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International
Centre for
Policy
Studies

INSIDE UKRAINE

#3, December 2009

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December in Ukraine: Political, Economic, and Foreign Policy Developments

Domestic Politics and Policy

With the first round of the presidential election looming ever closer, the leading candidates in December intensified their campaigning (read: their attacks on each other).

President Yushchenko has continued emphasizing his nation-building achievements. But as the economic crisis continues to bite, this approach is gaining little traction. Attempts by the National Institute of Strategic Studies to portray him as making progress in the polls seem more like wishful thinking than the reflection of a real trend — the Institute is connected to the presidential secretariat. The president is competing for the third place against the 'new faces' of the campaign, Arseniy Yatsenyuk and Serhiy Tihipko, who are polling just above him at around 5 percent. He has concentrated his attacks on Prime Minister Tymoshenko, claiming that she represents the greatest threat to democracy. Referring to negotiations between Ms. Tymoshenko and Mr. Yanukovych on a new constitutional and power-sharing arrangement earlier this year, Mr. Yushchenko insisted that the two still intended to divide the country into spheres of influence for years to come.

Ms. Tymoshenko has continued to portray herself as the hero fighting the economic crisis despite the ill-wishers' best efforts. These "enemies of the people" are, of course, her political opponents — Viktor Yanukovych and Viktor Yushchenko — along with their allies in the National Bank, the Prosecutor General's office and big business. She wants to present the election as a generational decision between a corrupt past (Mr. Yanukovych) and a European future (her). Nevertheless, there remains a question mark over whether she can push through the reforms needed to build Europe in Ukraine, as she promises.

Ms. Tymoshenko continued in December to blur the line between her job as prime minister and campaign for the presidency. She has created numerous opportunities for her to travel to the regions for public events ranging from handing out keys to flats

purchased by the state to power plant launch. She uses each of those opportunities for campaign appearances and speeches.

Ms. Tymoshenko has stated that if victorious, Mr. Yanukovych would make Mr. Yushchenko his prime minister. The timely discovery of a "signed agreement" between the two on Dec. 25 added apparent weight to the argument. Such talk is aimed at discrediting each of her opponents in the eyes of their core electorates, which are diametrically opposed.

Mr. Yanukovych lacks Ms. Tymoshenko's fiery campaigning skills, with one commentator comparing his style to "watching the river flow by." But this does not seem to have hurt his chances, with the economic crisis continuing to damage the premier. Still, his large first-round lead in polls — 31 percent versus 19 percent for Tymoshenko¹ — does not make him a shoe-in for the Presidency. It is possible that his current ratings represent a peak and that Ms. Tymoshenko will be more successful in attracting new votes before the February run-off.

In December he continually criticized Ms. Tymoshenko's use of administrative resources in campaigning, and claimed that she plans to rig the ballot in her favour. She in turn says he is planning falsifications.

Despite Ms. Tymoshenko's claims of a pact between Yanukovych and Yushchenko, Mr. Yanukovych insists that he wants nothing to do with either of them, and hinted on Dec. 27 that he could install long-time ally Borys Kolesnikov, Rinat Akhmetov's right-hand man. Even if he wins, however, Mr. Yanukovych will have a battle on his hands to push through early parliamentary elections and replace the Tymoshenko government.

¹ According to the results released on December 15, 2009, by the International Foundation for Electoral Systems (IFES).

Economy

On December 23, Prime Minister Tymoshenko announced that further IMF financing would only be unlocked after the adoption of the 2010 budget, which is unlikely until after the election. The statement came after the IMF refused to disburse USD \$2 billion of the delayed \$3.8 billion loan tranche, despite Deputy Prime Minister Hryhoriy Nemyria's efforts in Washington. Mr. Nemyria had earlier warned of problems paying wages, pensions, and Russian gas in January, and of potential "spill-over" into other countries in the region. However, the government should still be able to meet its financial obligations: according to Ms. Tymoshenko, the IMF will allow Ukraine to use the part of already received loan tranches kept in National Bank's reserves to cover budget expenditures, including payment for Russian gas. A confirmation of this decision by IMF or NBU is yet to be made.

