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FOREWORD

The difficult transformations that Ukraine is currently undergoing are a reflection of the all-embracing process of globalization and of the global challenges and prospects that are offered by the contemporary world. Whatever meaning is given to the concept of globalization and however this process is assessed, it is pointless to oppose the inevitable connection between this phenomenon and all political and economic processes. What Ukraine's role and weight will be in the modern multi-lateral world depends directly on having a clear plan for integration into the global playing field and being aware of the opportunities and risks that await the country as it moves in this direction.

Other countries in Europe have achieved considerable progress along this path: the expansion of the EU has embraced a majority of countries in Central and Eastern Europe and in the Western Balkans. Right now, however, there are large differences within the EU itself regarding the future of eurointegration processes. Many officials in Brussels are wary of the complications that accompanied the last wave of accessions to the EU and a general "expansion fatigue" that has set in. In this kind of situation, they say, any real prospects of integration for potential new members need to be set aside for an indefinite term.

Optimists, on the other hand, insist that continuing to expand and to encourage new partners can only benefit any integrated entity. In the case of the EU, continuing expansion will create an enormous market of some 500 million and will make it possible for the Union to establish itself as a global competitor.

I tend towards the latter point of view and see integration as a gradual process that can change its pace, slowing down and speeding up, but should not stop. The EU should actively and pro-actively offer integrational opportunities to its nearest neighbors in order to prevent stagnation and decline within the Union itself. In other words, the eurointegration process can never be seen as a completely finished process until all European countries are walking the same path of development.

When we look at Ukraine's integrational ambitions from this perspective, the contrast between the indisputable strategic significance of Ukraine and the EU's attitude towards the country—which verges on indifference much of the time—is striking. This is why I continue to insist that Ukraine, with its 46 million population and enormous economic

potential is simply too important to exclude it from any vision of a future Europe. Yet the EU's strategy towards Ukraine at best looks ambivalent and opaque. Given this, it's little wonder that other major players in the region have shown the capacity and willingness to take the integrational lead themselves, especially the country's northern neighbor.

Still, the absence of a common approach in the rest of Europe with regard to Ukraine and the low pace of integration currently evident should not cause Ukrainians themselves to feel disenchanting with integrational initiatives as a whole. An understanding of relations between Ukraine and the EU as a long-term evolutionary process would go a long way to preventing this. In this context, any temporary slowdown in the dynamic of integrational processes should be seen, not as a threat, but as an objective need to extend the accession period.

We also need to understand that viewing integrational processes across European territory from the geopolitical perspective of Cold War notions was and remains wrong: neither the contemporary international political situation nor the situation on world markets warrants such an approach. In other words, too much attention is being focused on Ukraine's supposedly fundamental choice between the East and the West.

Finding a formula that will establish some balance between the EU and its eastern partners, especially Russia, is far more important—a formula that will not only be much more in Ukraine's interests, but one that is based on a clear-eyed evaluation of the integrational prospects and potential of each of the possible partners. When it comes to integrational processes, such a position is far more promising than a long-term period of “suspended animation” or a rushed re-orientation of Ukraine's foreign policy course at the start of very new electoral cycle.

Let us turn to more specific events that have had a direct impact on the formulation of Ukraine's current integrational course. Here, it is hard not to feel that the last presidential election resulted in significant adjustments to this course, making Russia Ukraine's main integrational partner for the foreseeable future. The willingness of Russia to extend a helping hand is important, as well as its initiative in drawing Ukraine closer to existing integrational projects in the post-soviet region and the declared willingness of Ukraine's government to accept these challenges.

At first glance, this seeming concurrence no longer raises any questions about the real direction of Ukraine's integrational aspirations. European prospects, according to this way of thinking, have gone into the background, regardless of the efforts of Ukraine's leadership to assure its own

population and Brussels of the country's continuing European course. In reality, the situation is not so straightforward.

First of all, the new President of Ukraine should not be looked upon as a simple unthinking advocate of Kremlin policies in Kyiv. Without doubt, his high-profile decisions, which have put an end to Ukraine's efforts to join NATO by extending the stay of the Russian fleet in Crimea, have been very painful for that part of Ukraine's electorate that looks to the West. But such actions can also be interpreted as an attempt to restore a necessary balance between Russia and the EU in the country's foreign policy. If this balance is seen as reasonable and deliberate and Ukraine ceases to be the zone of endless geopolitical stand-offs with its eastern neighbor, the peaceful co-existence of Ukrainian and Russian interests can only be welcomed in the European community. The absence of conflicts with Russia will allow Ukraine to better carry out its role as Europe's gas transport partner and, given the prospects for a Free Trade Zone with the EU, its potential role as a link in the trade chain with Russia.

At the same time, Russia has a long way to go to confirm its own status as the main center of integrational processes in the post-soviet arena. Instead of gloating over windfall profits from energy sales and harboring illusions about a return to "superpower" status, Russia needs to seriously start thinking about how it can build a strategic partnership with the European Union. If it does not intend to do this, then it should at least consider looking at European integrational practice and apply it to its own regional integrational initiatives. Trying to invent some kind of unique "Russian formula" for integration without taking into account existing practice threatens to turn into a disorganized and costly lesson through its own mistakes.

In general, there is significant reason to expect that President Yanukovich will remain no less dedicated to the idea of Ukrainian sovereignty than other politicians and the country's electorate—not the least, for a slew of economic reasons. Ukraine's business elite, which paved the way for the new President to come to power, clearly understands that Ukraine's economic future lies with a broader European market. And this factor could become the key to the evolution of relations between Ukraine and the EU over the next few years. Moreover, the pragmatism and reformist orientation of the new Ukrainian Administration are hard to deny, features that can only please the country's western partners.

At the same time, the actual steps being taken to embody this pragmatic orientation raise many questions, concerns and criticisms on the part of both Ukraine's citizenry and international players. As an example, the

recent resolution to rescind changes to the Constitution that were passed in 2004 can easily be seen as a step backwards and a symptom of the new leader's pull towards authoritarianism. On the other hand, this restructuring of the political system can also be a functional situational measure that will prevent the emergence of stalemates in the future, an all-too-common feature of political processes during the previous President's term in office. Faced with the need to meet the strict conditions placed upon the country by the IMF, which typically means introducing highly unpopular measures, the country's leadership may be able to justify such a step. In any case, like every ruling made within the walls of the Constitutional Court, this decision merits the highest respect.

However consolidated the country's political leadership may be at the very top, the resistance of its bureaucratic machine at the middle and lower levels could block all reformist initiatives. It could turn out that the broad powers that have been returned to the hands of the President through considerable efforts after the Constitutional "re-boot" will be impossible to apply effectively to carry out much-needed reforms. The main conditions for any integrational processes and the deep transformations they entail are, firstly, consistent actions on the part of political leaders and, secondly, the readiness of the government bureaucracy to actively enact their decisions. Lately, the impression is that the first condition is gradually being met in Ukraine. However, the need to consistently reorganize all ranks of the bureaucratic machine is pressing, as this system has remained largely unchanged since soviet times and is far from interested in dynamic integrational processes, regardless of which direction they go in.

In short, the general formula by which Ukraine should consider orienting its integrational aspirations can be stated thus: put together balanced integrational projects with your most promising partners while not rejecting European integrational approaches and practices out of hand, and pay particular attention to internal reform in the public administration system.

Aleksander Kwaśniewski
President of the Republic of Poland 1995-2005,
Chair of ICPS Supervisory Board

OVERVIEW

New supra-state associations began to emerge in the 20th century that have been evolving rapidly and, in some cases, taking on the shape of state governments. The first of these was the US, which found itself faced with the possible breakaway of several states in the 1860s and established a supersystem of government. The Soviet Union was an example of a totalitarian association; whereas, the European Union is an association of countries on a parity basis. In each of these superstates, a specific term emerged to designate their citizens regardless of their ethnic or national origins: Americans, Soviets and Europeans.

The integration process is inescapable and nearly every country on the planet is involved in such a process on some level or another today. In Europe, the EU has been actively expanding; on former Soviet territory, Russia is the leader in this process. Ukraine's policy which was focused on acceding to the EU has reached a dead end. At the same time, Russian plans that include Ukraine, such as the Customs Union, which are mostly devised on the basis of a centralized government in Moscow and on the idea of dominating and absorbing other states, have mostly failed. For the 21st century, this approach is ineffective and offers few prospects.

Ukraine has already been drawn into global integrational processes, especially those involving former Soviet states. The question is more about what place the country has in these processes. This Green Paper offers a new look at these processes.

Indeed, these processes offer Kyiv the chance of not just being a passive participant in negotiations, as Moscow proposes, but of proposing its own model of post-Soviet integration. Ukraine will not find a workable foreign policy in relation to Europe or the world until it understands and begins to apply the mechanisms of international partnership with its nearest neighbors, the former Soviet republics. This means that the post-Soviet region must now become a priority in Ukraine's foreign policy.

The new model of integration is not an alternative to the European direction of Ukraine's foreign policy but, on the contrary, a way of instituting the principles and values of the European Union

in the daily interactions among state and social institutions: parity for every voice, political competition, freedom of speech and human rights as the highest values, and the recognition and protection of the institution of private property as the basis for the socio-economic system.

As the initiator of this new integrational process, Kyiv should fight for the right to be its capital. Ukraine needs to depart from the language of international communication it inherited from soviet times. The language of each country should have equal status, while the wish to present at international public events in the language of the speaker should not be treated as some kind of nationalistic prejudice. Where there are dense clusters of ethnic minorities, Kyiv must insist that public schools provide learning opportunities in their native language and literature, as well as cultural and media centers for these minorities. For Ukrainians in Russia, such clusters include Moscow, Siberia, the Far East, Krasnodarskiy Krai, Surgut, Tiumen and Vladivostok. This is just a small fragment of what we call “Europeanization.”

