to local budgets? Did the inequality in budget distribution have place under certain regimes?

In corrupted government, budget is a source of money for personal needs. The money can be easily distributed in big amounts to those local budgets that support ruling power and it small amounts to those that do not support. Such situation is very common in current government. Under previous regimes the distribution was more equal among all provinces and regions of the country. Of course the corruption had place, but at least there was some sort of equality. Nowadays, the inequality is prevailing.



The opinion of the respondent proves the above statements: “In current regime, budget distribution is quite unequal. The eastern part of Ukraine, which is the main supporter of current regime, receives much more than other parts of the country. For now the budget is used as a tool for strengthening the influence and partly to prepare for next president elections in 2015. Under Yushchenko’s presidency the situation was not perfect, but still better than ever before or after.”

Furthermore, to make all these answers clearer, the questions were grouped into four categories which reflect the economic performance in Ukraine. These are: growth, equality, corruption and economic stability. Above is the table of answers.

**Table 4. Survey analysis**

Category	Benefits of democracy and weakness of authoritarianism	Respondent’s agreement with current statements regarding Ukraine’s situation			
		National Bank of Ukraine	Ministry of Finance of Ukraine	Ministry of Economic Development and Trade of Ukraine	Secretariat of Cabinet of Ministers of Ukraine
Growth	Question # 2	Best – 2,1 Worst – 3	Best – 2 Worst – 3	Best – 2 Worst – 3	Best – 1 Worst – 3
Economic stability	Question # 3	Yes			
Economic	Question # 4	Yes,			

stability		partly			
Corruption	Question # 5	Yes, partly			
Economic stability	Question # 6	Yes			
Corruption	Question # 7			Yes	
Growth	Question # 8			Yes, partly	
Growth	Question # 9		Yes, partly		No
Equality	Question # 10		Yes; yes; yes -3		

Concluding the respondents' answers it is possible to state that economic growth is worse under the last regime, which is recognized to be the least democratic. Corruption is higher and the economy of Ukraine is becoming more unstable under the same regime. Also, economic equality is much lower than it was under the previous, democratic regime. According to the point of view of the respondents, all regimes had some positive and negative impacts. There was no absolutely best regime and absolutely worst. But the point is that some of them, like the current regime, have more harm for country's economy, and second regime was the least harmful. Also, the respondents discussed the perspectives of current regime. According to them, the economic situation in country is going to become even worse, if regime will not be changed. Respondent from National Bank of Ukraine, for example, emphasized that credits, that current government takes are not used properly

and thus may result in serious problems, like higher inflation, huge debts and many others. According to respondent's opinion, only change of regime may influence current decline.

## **V. Conclusion**

The study has examined the role and impact of political regimes on economic performance in Ukraine starting from 1999 till 2013. Theoretically it was argued that democracy increases economic performance, while authoritarianism decreases it. The study was conducted in two steps: the first one was statistical analysis of secondary data and the second one was analytical overview of primary data.

Statistical analysis was conducted by providing correlation analysis using SAS to find the relationship between political regimes and economic performance. The statistical analysis shows the relationship between dependent and independent variables, but this finding is not enough to prove the hypothesis. That is why the qualitative analysis was done next. The purpose was to survey several government officials from different institutions, which are closely related to economic performance and political regimes. There were 4 respondents from National Bank of Ukraine, Ministry of Finance of Ukraine, Secretariat of Cabinet of Ministers of Ukraine, and Ministry of Economic Development and Trade of Ukraine. Each of respondents has been working in the above stated governmental structures at least since 1999, so all of them could give grounded answers based on personal experience and views.

The survey analysis's main purpose was to support the statistical analysis and to provide clear answer to main research questions of the thesis.

All the questions for the survey were divided into four categories: economic growth, economic stability, corruption and economic equality. Analysis showed that in general, the respondents agree that the last regime, which is recognized to be the least democratic (also it is recognized authoritarian by some scholars) has the worst impact into all four categories. Regarding the best regime, the general conclusion is harder to be made because there is no single opinion. Some respondents stated that second regime was better, while there were votes for the first regime also.

Statistical analysis was used together with survey to improve the quality of the research. It was decided not to provide the survey between the big amounts of respondents, for several reasons. First of all, the fair answer for many questions may provoke a criticism of the current regime, and this fact could either cause a false answer or some respondents could simply skip some questions. Also, the current political regime is well-known for replacing variety of public official positions with people from their own team, which are less proficient. This could also influence the result of the survey. That is why the respondents were carefully selected to have the high proficiency in their field and also to be independent in their opinion. Such survey can better reflect the reality according to the variety of circumstances.