December also saw a significant development at the IMF *per se*, with the Fund deciding to replace its mission chief to Ukraine, Ceyla Pazarbasioglu. Ms. Pazarbasioglu is to be succeeded in January by Athanasios Arvanitis, an advisor in the IMF's European department and a former mission chief to Croatia.

December did bring a bit of good news: government figures, released on Dec. 7, show that inflation had fallen in November for the fourth month in a row in annual terms. It now stands at 13.6 percent, compared with over 30 percent 18 months ago. The hryvnia also remained fairly stable at just below 8 to the dollar.

In addition, UEFA confirmed that four Ukrainian cities (Kyiv, Lviv, Kharkiv, and Donetsk) would host games for the Euro 2012 football championship. The decision has been hailed by some as an excellent opportunity to attract investment, but critics point to previous disappointments and question where the investment will come from. The National Bank is still refusing to hand over around UAH10 billion demanded by parliament to fund the preparations, and Ukraine's investment climate remains lamentable. The planned infrastructure investments in roads and airports are expected to provide an economic boost, but the usefulness and profitability in years to come of projects demanded by UEFA have not been properly considered.

With no budget agreed for 2010 the economy remains highly fragile, and the approaching election will only enhance uncertainty. It remains to be seen whether the policymaking environment will improve enough after a probable run-off on February 7. Much depends on the new president finding a workable majority in parliament and being prepared to take the tough decisions needed to realize the promises made.

Foreign and Security Policy

December brought no major surprises in foreign policy. As mentioned in the previous issue of *Inside Ukraine*, the EU-Ukraine Summit of December 4 proved uneventful. Despite President Yushchenko's initial misleading depiction of the meeting as a momentous event, it did not feature the long-awaited conclusion of an Association Agreement (AA). Instead, it was an opportunity for European Commission President Jose Manuel Barroso to criticize Ukraine's politicians, saying that "it often seems that commitments on reform are only partially implemented and words are not always accompanied by action." Still, Mr. Barroso said the AA could be signed as early as 2010, though negotiators on both sides say negotiations may last till 2012.

Ukraine being Ukraine, December witnessed interesting developments in energy security — albeit of a less dramatic nature than in previous months (and years). On December 18, the country was officially accepted as a party to the Energy Community Treaty (ECT). Actual accession, contingent on prior legislative reforms to implement the EU *acquis* in energy, is first and foremost an internal matter. But it is also a step toward integration into an eventual single energy market with the EU and the Balkans. In addition, it opens the door to further European financing for some of the pressing reforms Ukraine needs. ECT membership may therefore boost Ukraine's independence and credibility as an international player, particularly as the key transit state for EU-bound Russian gas.

But these benefits will not materialize overnight, and in the meantime Ukraine still has to develop a more stable energy relationship with Russia. On December 22, Gazprom announced that it was extending Naftohaz's December gas payment deadline from January 7th to the 11th. This is very convenient for the Tymoshenko government, as it still

does not know where it will find the funds to pay the US \$800 million bill. Although the extension is officially "due to the holidays," it is another sign that Moscow wants to avoid a gas crisis that would hurt Ms. Tymoshenko's election chances in January. Indeed, this year Russian premier Vladimir Putin has repeatedly praised Ms. Tymoshenko, whom he sees as a more equal partner than either President Yushchenko or Mr. Yanukovich. This has led him to demonstrate a new flexibility toward Ukraine, namely waiving potentially crippling fines for fail-

ing to buy as much gas as stipulated in its contract with Gazprom. The question of what will happen if Ukraine fails to meet the January 11 deadline, however, remains open.

December was not a revolutionary month for Ukrainian foreign policy, but it did highlight an important trend: the country's desire to integrate its energy system with that of Europe, while stabilizing its energy relationship with Russia. With Ukraine to begin paying full market prices for Russian gas in January, the new year could well test this strategy.