This Green Paper has been written from the point of view of enormous changes that have come to the understanding of the idea and role of the state in the 21st century. It is an attempt to look at what can be done in the post-soviet region if it is prepared for modern integrational projects and to consider whether the disastrous disintegration that began with the collapse of the Soviet Union will continue at the local level, such as in Georgia, in the pro-Romanian forces in Moldova, and in the active discussion of the possibility that Western Ukraine will separate.

RUSSIA'S AGENDA ON UKRAINE

In this part, the authors have reconstructed Russia's agenda regarding Ukraine based on statements by Russian politicians and trends in Ukrainian-Russian relations

A Roaring Start of Russian Offensive

For Russia, 2010 had a very promising start. Never in recent years had conditions been better for Moscow to push its agenda in Kyiv: the ruling party had a strong pro-Russian constituency and voters largely favor better relations with Russia, the EU was far too pre-occupied trying to save the Euro to deal with Ukraine, and the Obama Administration was keen for a reset with Moscow. In this kind of external situation, Ukraine had very little alternative but to work closely with its northeastern neighbor. This window of opportunity is likely to remain open to Moscow until the next Verkhovna Rada elections in 2012 or even the Presidential race in 2015.

Russia sees an opportunity to pull Ukraine back into its orbit, and is intent on seizing it

This, of course, is in stark contrast to the early “Orange” years, when Russia feared that colored revolutions in its neighborhood would create attractive new political models in the region—and possibly even spread to Moscow.

No longer. Russia's strategic goal today is not defensive, but offensive. It wants to cement its influence in Ukraine. Sizeable segments of both the Russian elite and Russian voters see political and economic dominion over Ukraine as desirable, if not “natural.” The Ukrainians, after all, belong to the Slavic Orthodox brotherhood, along with the Belarusians and Russians. The only question is how to draw Ukraine back into the Russian sphere of influence.

While publicly available official documents do not lay down a clear “Ukraine strategy,” Moscow's agenda has come through in unofficial speeches and publications.

Moscow's main tactical objectives have been preventing Ukraine from joining NATO and gaining control over its gas transit system (GTS) through Gazprom. With the adoption of the Law “On the basis of domestic and foreign policy,” with which Ukraine reaffirmed its non-bloc status on 1 July 2010, the former has been achieved. Russia is now free to focus on the second.

With NATO membership off the table, Moscow's top objective is control of Ukraine's GTS

Also central to the Russian strategy is to draw Ukraine back into its economic orbit—whether by expanding economic cooperation or by directly or indirectly acquiring assets that are either politically or economically attractive. With many of Russia’s most important industries nationalized, the merger or sale of Ukrainian businesses to Russian giants effectively means ceding control to Russian state-owned enterprises. Clearly, Russia is attempting to reconstitute the centrally-controlled industrial sectors that were the heart of the soviet economy. The logical next step would be to pull Ukraine into the Russia-led customs union, even at the expense of its WTO membership. While this is still only hypothetical, it would allow Russia to further detach Ukraine from the West. At the moment, however, Ukraine’s leadership is keeping its distance from the Single Economic Space (SES), at the same time as Russia itself is drawing closer to WTO membership, having completed accession talks with the EU and US.

During the first few months after the Yanukovych Administration came to power, Russia achieved major progress toward reaching its tactical objectives. The main breakthrough was the Kharkiv gas-for-fleet deal. Kyiv and Moscow also worked on setting up a consortium to manage Ukraine’s pipeline system, as well as on myriad other inter-agency agreements. Secondary objectives that had some prior tentative agreements have not been so easy for Moscow to move forward.

Russia’s strategy

Objectives and Priorities: Three views, one vision

After years of squabbling, Russia is asking Ukraine to move back in – on its terms

The first key summary of Russian strategy is the country’s latest **Foreign Policy Concept**,¹ which laments that relations with Ukraine are not as close as they should be and argues for “depoliticized relations based on the national interests of both countries.” However, the Concept’s priority in relations with Ukraine—the “protection of Russian-speakers and ethnic Russians”—is obviously political, implying as it does incursions into its neighbor’s domestic affairs. Other, broader priorities include the preservation of a common cultural space and preventing NATO expansion.

The second is Russian Foreign Minister **Sergei Lavrov**’s “Program on the Use of Foreign Policy to Support the Development

¹ <http://www.niros.ru/news/17730.html>

of the Russian Federation,²” leaked to the Russian *Newsweek*, which sets out very concrete measures:

1. increasing economic cooperation with Ukraine, especially in aviation, transport, and energy;
2. integrating Russia’s United Aircraft-Building Corporation with Ukraine’s aviation enterprises;
3. setting up an international consortium to manage Ukraine’s GTS;
4. supporting Russian oil companies in using the Odesa-Brody pipeline in reverse,³ which would limit Ukraine’s access to Caspian oil;
5. expanding cooperation in atomic energy by signing a long-term contract to supply nuclear fuel to Ukraine;
6. increasing Russian investment in Ukraine and the acquisition of major Ukrainian enterprises by Russian investors.

The third overview of Russia’s strategy can be seen in a speech by **Konstantin Zatulin**, a hawkish Russian Duma member, director of the Institute for the Study of CIS Countries and one-time *persona non grata* in Ukraine, that was delivered 27 April 2009.⁴ The speech is an extremely candid description of the views of Russia’s elite on Ukraine policy. It argues that Russia’s top priority should be the establishment of “special relations” with Ukraine, similar to the relationship between the United States and the United Kingdom in the 1950s.

Russia wants “special relations” with Ukraine

This, Mr. Zatulin argued, was the only way to insulate the relationship from political turbulence, and depended on four key conditions:

1. Ukraine’s official proclamation and legislative confirmation of neutral, non-aligned status;
2. Ukraine’s adoption of a federated Constitution;
3. Ukraine’s elevation of Russian to the status of state language, equal to Ukrainian;
4. The unification of Ukrainian and Russian orthodoxy under the Moscow Patriarchate which in practice implies a liquidation of the Kyiv Patriarchate.

² <http://www.runewsweek.ru/country/34184/>

³ That is, to have it flow from Brody to Odesa.

⁴ <http://www.from-ua.com/politics/925733c7469fb.html>

Russian objectives include changes to Ukraine's political and economic structure

Several of the other objectives laid out in the speech have already been achieved. Political forces representing the Russian-speaking East and South of Ukraine are consolidated and in power, while “anti-Russian” politicians have been forced out of the scene, at least for now. The “Orange” take on the history of Ukrainian-Russian relations has lost clout and NATO accession has been taken off the agenda.

Goals still to be achieved include turning Ukraine into a federation, devolving special powers to Crimea and allowing Sevastopol residents, including those without Ukrainian citizenship, to directly elect their mayor. At the military level, the speech argues for expanding cooperation between Ukrainian and Russian arms producers and for Kyiv to reject NATO standards. Co-operation is also called for in law enforcement, including joint training programs, and in the establishment of a joint disaster-management system.

On the economic level, Moscow hopes to merge Russian and Ukrainian enterprises and to bring Ukraine into its SES. This is to be followed by bringing legal standards in line and adopting a single currency for trade—the ruble. Other priorities include protecting Russian property and investment, expanding Russian banks in Ukraine, setting up cross-border economic zones and, as always, guaranteeing the stability of Ukraine’s gas transit system.

In addition to these basic areas, Russia also wants to reconstitute a common media space, to pursue educational convergence, and to ensure freedom of movement between the two countries and a single labor market.

The prospects for Ukrainian-Russian friendship

The Orange Revolution was a cold shower for Russia’s foreign policy establishment, which still sees relations with Ukraine as risky and unpredictable. Today, it is divided on the real prospects for cooperation and on the means to achieve Russia’s strategic objectives.

The pessimistic school, represented by Mr. Zatulin, envisions highly conflicted relations ultimately resulting in a loss of sovereignty for Ukraine, or even the secession of some regions. The optimists, on the other hand, expect Kyiv to agree to a “special relationship” with Moscow in exchange for a commitment to respect Ukraine’s sovereignty and refrain from supporting any form of pan-nationalism.

Public Opinion on Ukraine-Russia Relations

Ukraine-Russia relations through the eyes of Ukrainians polled by FOM-Ukraine, a Russian company, in April 2010:⁵

- ✦ 72% have a positive opinion of Russia, 20% are neutral, and 6% have a negative opinion. The proportion of Ukrainians with a favorable opinion of Russia has remained stable since 2006.
- ✦ 47% of Ukrainians trust Russian President Dmitri Medvedev, while 23% do not.
- ✦ 58% want Ukraine to pursue rapprochement with both Russia and the West, while 25% favor a strong pro-Russian stance.
- ✦ 63% support joining a Union with Russia and Belarus, while 27% oppose the idea. At the same time, 53% support EU accession, while 26% oppose it.

In January 2010, Ukraine-Russia relations through the eyes of Ukrainians and Russians were polled by KMIS (Ukraine) and the Levada Center (Russia):⁶

- ✦ 52% of Russians have a positive opinion of Ukraine, while 36% have a negative opinion. 93% of Ukrainians have a positive opinion of Russia and only 4% express a negative one.
- ✦ Majorities in both Ukraine (66%) and Russia (55%) support the idea that Ukraine and Russia should be independent of each other but maintain close relations by opening the border and abolishing visas and customs barriers.
- ✦ A greater proportion of Ukrainians (22%) than Russians (14%) support the idea of a single state.
- ✦ 55% of Russians believe that Ukraine should remain independent and maintain good relations with Russia, while 33% think that it should be under the political and economic control of Russia.