The general analysis of statistical data together with survey answers indicates that current political regime is not effective for economy of Ukraine. The way it rules the country reminds of Russian democracy, which is very limited and is recognized by most scholars as authoritarianism. In 2004

Ukraine had a peaceful revolution, which brought to the power truly democratic president, who however was not able to hold his power for a long time. But still, the current research suggests that economic performance under Yushchenko was better. Unfortunately, global economic crisis in 2008 greatly influenced Ukrainian economy, but Yushchenko's team took many steps, some of which were even unpopular, which decreased negative impact. The first Kuchma's regime is not certain. It was not as democratic as the second one, but it was quite stable. The main reason for stability was the competition of different political groups, which is absent under current regime. This competition is important because it allows replacing the weaker politician with a stronger one. Yanukovych's regime destroyed any competition in public sector. All the key governmental positions in the country are occupied by one team and it acts in favor of itself. The most valuable and important businesses in the country also belongs to the people of the same team. Such situation negatively influences the economy. All the respondents support this opinion. They all are from different governmental structures, but still all of them stated that the last regime is the worst for Ukrainian economic performance. Also, statistical analysis implies this conclusion.

Overall, the study indicates that democratic regimes are better for Ukraine than authoritarian, but the data limitation do not allow providing a rigorous analysis. It also gives a good background for further research, which should take to account all the limitations stated above.

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## Appendix A

### Statistical data

Year	Democracy and political freedom (FH) Index	CPI (TI) Dep	Economic freedom (heritage) Dep	Gini (WB) Dep	FDI (WB) Dep	Unemployment rate (IMF) Dep	GDP growth (WB) Dep
1999	3,5	2,6	43,7	29	0,496	11,9	-0,2
2000		1,5	47,8		0,595	11,483	5,9
2001	4	2,1	48,5		0,792	10,769	9,2
2002	4	2,4	48,2	28,3	0,693	9,629	5,2
2003	4	2,3	51,1	28,1	1,424	9,057	9,4
2004	4	2,2	53,7	28,1	1,715	8,588	12,1
2005	3,5	2,6	55,8	28,2	7,808	7,185	2,7
2006	2,5	2,8	54,4	29,7	5,604	6,81	7,3
2007	2,5	2,7	51,5	29,6	10,193	6,351	7,9
2008	2,5	2,5	51	27,5	10,7	6,363	2,3
2009	2,5	2,2	48,8	26,4	4,769	8,843	-14,8
2010	3,5	2,4	46,4	25,6	6,451	8,097	4,2

2011	3	2,3	45,8		7,207	7,856	5,2
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## Appendix B

### Freedom House and GDP per capita in 2012

№	Free countries 2012	GDP per capita 2012
1	Andorra	Luxembourg
2	<i>Antigua and Barbuda</i>	Qatar
3	<i>Argentina</i>	Norway
4	<i>Australia</i>	Switzerland
5	<i>Austria</i>	Australia
6	<i>Bahamas</i>	United Arab Emirates
7	<i>Barbados</i>	Denmark
8	<i>Belgium</i>	Sweden
9	Belize	Canada
10	Benin	Singapore
11	<i>Botswana</i>	United States
12	<i>Brazil</i>	Austria
13	<i>Bulgaria</i>	Japan
14	<i>Canada</i>	Netherlands
15	Cape Verde	Finland
16	<i>Chile</i>	Ireland
17	<i>Costa Rica</i>	Kuwait
18	<i>Croatia</i>	Belgium
19	<i>Cyprus</i>	Iceland
20	<i>Czech Republic</i>	Brunei
21	<i>Denmark</i>	Germany
22	<i>Dominica</i>	France

23	Dominican Republic	United Kingdom
24	El Salvador	New Zealand
25	<i>Estonia</i>	Hong Kong
26	<i>Finland</i>	Italy
27	<i>France</i>	Israel
28	<i>Germany</i>	Spain
29	Ghana	Cyprus
30	<i>Greece</i>	Saudi Arabia
31	<i>Grenada</i>	Bahrain
32	Guyana	Equatorial Guinea
33	<i>Hungary</i>	South Korea
34	<i>Iceland</i>	Bahamas
35	India	Slovenia
36	Indonesia	Greece
37	<i>Ireland</i>	Malta
38	<i>Israel</i>	Taiwan
39	<i>Italy</i>	Portugal
40	Jamaica	Trinidad and Tobago
41	<i>Japan</i>	Czech Republic
42	Kiribati	Slovakia
43	<i>Latvia</i>	Estonia
44	Liechtenstein	Barbados
45	<i>Lithuania</i>	Chile
46	<i>Luxembourg</i>	Uruguay
47	Mali	Russia
48	<i>Malta</i>	Lithuania