The Foreign Policies of Presidential Candidates: A Blast from the Past

The Orange Revolution has come full circle. Five years ago, a contested election brought Viktor Yushchenko to power and raised the real possibility of a pro-Western course for Ukraine. Today, EU and NATO accession are both off the table, at least in the near future. The EU, the US, and even Russia all suffer from "Ukraine fatigue." Political infighting has infected foreign policy and destabilized the region, creating tensions both between Ukraine and its neighbors and between its neighbors themselves.

At the same time, there is a growing understanding among Ukraine's political elites of their country's crucial role in shaping developments in the region and in Europe as a whole. While Ukraine has failed to live up to expectations as a partner to the West, a cornerstone of regional security and a beacon of democracy in the post-Soviet space, the need for Ukraine to play this role is only growing.

This is the context in which Ukraine is preparing for its January 17 presidential election. And though the campaign has focused mainly on domestic issues, it is foreign policy that constitutes the president's main constitutional prerogative. Indeed, while Ukraine's constitution gives the Verkhovna Rada responsibility for establishing the essential principles of the country's foreign policy, it entrusts the president with the task of implementing them. The head of state is responsible for the protection of Ukraine's political and economic interests abroad, as well as for fostering the country's international prominence. It is the president, not the premier, who nominates the foreign affairs and defense ministers. Despite the rhetoric, therefore, the 2010 election will have its most momentous impact on foreign policy.

The key question, of course, is whether the new president will follow Mr. Yushchenko's Western course, or whether he or she will take the country in a new direction. There are wide differences between some of the candidates' foreign policy positions. But all will have to abide, at least in lip-service, to the Verkhovna Rada's "Basic Directions of the Foreign

Policy of Ukraine" of 1993, which chart a European course for Ukraine.

With views spanning from President Yushchenko's insistence on EU and NATO membership to the pro-Russian positions of Petro Symonenko, the presidential field offers a wide spectrum of standpoints. Still, the 2010 campaign has brought back an old fad: the "multi-vector" stance of the Kuchma presidency (1994-2004), which consisted of maintaining neutrality between Russia and the West while attempting to play both sides off each other. Indeed, most candidates have adopted some version of the multi-vector strategy, though most avoid using the expression.

In this special issue, *Inside Ukraine* explains the principal foreign policy stances of the main presidential candidates. The candidates are divided into three tiers:

- the front-runners, Viktor Yanukovych and Yulia Tymoshenko;
- the second-tier candidates, Serhiy Tihipko, Arseniy Yatseniuk, battling for third place, and President Yushchenko; and
- the third-tier candidates, who are not serious contenders.

The frontrunners

Viktor Yanukovych: Eastward-looking Neutrality

With 31 percent support according to a recent poll,² Mr. Yanukovych, the leader of the Party of Regions, currently leads the pack in opinion polls. President Yushchenko's opponent in 2004, he is generally seen as the most pro-Russian of the major candidates. He vocally opposes NATO membership. During a visit to Brussels as premier in September 2006, he called for a "pause" in progress toward a Membership Action Plan (MAP) for Ukraine, in clear contradiction

² Unless otherwise indicated, all poll numbers are taken from the results released on December 15, 2009, by the International Foundation for Electoral Systems.

to the course set by President Yushchenko and former premier Yulia Tymoshenko in 2005.

Mr. Yanukovich officially supports a "neutral" position for Ukraine. While opposing NATO and calling for better relations with Russia, he maintains EU membership as a "strategic goal" and is attentive to comments from European leaders. Still, his electoral manifesto makes no mention of European integration, though he supports the signing of an Association Agreement and a Deep Free Trade Agreement (FTA) with the EU. As such, he can be said to espouse a version of President Kuchma's multi-vector strategy.

Beyond a generally positive attitude toward EU integration and opposition to NATO membership, it is unclear how this "neutral" stance would be operationalized in a Yanukovich presidency. Indeed, this position will inevitably create tensions. One telling example concerns international trade: the former premier supports both the FTA with the EU and Ukraine's integration into the CIS Single Economic Space, which are, by definition, mutually exclusive.