⁵ Poll conducted by FOM-Ukraine, a Russian sociological service, on 10-19 April 2010 using 1,000 respondents. The margin of error is 3.2%. http://bd.fom.ru/report/map/ukrain/ukrain_eo/du100430

⁶ <http://www.levada.ru/press/2010022605.html>

Sector-Specific Initiatives: Back to the USSR

The Gas Sector

Gazprom wants to control Ukraine's gas sector

Russia wants control of Ukraine's gas transit system, its gas storage facilities and, say some analysts, its Black Sea shelf gas fields, plus other hydrocarbon resources. Gazprom is also after the right to deal more directly with Ukrainian consumers, potentially through the ownership of gas utilities.

On 30 April, Russian Premier Putin suggested merging Naftogaz Ukrainy and Gazprom. Were this to happen, Gazprom would essentially absorb Ukraine's GTS and reduce the risks associated with pumping gas through foreign territory. Gazprom President Alexei Miller has promised that, under such an arrangement, his company would make the investments necessary to modernize Ukraine's decrepit transit infrastructure.⁷ But a Naftogaz-Gazprom merger is just one of the many avenues that could lead to Russian control Ukraine's GTS. Other options include an international consortium with Russian participation to manage it and finance its modernization.

Russia could gain control of Ukraine's GTS through a bilateral consortium

At the moment, the alienation in any form of the Ukrainian GTS is prohibited by a 2007 law authored by the Tymoshenko Government, but some have already begun preparing the ground for a consortium. On May 17, Rada deputy Vasyl Kyseliov proposed a bill to eliminate these restrictions.⁸ If it is adopted, the Cabinet of Ministers will be free to decouple the GTS or gas storage facilities from Naftogaz and transfer management or ownership rights to other entities. This is ideal for Russia, which could then gain control of the critical assets without burdening itself with Naftogaz's crippling debts.⁹

Moscow has also set its sights on Ukraine's Black Sea shelf gas deposits. The drilling and extraction rights once belonged to a daughter company of an American firm, Vanco Energy Company, but in 2007 were sold to Vanco Prikerchenska, which is partly owned by Rinat Akhmetov and Russian businessman Vadim Novitski. The transaction was initially blocked by the Tymoshenko Government, but on 12 May 2010 the Azarov Government an-

⁷ <http://www.interfax.com.ua/rus/eco/39010/>

⁸ http://gska2.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=37674

⁹ Due largely to artificially low gas rates, Naftogaz's losses for January-March 2010 alone were UAH 2.05bn, around US \$260mn.

nounced its intention to come to an amicable agreement with Vanco Prikerchenska.¹⁰ Many experts say this company lacks the necessary technology and resources to exploit the rights and is thus likely to sell them on to Gazprom.

The Kharkiv deal in early 2010 showed that Russia is willing to offer Ukraine gas discounts but not to renegotiate the formula by which the price is determined in the first place, as had been requested by Premier Azarov. Instead, the new agreement simply reduced export duty on Ukraine-bound gas. While the duty is currently at zero, it will rise if the price goes above US \$333.33 per 1,000 cu m (tcm)—to ensure that the overall discount does not exceed US \$100 per tcm. This system will remain in place until 2019 and is supposed to count as Russia’s “rent” for the Sevastopol naval base.

Russia is currently Ukraine’s only supplier of natural gas, and diversification—primarily through imports from Central Asia—is unlikely. Indeed, Central Asian gas has to transit through Russian pipelines to reach Ukraine, and President Medvedev recently made clear that any such arrangement would have to be in line with his country’s own gas strategy—which states that Gazprom alone can export gas from Russia.¹¹

Energy

Moscow is also after a bigger share of Ukraine’s larger energy pie. The completion of two nuclear reactors for the Khmelnytskyi Atomic Energy Station (AES) with the participation of Russia’s Sberbank, the state savings bank, and state-owned Rosatom is underway.

There are also plans in Russia to finish the Dnister, Kanev and Kakhovka Hydroelectric Stations (HESs). The power they generate will be managed and marketed by a joint Russian-Ukrainian firm. The total cost of the project is estimated at US \$1.9bn.

Russia has suggested a joint venture to extract uranium ore and zirconium, with the uranium then being enriched for nuclear fuel by Russian plants. Rosatom President Sergei Kirienko has suggested that investment in the Novokostiantynivske field could add

Russia is interested in both natural resources and energy infrastructure projects

¹⁰ <http://www.interfax.com.ua/rus/eco/38559/>

¹¹ http://www.embrus.org.ua/news/news/index.php?ELEMENT_ID=734

up to US \$500mn. The field's uranium ore reserves are estimated at 100,000 tonnes.

Shipbuilding

Russian shipbuilders and aircraft manufacturers want to acquire Ukraine's state-owned assets

United Shipbuilding Corporation (USC), a Russian state enterprise, has expressed interest in acquiring nearly 10 of its Ukrainian suppliers. Russia's Ministry of Energy and Trade has announced that USC is mainly interested in the controlling stakes currently owned by the Ukrainian government, and that the company could later consider acquiring enterprises in which the state does not have control.

During a meeting with Vladimir Putin in early May, acting USC President Roman Trotsenko indicated that his company was considering the acquisition of two Ukrainian state companies, Zorya-Mashproekt and More, the Feodosia-based shipbuilding company. He argued that their integration into USC would allow their output to be increased. Ukraine is USC's largest foreign supplier and produces an entire series of basic components.

Aircraft manufacturing

The ideal scenario for Russia would be a merger of its United Aircraft Corporation with Ukraine's Antonov, known for its large cargo liners. Cooperation could begin with the joint production of the AN-148 passenger plane and be expanded by arranging the assembly of AN-124-100 and AN-124-200 cargo carriers, known as Ruslan, in Russia. Another option is joint manufacture of the mid-sized AN-70 military cargo carrier.¹²

Culture and education

Russia wants the "foreign" label removed from its language

Russia wants to restore a common cultural territory. Concretely, this means removing the label "foreign" from the Russian language in Ukraine and, ideally, making it the second state language. A first step in this direction could be exempting Russian language and literature from strategies and policies intended for foreign languages. This could mean, for instance, having schools and universities offer separate courses on Russian literature, rather than merely a Russian section in foreign literature courses, and exempting Russian broadcasts from the requirement to display Ukrainian subtitles.

¹² <http://www.interfax.com.ua/rus/eco/37874/>

Re-establishing a common cultural space would also involve making textbooks uniform and, ultimately, education policy. For Russia, the priority is for the two nations' common statehood "from the 17th to the 20th century" to be the basis of history studies.¹³ It sees the post-WWII efforts of France and Germany to forge a common understanding of their shared history as a model for this policy.

Another of Moscow's top cultural objectives for Ukraine is to allow its universities to teach in Russian. Today, the only language of instruction is Ukrainian, which all but precludes students from Russia and the CIS from studying here.

Finally, Russia wants restrictions on Russian television broadcasting in Ukraine lifted. In exchange, Moscow has offered to broadcast a major Ukrainian television channel in Russia via satellite.¹⁴

Other projects

In addition to these sector-specific initiatives, Russia is pushing for several joint infrastructure projects. These include a toll highway linking Moscow, Kharkiv and Simferopol, a transport corridor across the Kerch Strait, and the infrastructure necessary for Russia to export its electricity to the EU via Ukraine.

In the oil sector, Moscow may insist that Kyiv re-impose an import duty on gasoline and other petroleum products in order to protect Russian producers processing petroleum in Ukraine from foreign competition. It may also propose a new oil transit agreement to ensure the stability of its Europe-bound exports through Ukraine.

Finally, Russia is looking to expand cooperation in the aerospace industry through the Sea Launch project and the construction of the Toros-II launch vehicle, designed to carry supplies to the International Space Station.

Obstacles to Russia's Agenda on Ukraine

Easier Said than Done

In Ukraine, even the most ironclad agreement can fall into the bureaucratic abyss and even the best-connected oligarch has to

Major joint infrastructure projects are also in the offing

A stubborn bureaucracy, corruption, incompetence, and political insensitivity could turn Russia's hard-nosed agenda to mush

¹³ <http://www.geopoliticalmonitor.com/russia-ukraine-summit-a-strategic-partnership-1/>

¹⁴ <http://www.interfax.com.ua/rus/eco/39006/>

personally shepherd his interests through the administrative maze. Russia may learn this the hard way if it puts too much stock in political promises.

Ukraine's broken state machinery makes the implementation of any decision a major challenge. This is less true for Russia, where a better-controlled bureaucracy can be counted on to obey orders. In Ukraine, decisions by ministers, the Premier, or even the President can be killed by bureaucrats with vested interests in the status quo. This is especially true when decisions involve the sale or transfer of state assets to external actors, as is often the case in Ukraine-Russia agreements.

Those at the top of many state companies have been successfully fighting off privatization efforts for years. The state's hold over these firms has traditionally been weak, while financial flows are mainly controlled by management. For these interest groups, the sale, privatization, or transfer of the company to Russians or anyone else, for that matter, means huge losses in rents. As a result, such efforts are often sabotaged.

The expensive infrastructure projects envisioned by the political leaderships are also risky, as they are likely to be seen by bureaucrats in both countries as mere cash cows to be milked. It is not in Russia's interest to see these projects fail, but it may find itself unable to use them as tools for building its new "special relationship" with Ukraine.