49	Marshall Islands	Latvia
50	<i>Mauritius</i>	Antigua and Barbuda
51	Micronesia	Croatia
52	Monaco	Venezuela
53	Mongolia	Saint Kitts and Nevis
54	<i>Montenegro</i>	Libya
55	Namibia	Hungary
56	Nauru	Poland
57	<i>Netherlands</i>	Brazil
58	<i>New Zealand</i>	Gabon
59	<i>Norway</i>	Kazakhstan
60	Palau	Argentina
61	<i>Panama</i>	Seychelles
62	<i>Peru</i>	Turkey
63	<i>Poland</i>	Lebanon
64	<i>Portugal</i>	Malaysia
65	<i>Romania</i>	Mexico
66	Samoa	Panama
67	San Marino	Costa Rica
68	Sao Tome and Principe	Botswana
69	Serbia	Mauritius
70	<i>Slovakia</i>	Suriname
71	<i>Slovenia</i>	Romania
72	<i>South Africa</i>	Colombia
73	<i>South Korea</i>	South Africa
74	<i>Spain</i>	Grenada



75	<i>St. Kitts and Nevis</i>	Azerbaijan
76	<i>St. Lucia</i>	St. Lucia
77	<i>St. Vincent and Grenadines</i>	Iran
78	<i>Suriname</i>	Bulgaria
79	<i>Sweden</i>	Dominica
80	<i>Switzerland</i>	Montenegro
81	<i>Taiwan</i>	Belarus
82	<i>Trinidad and Tobago</i>	Maldives
83	Tuvalu	Peru
84	<i>United Kingdom</i>	St. Vincent and Grenadines
85	<i>United States</i>	Iraq
86	<i>Uruguay</i>	China
87	Vanuatu	Turkmenistan

## Appendix C

### CPI and GDP per capita 2012

№	CPI 2012	GDP per capita 2012
1	<i>Denmark</i>	<i>Luxembourg</i>
2	<i>Finland</i>	<i>Qatar</i>
3	<i>New Zealand</i>	<i>Norway</i>
4	<i>Sweden</i>	<i>Switzerland</i>
5	<i>Singapore</i>	<i>Australia</i>
6	<i>Switzerland</i>	<i>United Arab Emirates</i>
7	<i>Australia</i>	<i>Denmark</i>
8	<i>Norway</i>	<i>Sweden</i>
9	<i>Canada</i>	<i>Canada</i>
10	<i>Netherlands</i>	<i>Singapore</i>
11	<i>Iceland</i>	<i>United States</i>
12	<i>Luxembourg</i>	<i>Austria</i>
13	<i>Germany</i>	<i>Japan</i>
14	<i>Hong Kong</i>	<i>Netherlands</i>
15	Barbados	<i>Finland</i>
16	<i>Belgium</i>	<i>Ireland</i>
17	<i>Japan</i>	Kuwait
18	<i>United Kingdom</i>	<i>Belgium</i>
19	<i>United States</i>	<i>Iceland</i>
20	Chile	Brunei
21	Uruguay	<i>Germany</i>
22	Bahamas	<i>France</i>

23	<i>France</i>	<i>United Kingdom</i>
24	Saint Lucia	<i>New Zealand</i>
25	<i>Austria</i>	<i>Hong Kong</i>
26	<i>Ireland</i>	<i>Italy</i>
27	<i>Qatar</i>	Israel
28	<i>United Arab Emirates</i>	Spain
29	<i>Cyprus</i>	<i>Cyprus</i>
30	Botswana	Saudi Arabia

## 국문초록

# 우크라이나의 정치체제가 경제 성과에 미치는 영향에 관한 연구

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본 연구는 우크라이나에서 정치체제가 경제 발전에 어떤 영향을 미치는지를 심도깊게 연구하였다. 1999년부터 2013년까지를 분석기간으로 설정하고 질적 및 양적 분석을 동시에 사용하여 조사하였다. 본 연구의 주요한 목적은 민주적 정치체제가 권위주의 정치체제에 비해서 경제발전에 있어 더 나은 성과를 거둘 것이라는 가설을 검증하는 것이었다. 이를 검증하기 위해서 통계분석과 설문조사 분석을 수행하였다.

연구 결과에 따르면, 민주적 정치체제가 권위주의 정치체제보다 경제적 성과가 더 뛰어나다는 것을 밝혀내었다. 그러나 이러한 주장을 뒷받침하지 못하는 사례들도 있었다. 자료의 한계로 인해서 본 연구는 보다 엄밀한 통계분석을 실시하지 못했지만 이는 후속연구를 통해서 극복되어야 할 것이다.

주요어: 정치체제, 민주주의, 권위주의, 서베이

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