Mr. Yanukovich's electoral support comes mainly from the country's Russian-speaking southern and eastern regions. As president, he would therefore try to steer clear of divisive issues pitting East against West. For example, he has expressed his willingness to let Russia keep its naval base in Sevastopol when the current lease expires in 2017. But as the next presidential term ends in 2015, a President Yanukovich would avoid making a high-profile issue out of it, leaving it to be dealt with by his successor (or ideally, by himself in a second term).

Yulia Tymoshenko: Balancing Partnerships

With 19 percent support, Ms. Tymoshenko, the current premier and an erstwhile Yushchenko ally, is in second place. Her foreign policy stances have varied greatly in the five years since she and Mr. Yushchenko rode the Orange wave to power in 2004. Initially wary of Russia, in 2007 she published a widely-discussed article in *Foreign Affairs* calling for the West to resist Russia's "imperial designs." As part of a coalition deal in January 2008, she co-signed a letter with President Yushchenko and then-Parliamentary speaker Arseniy Yatseniuk calling for NATO to extend a MAP to Ukraine.

Today, however, Ms. Tymoshenko has become the main motor of normalization of Ukrainian – Russian relations, and is believed by many to be Moscow's current preferred candidate. Indeed, 2009 saw a rapprochement between the Ukrainian and Russian premiers. Cooperation has become especially important in the realm of energy, long an irritant between the two countries. This autumn, Mr. Putin agreed not to fine Ukraine's Naftohaz for purchasing less gas in 2009 than stipulated in its contract with Gazprom. This spared the hefty penalties and reduced the risk of yet another "gas war" in the near future. Many saw this as evidence that Moscow does not want to undermine Ms. Tymoshenko, with whom it believes it can negotiate, before the presidential poll.

Like Mr. Yanukovich, Ms. Tymoshenko is developing a balancing act reminiscent of the multi-vector approach. She supports EU membership and calls for the government to "build Europe in Ukraine," namely in the form of reforms. At the same time, she has cooled significantly on NATO, a change partly driven by unfavorable public opinion, and favors stronger economic ties with Russia. And like Yanukovich, she insists that Ukraine's participation in any regional security arrangement first be approved by the population through a referendum.

Ms. Tymoshenko's "multi-vectorism" can be said to be more tactical and less Russia-centric than that of Mr. Yanukovich, whose Party of Regions has institutional links to Vladimir Putin's United Russia. Unlike Mr. Yanukovich, the premier is not "naturally" pro-Russian. Her approach is more pragmatic but also more unpredictable, driven in large part by electoral considerations.

Second-tier candidates

Serhiy Tihipko: Economic Priorities

Mr. Tihipko, currently running third, is the only one of the major candidates to have openly termed his foreign policy stance "multi-vectoral," a clear throwback to the Kuchma era. He has called for Ukraine to stop "looking for a big brother" by establishing "equitable" relations with the EU and "resetting" its relationship with Russia. While Ukraine is a European country, he says, it is not destined to join the EU and should focus instead on establishing a

visa-free regime with the Union. A former Party of Regions member, he opposes NATO membership while recognizing the need for a "partnership" with the alliance.

A former Minister of Economy and National Bank governor, Mr. Tihipko supports "economic diplomacy" and the "subordination" of Ukraine's foreign policy to national economic interests. He argues that Ukraine should focus on signing Association and Free Trade agreements with the Union rather than pushing for accession in the near future. In addition, he states, Ukraine's improved relationship with Russia should be characterized by the avoidance of contentious political issues and increased economic cooperation, including in the military sector. Finally, he argues, economic diplomacy also dictates that Ukraine "go east," enhancing its economic relationship with Central Asia, India, and China.

A second-tier candidate, Mr. Tihipko has expressed his willingness to work with whomever of Ms. Tymoshenko or Mr. Yanukovich wins the presidency. While a hypothetical ministerial position (or even the premiership) under either of them would likely be economically- rather than internationally-focused, this is evidence of the compatibility of these three candidates' stances on the most important issues facing Ukraine, including foreign policy.