Yet another risk to Russia's Ukraine agenda is the potential incompatibility of the two countries' political economies. In Russia, politicians control business and are sustained in this by gas and oil revenues. This is not the case in Ukraine, where politicians depend on their business backers and big business generally pays as much in taxes as it wants to. If these oligarchs perceive Russian rapprochement as going against their interests, they have the leverage to make the government change its course.

Politically Incorrect?

There are also major political risks to the Russian agenda in Ukraine. The strongly Eastern direction of Ukrainian foreign policy today is less a long-term choice than overcompensation for the strongly pro-Western—read as anti-Russian by many—policies pursued by Viktor Yushchenko. As President Yushchenko himself found out, polarizing Ukrainian society by moving hastily

The Russian agenda could be politically impossible to achieve in Ukraine

in either direction is very risky and can lead to defeat at the ballot box. After the local elections in October 2010 and with a legislative election due in November 2012, the failure of the Russian vector to bring obvious dividends to ordinary Ukrainians could well prompt Viktor Yanukovich to revise his foreign policy strategy, too. In other words, it may turn out that the “multi-vector” approach of Leonid Kuchma best meets the needs of Ukrainians—or at least those of its ruling elite—, in which case Kyiv-Moscow rapprochement will inevitably slow down.

At the same time, Mr. Yanukovich and his team may decide to stay the course on foreign policy and attempt to win upcoming elections using administrative leverage and curtailing press freedoms. But that poses its own political risks: freedom of speech is deeply ingrained in the Ukrainian media and recent events have shown that any move toward censorship will be met with revolt and could lead to sabotage, similar to what we witnessed in 2004. This course could therefore be self-defeating.

Negotiation: The weakest link

Finally, Ukraine lacks both a good negotiating strategy and competent negotiators. It is clearly the junior partner in relations with Russia and is in a perpetually reactive, rather than proactive, stance. Its negotiators are underprepared and treated as interchangeable: the team on the Ukraine-Russia Intergovernmental Commission changed three times in as many meetings. They lack a clear understanding of Ukraine’s strategic interests and accept one-sided—and therefore unsustainable—deals that will necessarily have to be revisited. Bad deals have bad effects, and with bad effects come political repercussions. This reality is perfectly encapsulated in the Kharkiv deal: the so-called gas discounts will not eliminate the medium-term need for an increase in rates for residential consumers. In short, the agreement does not spare the Azarov Government from the need to impose unpopular measures, while at the same time associating such measures strongly with Russia. That is not in the interests of Kyiv—or Moscow.

The future of Russia’s strategy

While his government is busy implementing Russia’s agenda on Ukraine, President Yanukovich is very active in Western capitals. He has made public overtures to Brussels and Washington, while

back home his team prepares low-key but high-impact deals with Moscow.

If Russia succeeds in imposing its agenda—that is, if the opposition fails to challenge it and the oligarchs deem it in their interest—, Ukraine will happily let itself be merged with its neighbor.

*if it succeeds in Ukraine,
Russia's "strong-arm"
approach will spill over
westwards*

Many in the EU have fallen prey to the illusion that Russian expansionism will stop “naturally” at Ukraine’s western border. But if its strong-arm tactics are successful in Ukraine, Russia will turn them westwards, starting with Orthodox countries.

As a new superstate, Russia is bound to try to re-impose an influence on its “historical” lands, reinforce its positions on territories that provoke Great Britain and the US, and build an equitable relations with US, NATO countries and EU member states.

UKRAINE'S INTEGRATIONAL CHOICES

This section analyzes Ukraine's capacity to cope with Russia's plans and offers possible scenarios for integrational processes to go forward

Should Russia's agenda be carried out without any change in Ukraine's current position, the country will disappear as a player in the geopolitical arena and lose control of its own economy. Over the past five years, Ukraine rejected any joint projects with Russia, counting entirely on Euroatlantic integration. Meanwhile, no reforms took place internally, corruption mushroomed, and a rancorous conflict between the President and his Premier dominated the headlines.

Russia, in the meantime, gave its support to a broadening anti-NATO and anti-European campaign for the hearts and minds of Ukrainian voters. In the West, Russian diplomacy chalked up major successes in establishing its terms for cooperating in areas of vital importance to the US and key EU countries. Western countries were forced to choose between supporting the thorn in Russia's side that was Ukraine and an opportunity to undertake critical joint enterprises with Russia. After the February Presidential election, the West no longer felt the unpleasant and hopeless need to support a dysfunctional Ukraine.

The country's new political leadership has undertaken that which is no longer possible to ignore in a globalizing world. Integration, especially economic integration, has become the basis for relations among countries, a world trend. According to the WTO, more than 190 regional integrational agreements had been registered by the beginning of the 21st century, of which more than 130 were actually in force. Moreover, more than half had been drawn up after 1990.¹⁵

Ukraine has little choice but to integrate regionally, and that means, first and foremost, integrating with the regional leader, Russia. For now, the country's leadership has chosen integration rather than total opposition, but this is not the only choice avail-

¹⁵ Maurice Schiff and L. Allan Winters, "Regional Integration and Development," World Bank (2003), Moscow edition in Russian, Ves Mir, 2005, p. 17.

able to the country. The next conscious step that Ukraine must make is to choose between passive and active integration.

In fact, Ukraine has all it needs to take up an active, constructive, pragmatic integrational position.

Three integration models

Belarus: Head in the sand

The path Ukraine has gone down in recent months, taking many big and small steps, has already been beaten by its neighbor, Belarus. For that reason, moving down this path seems very easy and swift, as it doesn't require much effort on Ukraine's part—simply to change nothing: *not* reform the system of public administration, *not* establish rule of law, *not* take any politically unpopular steps, maintain the soviet-style top-down chain-of-command, neutralize the opposition in the usual ways, and play the patriotic card from time to time, demonstratively standing up to Big Brother.

This kind of approach has assured stability and order in Belarus for many years. Foreign policy and appointments are supposed to be approved by Moscow.

Georgia: Feet first

Georgia is an example of what Ukraine might have become, had the country's previous President demonstrated greater decisiveness and consistency in his policies. Georgia's leadership has chalked up clear successes in improving the business climate and overcoming corruption, although the country has also lost a large chunk of territory as a result of armed conflict with Russia. The question, whether the one was worth the other, is certainly debatable.

Kazakhstan: Standing strong

The average Ukrainian knows a lot less about stable, successful Kazakhstan than about half-swallowed Belarus or tattered Georgia. Nor is it a question of the perceived gap that separates Ukraine from Central Asia, but the fact this country has become a regional leader without much fanfare, without exposing itself to resistance from Russia, but maintaining good neighborly relations with it.

Kazakhstan has been an active participant in all of Russia's integrational initiatives. It not only does not reject the embrace of its Big Neighbor, but actually meets it halfway, preserving its benefits in unchanged Soviet rhetoric about the "inviolable friendship of our peoples." None of this makes any difference to a country where nearly half the population considers itself Russian and most citizens do not know the Kazakh language, from step-by-step reforming its own economy and energy sector, its public administration, and its armed forces.

One brilliant example of this kind of "oriental wisdom" is a decision by Nursultan Nazarbayev to require all civil servants in Kazakhstan to demonstrate a command of the Kazakh language. On the face of it, this violates the rights of ethnic Russians, who constitute nearly 40% of the population, far more than dubbing Russian films in Ukrainian here does. Yet Moscow has been silent—because the whole world sees Astana as a close friend and reliable partner of Russia.

The historic capital of Ukrainians

The loss of sovereignty is possibly the biggest nightmare of Ukrainians. Even the national anthem talks about the unfinished battle for independence: "Ukraine's glory and freedom have not yet died..." This kind of focus on its own statehood is hardly unfounded, given that the Ukrainian people have spent the majority of their history without it. Still, this not only does not place Ukraine's existence as an independent nation in doubt, but is actually its greatest confirmation. A brief excursion in history makes this amply clear.

In one of his first decrees after the Battle of Poltava, Peter I of Russia banned the Ukrainian language. This same issue was touched upon again and again in more than 20 ukases by Russian tsars over the following centuries. Why pay so much attention to the "dialect" of a "non-existent" people?

An equally convincing affirmation of the viability of Ukraine as a state is its ability to reinvent itself. Every time such an opportunity has arisen, the Ukrainian nation has established an unambiguously-named state on its own territory: the Ukrainian National Republic, the Ukrainian State under Hetman Skoropadskiy, the Western Ukrainian National Republic, the Ukrainian Soviet Socialist Republic, Carpathian Ukraine, and, finally, today, Ukraine.

The Ukrainian nation has always emerged from the ashes of the empire stronger

From the ruins of each subsequent empire, the Ukrainian nation has always come out richer. It is worth noting just the way Ukraine was transformed from a fragmented provincial farm belt in the Russian Empire into a formal, independent, territorially whole and industrially-developed republic of the Soviet Union with its own seat at the UN. And how Ukraine met the fall of the Soviet Union as one of the largest European countries, with its own nuclear arsenal, space technology and Crimea tossed in as a gift.

Possible scenarios of how Ukraine's situation would develop

Scenario 1: Passive integration

Russia has been actively and consistently carrying out its own agenda, which consists of returning Ukraine to its orbit. The most fundamental points are:

- ✦ enshrining Ukraine's non-bloc status and rejecting membership in the North Atlantic Treaty Organization;
- ✦ establishing Gazprom's control over Ukraine's gas sector, especially the GTS;
- ✦ reviving sector-based industrial conglomerates according to Soviet principles by merging branches of Ukraine's and Russia's economies;
- ✦ granting Russian the status of the second official language in Ukraine;
- ✦ the establishment of a single Orthodox Church in Ukraine under the Moscow Patriarchate.