Arseniy Yatseniuk: Full of Surprises

Representing the Front of Change, Mr. Yatseniuk, the former third-place candidate, has seen his ratings slip to 4.7 percent since almost drawing even with Ms. Tymoshenko in May. His foreign policy course has been very unpredictable. Nominated as foreign minister in March 2007, he was a strong supporter of EU and NATO integration. As Speaker of Parliament, in 2008 he co-signed a letter with President Yushchenko and Premier Tymoshenko calling for Ukraine to be offered a NATO MAP.

In 2009, however, he seems to have gone to great lengths to find a "third way" between Brussels and Moscow. Today, his foreign policy rhetoric has little in common with his past positions. He has actually removed his signature from the MAP letter, a step Ms. Tymoshenko has not taken. He has also toyed with the idea of creating a Kyiv-led "Eastern European Union" (EEU) of states excluded from the EU, as part of a poorly-defined "Greater Europe"

spanning from the Atlantic to the Pacific. While he presents this as a plausible middle-of-the-road option, it is difficult to see how this EEU, which would include Russia, would maintain its neutrality — or how Ukraine could lead it.

Mr. Yatseniuk has gone from the logical inheritor of Mr. Yushchenko's Western-minded constituency to yet another member of the multi-vector family, undermining his support in western Ukraine without making gains in the rest of the country. After almost reaching second place in May, Mr. Yatseniuk has seen his support collapse and various polls now put him in fourth or even fifth place.

Viktor Yushchenko: Western-Bound

President Yushchenko, of Our Ukraine, came to power in 2004 promising reform and a steady Western course for Ukraine. Five years later, he is running for reelection but his poll numbers put him in sixth place, at 3.5 percent — evidence of his failure to deliver on both counts.

Ukraine is on track for neither EU or NATO accession in the near future, and relations with Russia are at an all-time low. Still, the President insists that the idea of NATO membership is gaining traction among the population and that the current nadir in the Kyiv-Moscow relationship is only temporary. He has called for friendlier relations with Russia but heaps the blame for the current situation on Moscow, recently arguing that "I have offered my hand to the Russian leadership dozens of times."

Nevertheless, Mr. Yushchenko's reelection program remains highly Western-oriented. It is the only one to explicitly call for EU membership for Ukraine, and while it does not mention NATO it does argue for Ukraine to "strengthen the Euro-Atlantic collective security system." It also calls for the expulsion of Russia's Black Sea Fleet from Sevastopol in 2017.

Despite his pro-Western rhetoric, the President has failed to deliver the reforms necessary for Ukraine to become a viable candidate to either NATO or the EU. Corruption remains endemic and the country's economy still rests on quicksand. While internal reforms are of governmental rather than presidential responsibility, Mr. Yushchenko's manoeuvring is in large part responsible for the political instability that has prevented momentum for change.

Third-tier candidates

Multi-vectorism is also popular among third-tier candidates, most of whom advocate neutrality of some sort as a means to ensure greater prominence and security for Ukraine.³

Inna Bohoslovska, formerly of the Party of Regions, goes so far as to call for Ukraine to become "the Switzerland of the twenty-first century." She stresses the importance of "neutral" partnerships with the European Union, China, India, Brazil, Japan, and the United States. But she does identify one "special" partner: Russia, whose "civilizational, historical, cultural and ancestral ties" to Ukraine make it indispensable. Ms. Bohoslovska has also proposed to make Kyiv the centre of global negotiations on "the new world order," though like Mr. Yatseniuk's Eastern European Union, this seems more like wishful thinking than a real strategy.

As for Parliamentary speaker and former Kuchma ally **Volodymyr Lytvyn**, he has argued for a policy of "active neutrality" complemented by participation in a Single Economic Space composed of Ukraine, Russia, Belarus, and Kazakhstan. At the same time, supported as he is by the agrarian lobby, he advocates for the free movement of persons, goods, services, and capital between Ukraine and the EU — despite the apparent contradiction between these two positions.

Finally, even former defense minister **Anatoliy Gritsenko**, generally seen as pro-European, has insisted that the next five years not see Ukraine soliciting membership in "political or military alliances," and instead concentrate building up Ukraine's strength from the inside.

Conclusion: 8 key points

Ukraine's political elites have yet to make the civilizational choice that will determine the country's political, economic, and geopolitical position in the twenty-first century. Indeed, the verdict is clear: multi-vectorism, whether called "active neutrality" or "pragmatism," is "in."

³ Given the impracticability of analyzing the foreign policies of all 13 third-tier candidates, only three are examined. While the sample is not perfectly representative, it does include the more interesting positions taken by the members of this group.

Domestic issues have dominated campaign debates, leaving little room for foreign policy. This will give the new president more room to maneuver in international affairs, so only time will tell how (and how much of) the multi-vector rhetoric will be translated into policy. Some key points to keep in mind:

- Ukraine's unreformed state is the most significant obstacle to prosperity and an independent foreign policy, but none of the presidential candidates have made modernization a priority. This leaves the door wide open to disproportionate Russian influence;
- Ukraine's unpredictability over the last five years has led to "Ukraine fatigue" in the EU, the US, and Russia;
- insufficient strategic thinking has made Ukraine miss the opportunity provided by the increasing role of second-tier actors, as the growing salience of the G20 and BRIC demonstrates;
- the Kuchma-era "multi-vector" stance is regaining popularity. The key question is whether the new president's multi-vectorism will be as skillfully implemented as Kuchma's;
- all candidates advocate better relations with Russia but they fail to describe how these could be fostered;
- the issues of EU and NATO membership were disconnected in this campaign, which can be seen as a positive development;
- only Mr. Yushchenko and Ms. Tymoshenko can be said to staunchly advocate EU membership;
- some of the ideas put forward by candidates — like Mr. Yatseniuk's Eastern European Union and Ms. Bohoslovska's "Kyiv Initiative" — demonstrate just how disconnected some of Ukraine's leaders are from international reality.

Some of the positions adopted by candidates are transparent campaign ploys, but they distract from the real foreign policy questions: How can Ukraine turn its geopolitical situation, thus far a liability, into an asset? Where, politically and economically speaking, does Ukraine "belong"? And most importantly: around what issues can the country's political elites establish compatible positions and work together toward a common goal? The current campaign has furnished few answers, and still fewer good ones.

Important Events in January

Ukrainian Events

January 4–15

Televised debates between presidential candidates.

January 17

First round of the presidential election.

Dates unspecified

After January 7: Arrival of Athanasios Arvantis, the IMF's new mission chief in Ukraine.
Expected outcome: continued cooperation between the IMF and Ukraine; allocation of the fourth tranche of the IMF loan.

International Events

January 1

Spain assumes the rotating presidency of the Council of the European Union.

Herman van Rompuy becomes the first permanent President of the European Council.
Expected outcome: shaping the position's exact responsibilities and portfolio.

Entry into force of the Russia-Belarus-Kazakhstan customs union.
Expected outcome: enhanced economic cooperation.

January 10

Eastern Partnership countries summit on energy issues in Tbilisi.
Expected outcome: elaboration of a common EaP position on the construction of an Eurasian oil transportation corridor.

January 17

Presidential election run-off in Chile.
Expected outcome: election of either Sebastian Picera or Eduardo Frei Ruiz Tagle.

January 22

Meeting of the Eastern Partnership Civil Society Forum Steering Committee in Brussels.
Expected outcome: preparation of a concept paper on the future development of the Forum; elaboration of procedures for the selection of participants at the next meeting of the Forum.

January 26

European Parliament vote on the new European Commission.
Expected outcome: approval of the European Commission.

January 27–31

World Economic Forum in Davos-Kloster, Switzerland.

Dates unspecified

Launching of Association Agreement talks between the European Union and Moldova.

Nuclear security conference for Asian Countries in Tokyo.
Expected outcome: promotion of regional efforts to strengthen nuclear security.