To have these conditions met, of course, Russia is prepared to pay—sort of. The most indicative example of this is the Kharkiv Agreement: the Russian fleet in exchange for cheaper gas. A less publicized instance was an agreement on the atomic energy sector, where Ukraine gets outdated and overpriced technology together with loans to build reactors. The high level of corruption in the Ukrainian government has only made it easier to reach such dubious agreements and have them carried out.

However “flexible” it may show itself as to methods for exercising them, Russia steadfastly maintains its own principles. Whenever one or another of Moscow's plans suddenly run into a wall on the

Moscow sees Kyiv as part of its sphere of influence

Russia wants to swallow Ukraine's economy

Ukrainian side, the wording of these agreements is very quickly and easily changed—as long as the essence remains the same. “You don’t want to merge Gazprom and Naftogaz Ukrainy? Let’s not, then, and call it ‘organizing a joint venture.’”

The basis for Moscow’s integration plan is the principle of economic efficiency, which means that Ukraine’s economy will be subsumed into the Russian one. The decision-making center will shift to Moscow. Formally, Ukraine remains sovereign: it is completely “independent” when it comes to domestic matters, but when it comes to domestic resources, it is expected to share them in a brotherly manner with its northern neighbor.

For this scenario to come to pass, two conditions must be met: no actual reforms can be undertaken that might bring in European standards; and a switch to “managed” democracy. The first condition suits Ukraine’s leadership just fine at this time, and they are steadily working on meeting the second one.

Confirmation of the fact that Ukraine is currently moving towards this scenario—or is allowing itself to be led down that path—can be found in any number of events even just during June 2010:

- ✦ The passing of the Law “On the basis for internal and external policy in Ukraine,” in which Ukraine’s non-aligned status is enshrined, and the removal of provisions in the Law “On the basis for the national security of Ukraine” regarding the prospects of membership in NATO;
- ✦ The adoption in principle of the Bill “On the procedure for organizing and running peaceful events,” which does not meet international standards and has been severely criticized by civil society organizations;
- ✦ A resolution of the Crimean Rada to grant the Russian language official regional status.

The policies of the current government are aimed at maintaining order and stability. This is impossible to properly achieve without extensive reform of the public administration system, the government machine, primarily in terms of bringing it in line with democratic governance and market economics.

The Government will be unable to maintain stability for any length of time using repressive methods as this will only worsen the economic situation and cut into State Budget revenues. Crushing the Ukrainian language and gradually reducing the

country's sovereignty will inevitably lead to political resistance and social unrest.

The paradox is that we will become more economically and politically dependent on Russia the longer we keep real relations with off the public agenda and continue to deny the Russian vector, while clinging to the European direction as the only one.

Scenario 2: Dismembering the state

Fortunately, Ukraine so far does not have any hot spots or frozen conflicts within its borders that might constitute a direct threat to its territorial integrity. Still, the risk that this country might split up has been brought up in more than one study by world-renowned analysts, including Samuel Huntington, the author of the concept of the clash of civilizations.

This controversial American political scientist based his arguments on the fact that Ukrainians belong to two different civilizations: the Orthodox in the East and the European in the Byzantine Catholic West. He illustrated the break line between these two territorial parts of Ukraine with the results of the 1994 Presidential election, when support for Leonid Kravchuk in western oblasts and Leonid Kuchma in eastern oblasts was 90%. The results of all the elections in the subsequent 15 years have only reinforced this conclusion.

Centrifugal forces threaten to disintegrate Ukraine

Enough centrifugal trends, both in the West and in the East, have emerged in the years of the country's independence for Huntington to declare that Ukraine was quite likely to break apart. In another scenario described in details by the editor-in-chief of *Limes*, an Italian journal of geopolitics,¹⁶ Donbas and Crimea go to Russia; several western oblasts separate and, in one form or another, join the European Union; a rump Ukraine remains as an ostensibly independent state that is under Russian influence. The inevitable result of such a scenario would be the disappearance of Ukraine as a geopolitical player on the world map.

The high-speed efforts of the new Administration to ensure rapprochement with Russia, coupled with its restriction of democratic freedoms could well rouse equally strong resistance in regions that are generally anti-Russian. Political games with principles that are touchy for both sides, such as language or his-

¹⁶ See <http://temi.repubblica.it/limes-heartland/the-tsar%E2%80%99s-sabres/920>

tory, could push the pendulum of mutual antagonism to such a degree that the least pretext will be decisive and launch an irreversible disintegration. There are all-too many threatening signals of such an eventually:

- ✦ The resolution of the Severodonetsk assembly that called on setting up a Northeastern Ukrainian Autonomous Republic during the Orange Revolution;
- ✦ The coming to office of political forces whose acknowledged goal is reunification with Russia in local and oblast councils and the Crimean Rada in the 2006 local elections;
- ✦ A Decree issued by former President Yushchenko awarding nationalist leader Stepan Bandera the posthumous title of Hero of Ukraine and President Yanukovich's efforts to cancel the award.

Scenario 3: Kyiv takes the lead in integration

Ukraine is not afraid of getting closer to Russia and integrating with it. Mutual integration is actually the basis for international relations in the modern, globalized world.

Ukraine proposes its own principles for integration with Russia

Blind submission or knee-jerk resistance is not the best modality for communicating with a country that is Ukraine's strategic partner. What is more appropriate is an active, constructive and pragmatic approach. In other words, Ukraine fully supports the process of integration with Russia but has its views of how this integration should actually take place.

Firstly, all integrational processes in any given sphere take place on the basis of a unifying political principle and not horse-trading over commercial assets. The EU's approach to this is a good example, as today it constitutes the best worked-out model for supporting the interests of every participant in the integrational process. This not only gives the European vector—declared by the President to be key—some real meaning but brings both Ukraine and Russia closer to EU requirements by providing the conditions for them to participate in broader integrational projects. At the same time, other countries are involved in joint Ukrainian-Russian projects as a guarantee that mutual commitments are carried through. If the GTS is going to be modernized, then that will only happen with the inclusion of European partners.

A regional leader is a desirable partner for the EU and NATO

Secondly, Kyiv becomes the center of all integrational processes and the base for carrying out joint projects. And this is where all the newly built integrational institutions are located. The territorial principle for placing Kyiv at the center of integration is decisive. Why should Moscow agree? Because it has no reason to disagree if this is Kyiv's clear and unwavering position, based on historical realities and European principles of integration.

Thirdly, the principle of mirrored commitments is applied. Ukraine has a fundamental position regarding the Ukrainian language as the only state language while agreeing, as Moscow requests, to ensure the necessary conditions and support for the Russian language and culture to evolve. For its part, the Russian Federation fosters an active policy regarding media, educational and cultural development in areas where there is a concentration of ethnic Ukrainians—Moscow, Siberia, the Far East, Krasnodarskiy Krai, Surgut, Tiumen, and Vladivostok—by funding Ukrainian-language schools and media through the State Budget.

For the European Union, this kind of development would not only not lead to a rejection of Ukraine's eurointegration ambitions but, on the contrary, to a persistent, steady transition to European standards. A country that is a regional leader and is actively working with one of the global centers of power is a much more desirable and interesting partner for both the EU and NATO, than a country that cannot cope with relations with its closest neighbor.

All the necessary conditions are in place for this scenario in Ukraine:

- ✦ A consolidated, strong, effective government;
- ✦ Ambitious goals set by the President and his party;
- ✦ Openly declared readiness among the country's leaders to undertake reforms;
- ✦ Intellectual capacity to develop a new post-conflict ideology of statehood;
- ✦ A high level of trust in the current government among voters;
- ✦ Support from Western partners, who are not interested in seeing Ukraine go down the drain as an independent player.

Guidelines on safe integration

Playing out this last scenario is the only option Ukraine has, to reach the goal set by its President: to become one of the Top 20 developed countries in the world over the next decade. For this, Ukraine needs to apply world practice and follow the Ten Commandments of successful integration:

1. Integration with wealthier and stronger countries is convenient.

Joining forces with wealthier countries is more economically convenient than joining poorer ones. The benefits include greater investment and trade, access to cutting-edge technologies, and stronger domestic competition.

2. Economically beneficial integrational associations are politically expedient.

If an economic association costs more than it benefits, it can cause political losses as well. Economic integration more easily spills over into political integration than the reverse.

Integration requires reforms

3. Integration is a spur to reform.

Integration requires reforms, or else the effect could be counter-productive. Greece's refusal to undertake macroeconomic reform after joining the EU considerably intensified the country's problems. At first glance, this was not especially obvious, because accession itself ensured the country additional resources, including financial ones, that made it possible to postpone reforms. The consequences of this "do nothing" attitude for Greece became evident only in 2009–2010.

4. Integration strengthens national security.

Growing trade tends to increase economic interdependence among partner countries. Stable trade relations reduce the likelihood of military confrontations, as they increase the level of access to strategic resources among the partners and reduce the threat of trade embargoes. According to World Bank statistics, a 6% rise in trade flows reduces the level of conflict between countries by around 1%.¹⁷

More trade means less conflict

¹⁷ Op. cit., Schiff and Winters, p. 245.

5. Integration increases investment inflows.

Integrated associations in general are able to attract more foreign investment into a region that is developing than any of the individual fragmented national markets could.

6. Integration encourages competition.

Integration should serve as an instrument to stimulate competition, including expanded competition on the domestic market.

7. Integration streamlines tax systems.

Those countries for which sales taxes constitute a major part of public revenues are at greatest risk during integration. During the course of integration, these countries are forced to reform their own tax systems, including internal excise, turnover taxes, value-added tax (VAT) and so on.

8. Multiple simultaneous integrational projects are useful.

Prior to joining the European Union, Slovakia belonged to 9 integrated associations; the Czech Republic and Slovenia to 8; Estonia to 6; Hungary, Latvia, Poland and Romania, to 5.¹⁸

9. Integration should be done deliberately, with full awareness of its impact.

A customs union can be more convenient than a free trade zone, but only when internal boundaries are effectively dropped—which is usually not the case—and a low, general external duty is set.

Having a free trade area could be more convenient than not, but only when it does not involve a large number of asymmetrical exceptions. Any integrational agreement must also contain clear mechanisms for settling disputes, otherwise it is not worth signing.

10. The WTO does not protect from integrational mis-steps.

Since it defends the principles of global liberalization based on the most facilitating regime, the WTO forbids only certain destructive forms of regional integration. Integrated associations should be judged through the prism of national interests, not their compliance with WTO requirements.

*National interests are
the foundation of integration*

¹⁸ Ibid., p. 106.

UKRAINE'S INTEGRATIONAL BRIDGEHEADS: CUSTOMS UNION, WTO AND EU FTA

This section analyzes the three integrational options available to Ukraine

Integration—a historical reality

Integration is a process involving all times and all peoples. As soon as the earliest states emerged, they began to interact and therefore to integrate. From the point of view of goals, war and trade can really be seen as mere instruments of integration.

The history of humanity is a history of empires. The First and Second World Wars, the collapse of the colonial empires, the Soviet and European Unions—these are only some of the most significant examples of integrational processes on a global scale in the last century. They resulted in a shift from traditional models of relations between independent nation states—colonies or metropolises—towards the creation of superstates as the foci of competing integrational unions.

The current and future spheres of influence of such superstates have been defined by students of geopolitical trends long ago. Ukrainian analysts look only at two possible options for Ukraine: Russia or the EU. Moreover, they believe that the country can only passively choose to join itself to one of the two for the simple reason that Ukraine itself cannot become an empire.

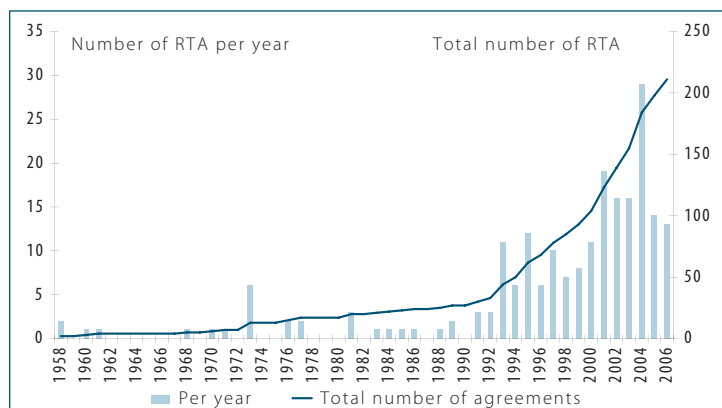
Meanwhile in the West, at least two well-known political thinkers, Canadian Jacques Chrétien and American Zbigniew Brzezinski, have talked strongly about the key integrational role of Ukraine, regardless of its desires and interpretations. Ukraine stands right between two integrational centers. Although the country itself has no superstate ambitions, Mr. Chrétien declared that Ukraine would determine the shape of the Eurasian region in 30 years: whether there would be a Chinese hegemony at the borders of Europe or a powerful Euroatlantic democratic society that stretches to the borders of China.¹⁹

Ukraine's integrational role is decisive

¹⁹ Speech by J. Chrétien at the first YES Summit.

Zbigniew Brzezinski reinforced this by stating that any new Eurasian union of states that develops around Russia without an independent Ukraine, will inevitably become less European and more Asiatic with every passing year.”²⁰

*Active trade agreements,
based on effective date and status*



Source: www.wto.org

The principles underlying the EU maintain a balance of interests

For many centuries, history records mutual integration processes that have become particularly intense in the 20th and 21st centuries. This has helped work out workable integrational principles and mechanisms that allow a balance of interests and influence to be kept among different members of an integrated association. The EU is a classic example of this kind of “principled” integration.

Enormous historical experience is the best argument in favor of a determined adherence to European principles. These are a guarantee of stability in an integrated association and of the ability of such a union to withstand both external and internal challenges. Conversely, violating these principles carries serious threats for all sides. These include international conflicts and civil wars, social chaos and dictatorships.

A 15% decline in GDP will lead to unpredictable social consequences

These threats become even more serious during a period of economic decline. According to some studies, a sharp fall of over 15% of GDP in any country generally leads to uncontrollable social processes and can easily result in a popular explosion. Historical examples abound: the coming of the Nazis to power in Germany, the Russian Revolution, the collapse of Yugoslavia,

²⁰ The Grand Chessboard by Z. Brzezinski, 1997.

and so on. Clearly, Ukraine demonstrates sufficiently hopeful signs of economic revival that, for now, make such events extremely unlikely. Still, unresolved structural problems coupled with a difficult economic situation in Europe make it hard to talk about the economic crisis in the past tense.

Customs Union, Russian-style

Russia continues to play its traditional role as the driver of integrational processes in the post-soviet region, a process that has been referred to as “collecting land.” In July 2010, Russia moved one more step in the direction by launching a customs union with Kazakhstan and Belarus.

Russia continues to “collect land”

It would seem that the classic definition of this integrational institution, which can be found in every textbook on international economics, leaves little room for creative maneuvering by would-be founders. According to WTO rules, a customs union is a single customs territory that involves canceling all customs duties and restrictions among the member countries, instituting a single customs tariff for goods from third countries, and carrying out a common foreign trade policy.

On paper, at least, the members of this new Customs Union show that they understand these points. But the agreed conditions under which this new integrated entity will function contain such a large number of exceptions and unregulated issues that it remains a customs union in name alone. According to the signed documents, there are more than 400 exceptions to the free movement of goods. Moreover, customs control will be maintained at the borders of the member countries as well as non-tariff trade barriers such as quotas and subsidies. Among others, Russia is maintaining its export duty on oil and oil products to Belarus, while Belarus is holding onto its export duty on transporting Russian oil across its territory.

Nor does the newly-formed Customs Union require the members to uphold a single customs policy. Typically, issues regarding the use of protectionist instruments are supposed to be raised before a single authorized national agency set up for this very purpose, in order to coordinate a common customs policy. In the case of Russia, Belarus and Kazakhstan, however, their various Governments have the last word.

*Russia's Customs Union
cannot rightly claim to be one*

In short, the Customs Union between Russia, Kazakhstan and Belarus cannot rightly claim to be one, as it does not correspond to the basic elements and principles for such a union. Moreover, the new integration project is not even a free trade area, the simplest form of integration there is, as it does not in fact do away with internal duties and tariffs on imported goods.

Interestingly, even the initiators of this project have admitted as much. After all, Prime Minister Putin has announced several times that canceling all restrictions on trade with Russia, that is, a proper Free Trade Area, will only be possible if there is an economic union. According to the classical logic of integrational processes, this is the same as defending a PhD thesis, not just without a degree but without even finishing school. The concepts of “free trade area,” “customs union,” and “single economic region” in this context lose all economic meaning. The Customs Union in Moscow’s way of thinking has two main features that reveal its essentially political nature.

*In this Customs Union, Russia
has the “controlling stake”*

Firstly, Russia has the “controlling stake” in this 170-million Eurasian expanse. The distribution of votes in a supra-national body called the Customs Union Commission is such that Russia has 57% while Kazakhstan and Belarus have only 21.5% each. All decisions are made based on a two-thirds majority vote, which means that Russia can always block any decision it chooses.

Disputed issues are supposed to be reviewed by higher bodies of the Customs Union: interstate councils of Heads of Government and Heads of State, where all decisions are consensual. Still, if Moscow succeeded in persuading Minsk and Astana to agree to these conditions of operation in the new integrational entity, nothing will stop it from further ensuring that its partners in the union will agree to the “necessary” decisions.

Even more obvious is the scheme for distributing customs duties within the Union, which, incidentally, constitute a significant part of budget revenues for all three countries. So far, Russia and Kazakhstan have agreed to divide the revenues so that 86.5% go to Russia, 8.5% to Kazakhstan, and 5.0% to Belarus. Belarus’s dissent and its attempts to cut a deal for an additional 0.3% of duties looks more like agreeing on the terms of capitulation and not like cooperation among equals.

Incidentally, similar principles of hegemony in the distribution of votes operated in all previous integrational project launched by

Moscow in the post-soviet Eurasian region. For instance, the Eurasian Economic Association (EAEA) within which the Customs Union operates, distributes votes on the basis of 40% to Russia, 15% each to Belarus, Kazakhstan and Uzbekistan, and 7.5% each to Kyrgyzstan and Tajikistan. Decisions are traditionally made on a two-thirds majority basis, that is, 66% of the vote. Again, no decisions can be made without Moscow's concurrence.

The second peculiarity of a Russian-style Customs Union is the exceptionally "flexible" way in which its principles are applied. For instance, member countries can maintain trade barriers for their most significant commodities, such as fuels.

The concept of integration whose forced realization Ukrainians are currently watching with bated breath has been percolating in the brains of Russia's leadership for many a year. Recent events have been merely the latest attempt at reviving the integrational dinosaur that has been peacefully sleeping its papery sleep from the time it first arrived in the world in faraway 1995. That was the year Belarus, Kazakhstan, Kyrgyzstan and Russia signed an agreement to form a Customs Union.

The Agreement on a Customs Union was first signed in 1995

In time, this virtual project changed shape more than once, evolving first into the EAEA in 2000 and then into the SES in 2003. But new names failed to bring these initiatives to life. They continued to exist mostly as reminders of the fact that Russia retains for itself the role of integrational center in this region, rather than as functioning mechanisms for true regional cooperation.

Russia's integrational initiatives

Date of founding	Name	Membership	Ukraine's role
December 1991	CIS	Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan	Founding member and participating state, but not member Did not sign CIS statutes
September 1993	Economic Union (EU)	Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, Uzbekistan	Associated member Did not sign founding Agreement
January 1995	Customs Union (CU)	Belarus, Kazakhstan, Kyrgyzstan, Russia	Not a member

Date of founding	Name	Membership	Ukraine's role
October 2000	Eurasian Economic Association (EAEA)	Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan	Observer status
September 2003	Unified Economic Space (UES)	Belarus, Kazakhstan, Russia, Ukraine	Participates with reservation

Ukraine needs no phony choices

Moscow has made it known to Kyiv that the about-face in relations with Russia, which President Yanukovich was so keen to establish, leads to the Customs Union. The rules of courtesy demand that the open invitation issued by Premier Vladimir Putin be offered an equally open answer. However, following the rules of diplomacy, official Kyiv is in no hurry to dot its i's.

On 13 February 2010, the newly-elected President of Ukraine announced that he was positive about the idea of joining a Customs Union with Russia.²¹ Yet barely two and a half months later, at a PACE session on 27 April, Mr. Yanukovich declared: "Joining the Customs Union with Russia, Belarus and Kazakhstan is impossible today."²²

Joining the CU would make it impossible to set up an FTA with the EU...

As Deputy Chair of the VR Foreign Affairs Committee Leonid Kozhara explains: "Ukraine could join the Customs Union on the basis of multi-speed integration... Ukraine could integrate into the Customs Union at a different pace and on a different basis from Kazakhstan and Belarus."²³ Deputy Premier Serhiy Tihipko adds: "Russia and Ukraine will return to the question of a customs Union just as soon as Russia joins the WTO and Ukraine gets its Association Agreement."²⁴

The dilemma that is causing Ukrainian officials some concern is that the country cannot simultaneously join a Customs Union with Russia, Belarus and Kazakhstan and set up a Free Trade Area with the European Union. The EU position was clearly presented by Eurocommissioner Hugh Mingarelli:²⁵ "If Ukraine feels it must join this Customs Union, it will become extremely difficult to set up a Free Trade Area with the EU."

²¹ According to the Forum information service.

²² According to UNIAN, a news agency.

²³ According to Ukrinform, a news agency. See <http://project.ukrinform.ua/news/16580/>

²⁴ According to wto.in.ua.

²⁵ Deputy General Director at DG External Relations for ENP.

Indeed, regardless of how nominal the name “customs union” is for this joint integration project by Russia, Kazakhstan and Belarus, Ukraine’s active involvement in it would imply that we must totally reconsider our eurointegration aspirations. After all, forming a Customs Union means that Ukraine will join the common external tariffs of three countries with whom the EU has barely liberalized trade.

What’s more, joining the Customs Union brings into question Ukraine’s commitments as a member of the WTO. The rules of this trade organization require that the level of protection of markets in a customs union not be higher than the level of protection in the countries that have initiated it. This means that the common tariff in the CU cannot be higher than those conditions under which Ukraine joined the WTO. Such a situation is highly unlikely, given that at this time the customs tariffs collected by the new Union are 92% Russian customs duties.

Assessments of the costs and benefits of joining differ. Russian analysts²⁶ calculate that joining the Union will bring Ukraine 3–5% more annual growth in GDP. By contrast, former Finance Minister Viktor Pynzenyk²⁷ says that Ukraine’s State Budget will lose US \$1 billion a year in revenues from customs duties not received. Undoubtedly, both points of view have some basis in reality. However, the terms for distributing customs duties among members of the Union and the fact that income from them is the lion’s share of revenues in Ukraine’s State Budget will force a more cautious position towards this integrational proposition.

The dominant paradigm in Ukraine’s foreign policy is that, sooner or later, the country will have to choose between the EU and Russia. Given this mistaken notion, the more active work of the Ukrainian Government in the Russian integration arena automatically slows movement towards the European Union.

Even as the President makes optimistic announcements about signing an Association Agreement in 2011, the prospects of Ukraine’s joining a Free Trade Area with the EU have been growing ever more clouded. Negotiations stalled the minute talk switched from discussing general issues to agreeing on concrete

... and violates WTO rules

Many Ukrainians falsely believe that the choice is only “Russia or the EU”

FTA talks with the EU have stalled

²⁶ Data based on a presentation by Kirill Dmitriev, president of Icon Private Equity, a fund, at a public hearing organized by the Effective Management Fund.

²⁷ Interview with V. Pynzenyk in *Ukrainska Pravda*. See <http://www.pravda.com.ua/articles/2010/04/2/4904589/>

commitments. Lobbyists have been urging Ukraine’s negotiators not to concede a single point under cover of national interests. At this point, the positions that remain unresolved include:

- ✦ The geographic identification of product origins: Ukraine defends Sovetskoye “champagne” and Zakarpattia “cognac” as though they were national inventions, although everyone knows quite well that this is a pointless confrontation;
- ✦ Agriculture, sanitary and phyto-sanitary norms: These remain Ukraine’s weakest point in the negotiation process and an area that needs the greatest changes;
- ✦ Duty rates: As a classic example, Ukraine wants to protect its non-existent domestic car industry—doubtless as a cultural-ethnic heritage;
- ✦ State procurements: Like its predecessors, because of a slew of exceptions written into it, the latest Law also fails to meet basic EU requirements.

From colonization to integration

The Customs Union is not an instrument for economic integration

An examination of the principles that lie at the foundation of the Customs Union between Russia, Kazakhstan and Belarus and the conditions under which it operates offers a basis for stating that this is not a customs union but an altogether different instrument. A sample of the principles on which colonial policy was developed in the 18–19th centuries by European states includes:

- ✦ Streamlining trade routes and markets and eliminating intermediaries;
- ✦ Ensuring trade by unifying the legal arena and trade policy;
- ✦ Gaining access to cheap labor for physically hard, demeaning work;
- ✦ Testing and working out new ways and means of managing;
- ✦ Intervening in local conflicts and using armed forces for the purpose in order to keep the army battle-ready;
- ✦ Expanding the reach of the dominant language and culture;
- ✦ Acquiring and exploiting economic assets;
- ✦ Forcing international agreements and arrangements regarding unified policies, concessions, leases, and so on.

When looked at from the position of “colony-metropolis,” it becomes obvious what type of relations Russia is building in the countries that belong to its sphere of influence. And it has growing confirmation that Ukraine is among these.

Russia is establishing colonial relations in the post-Soviet region

Still, an aggressive integrator is not necessarily a successful integrator. Alexander the Great, Genghis Khan, Napoleon Bonaparte, Adolf Hitler, and Josef Stalin all had grandiose visions of integration by conquest. Still, none of them lasted much beyond the lifetime of their initiator.

Trade integration is a much more long-lasting and convenient approach for most countries. The best confirmation of this is sustained presence of the British Commonwealth, which continues to include most of the former colonies of the British Empire, all of whom have become strong, independent nations.

Moreover, colonial empires mostly collapsed half a century ago. The reason for this was that, in a modern, globalized world, colonial relations are ineffective, both for the colony, which loses the ability to independently develop and freely make use of its own resources, as well as for the “metropolis,” which, in time, finds itself forced to direct more and more resources at maintaining peace and order in its colonies than it actually gains from them. The result is an inevitable collapse of the colonial empire, which carries the risk of social upheaval and conflict for both sides.

In the modern world, colonial relations no longer work

This has been obvious to European countries for some time already, as they build mutual relations based on a balance of interests. Today, the European Union is the only real international union that has gone through all the stages of integration—from free trade area to monetary union—and that continues to move forward.

The EU is the only union that has gone through all stages of integration

The reason for this longevity is undoubtedly the way the rules of integration have been upheld, when the terms “free trade zone” and “customs union” have clear economic meanings and do not turn into political projects. Conversely, any talk of Ukraine’s further integration in the post-Soviet arena should take place not on the basis of horse-trading for things like preferential fuel prices but on the basis of European integrational principles. Before beginning discussions about forming a customs union, there should be a proper free trade area that, among others, conflicts with neither WTO rules nor Ukraine’s eurointegration ambitions.

Ukraine's leadership understands perfectly well what is really going on with integrational processes in the country. Nor is it a question of the capacity of Ukrainians: the Government has all the necessary organizational, intellectual and decision-making resources. The question is more how aware they are of the cost of inaction and the ruinous long-term consequences—for all participants. Kyiv's relapse into a hypnotic state induced by Moscow's snake-charms is turning into subordination to an unknown and currently non-existent center. From this point of view, the role of willing victim to Russian-style integration that the opposition has eagerly taken upon itself is hardly better than the position of passive ally being pressed upon the government.

The hidden motives for integration disguised as an unrealistic customs union are primarily Russia's problem, not Ukraine's. The illusion of immediate benefits for all the countries that chose such short and deceptive pathways to integration bodes little good. Ukraine has all the leverage it needs to establish high-quality integration with Russia. Taking a pro-active position, naming things what they are, and consistently planning and carrying out all the necessary steps will bring both sides the most benefits.

Moscow is stubbornly working to set the biggest mine of all—Ukraine

Through sheer inertia, Russia is going back down the path of European countries in the 18th and 19th centuries, burying delayed-response mines along all of its own borders: Georgia, Kyrgyzstan, Kazakhstan and Belarus. Right now Moscow is stubbornly working to set the biggest mine of all—Ukraine.

Russia is the biggest integrational center in the Eurasian region and has embodied this particular mission for several centuries. At the same time, Russia has the strategic capacity to plan and carry out its plans. It has balanced relations with key central powers and it belongs to the largest integrational associations in the world—the G8, G20 and Shanghai Cooperation Organisation. But Russia's Achilles' heel is its unreformed system of government and this is playing a decisive role today in integrational processes that are following a double standard. Right now, Russia has a unique opportunity to develop a new integrational platform with Ukraine, following modern European principles.

EUROINTEGRATION: RESET

This section analyzes integrational processes between Ukraine and the European Union and their further prospects

An imitation of eurointegration

Ukraine's integration into Europe is at a dead end. For reasons that ordinary Ukrainians do not understand, the European Union is not exactly refusing Ukraine entry, but neither is it making any commitments of any kind. This is a matter of open discussion, both among Ukrainians and in the Union, but no one is brave enough to say that the Emperor has no clothes and to admit the obvious unreality of European integration for Ukraine today.

What's more, the situation is deteriorating daily. Both in Europe and in Ukraine, people see the need to re-boot relations, but no one seems to know exactly how to do that. Each fresh attempt to resolve the problem ends up looking exactly like all the previous steps that led to this very situation.

Ukraine's commitments continue to be strictly declarative. The gap between the endless trail of reports and the reality of cooperation on the ground grows larger and larger. European bureaucrats, who love nothing better than to write up their achievements, and European consultants, who cannot allow themselves to admit honestly how meaningless their projects are lest they lose their jobs, contribute in equal measure to this. No one is prepared to write about the unrealistic nature of their plans and how little they correspond to real capacities on the ground in Ukraine.

Ukraine's integration into the EU is little more than an imitation today. Moreover, it is bad both for Ukraine and for the Union. On the Ukrainian side, it fosters and finances corruption in government offices, while in the European Union it is a con and a waste of taxpayer money.

“European integration is a key priority for Ukraine,” President Yanukovich declared in Brussels, the same words that have come from Ukraine's previous presidents and other top officials. It is clear that, for Ukrainians, European integration and membership in the EU are one and the same thing, and the Association Agreement is seen as the only path that will undoubtedly bring them to it.

Ukraine's integration into Europe is at a dead end

Ukrainians equate European integration with EU membership

In the Union, by contrast, these are clearly two separate things. The Association Agreement, which is becoming more and more of a sacred cow for Ukrainian politicians, is only one instrument for approaching the EU. This process is not limited in any way to the geographic borders of Europe, but is a series of concentric circles expanding across the entire globe. Moreover, its main purpose is to establish a common platform for cooperation built on European principles. As for Europeans themselves, they are still sure that Europe ends on the eastern borders of Poland and Hungary.

Ukraine and the EU have different ideas of European integration

There is an enormous difference between what Ukrainians see as eurointegration and how the Europeans apply this concept in practice. If the reality is that the two sides see these processes and their outcomes so totally differently, then little can come of any joint efforts.

The illusion of EU expansion

Europe is not expanding but returning to its historic boundaries

EU expansion is a nice diplomatic term that has no bearing on reality and covers completely different processes. In fact, expansion is not on the table at this time. All the processes that found their beginnings in 1952 when the Coal and Steel Union was formed have been nothing more than the return of Europe to the historical boundaries that were carved up after World War II. This process continues to this very day and will come to its natural conclusion once the Balkans join the Union.

Neither Ukraine with its current borders, nor Turkey, which became an accession candidate in 2005 after 40 years of getting there, were part of pre-war Europe.

Russia's position sees Ukraine as separate from the rest of Europe

As the heir of the Soviet Union, Russia has publicly taken on itself responsibility for the post-Soviet region and is determined to continue to see this region as its own geopolitical “sphere of influence.” Its hardened position and military reach separate Ukraine from the rest of the European world even better than did the Iron Curtain.

Ukraine as the EU's headache

The EU is working to maintain the status quo

All the EU's actions show that the Union's real agenda vis-a-vis Ukraine is to maintain the status quo. It seems that, for the EU, the best situation would be for Ukraine to continue to balance on the edge between Russia and the European Union.

On one hand, the EU has let Ukraine know that it is not seen as a potential member of the European community. On the other hand, it keeps repeating, like a mantra, “The doors are open.” There’s not a single official document that clearly establishes the EU’s Ukraine agenda, yet this does not in any way mean that the EU has no position. Some interpret this as the EU’s intention to turn Ukraine into a buffer zone—an approach that has a historical basis and is typical of all superstates of the integrational model, to which the EU undoubtedly belongs.

Europe has been applying this model since Roman times, when it signed treaties with its neighbors in order to protect its borders from barbarian invasions. The European Neighborhood Policy echoes more the attempts of the Roman Empire to get barbarians to guard its borders. The list of countries that the EU’s foreign policy projects include make it amply clear that Ukraine has virtually no chance of eurointegration.

Another cornerstone in Ukraine’s eurointegrational ambitions—and a major stumbling block in its negotiations with the EU—is the prospect of a visa-free regime. Here, again, concepts are confused, as a visa is a migrational instrument, not an element of integrational policy. The best proof of this is the fact that citizens of Turkey, which is an official candidate for accession to the European Union, as well as citizens of Albania and Bosnia & Herzegovina who are only potential candidates, still largely need to obtain visas, while citizens of the US, Canada, Australia, Japan and most Latin American countries can enter freely without one.

At the moment, Ukraine does not even have a clear signal about the prospects that its citizens will be able to travel into the EU without visas. In the process of negotiating, the long-awaited “roadmap” to the introduction of a visa-free regime has degenerated into yet another “action plan.” The difference is not really that big, but it is significant: a roadmap leads to a specific goal, while an action plan, as Ukrainians have learned, generally leads nowhere.

While negotiators keep knocking heads over the issue of visa-free travel, European migration policy has moved in another direction. The Visa Code that came into effect in April 2010 is unanimously seen by European politicians as one that will ensure Ukrainian citizens a particularly favorable procedure for crossing European borders. Still, all those who have felt how it works on their own skins are of a different opinion and are critical of the

Ukraine has no clear signal about the dropping of EU visa requirements

EU for actually having made stricter its already severe restrictions and requirements for obtaining visas.

If the visa issue is the top of the EU migration policy tree, its roots are the Readmission Treaty that came into effect at the beginning of 2010. In contrast to the EU's completely uncommitted prospects of canceling visas for Ukraine and the largely symbolic simplification of visa applications for some groups of Ukrainians, Ukraine has taken on itself very specific commitments to take back all illegal migrants who crossed into the EU through its borders. Given the virtually transparent borders and the lack of reciprocal treaties with Russia, Ukraine is likely to become a migration net into which anyone who wants to can swim, but without any options for where to go further. Ukraine has the world economic crisis to thank for the fact that this net is currently not bursting to the gills with migrational flotsam from all over.

Opponents of the EU talk about a "Turkish scenario" with Ukraine

Opponents of European integration in Ukraine are already talking about a "Turkish scenario." The EU does not think of Turks or Ukrainians as Europeans, but is obliged to maintain integrational process with both countries. Possibly in this way, it hopes to prevent both countries from being drawn into some rival sphere of influence, say, an Islamic one for Turkey and a Russian one for Ukraine, and to make a buffer zone out of them instead.

Technically, a buffer is a country which is not part of any integrated entity but associates with them. Still, no country can realistically remain a buffer zone for long. If one center of power does not take it in, it is likely to go to the other one: Turkey is now drifting towards Islam, and Ukraine is drifting towards Russia.

This situation is perilous for both Ukraine and Europe. The Roman Empire collapsed because it was unable to establish relations with surrounding peoples. The revolutions in North Africa prove that buffer zones have no use as a security element. Europe, like Russia, is turning Ukraine into a time bomb when it puts forward propositions of associated membership. The situation in Egypt and other North African countries only proves that.

The real sick man of Europe?

Creeping eurointegration has become a chronic illness of every government

Since the times of Leonid Kuchma, Ukraine has tended to have a two-headed form of eurointegration: the declarative one on paper and the real one. To hear Ukraine's leaders speak and to read

Government documents, the impression is that there is no country more determined to join the EU on this planet. But if a sick man complains for nearly 12 years about his illness while actually doing nothing to treat it, the question arises immediately whether he is not more attached to his disease than to good health. For Ukraine's governments, creeping eurointegration has become a chronic disease.

The reason why eurointegration has failed in Ukraine is not just because the EU wants the country to permanently stay somewhere in the middle of the path. Internal factors have also contributed more than a little to this process becoming an endless effort to reach a disappearing horizon. The most obvious barrier to europeanizing Ukraine is the unreformed soviet system of public administration and the lack of a CEB for eurointegration with sufficient powers and resources to promote internal reforms.

Europe's "institutional occupation" has transformed other countries from the Soviet camp into EU member states. If a country has no state institutions other than those that function according to European standards, its government, business and citizens are finally forced to start playing according to new rules.

From the very start of its independence, the situation in Ukraine has been exactly the opposite: all its institutions remain soviet in their essence to this day. As a result, government, business and voters have little choice but to adapt themselves to the existing system.

In nearly 20 years of independence, Ukraine's Soviet government machine, that is the system of interaction between government, business and individual citizens, has mutated to such an extent that it has lost the capacity for totalitarian rule. But this mutated public administration system has also not become democratic, or in line with European norms and standards, because no one has been systematically introducing these.

Europeanizing Ukraine means radical changes. Government and business have both adapted to the status quo. Neither side is interested in seeing European standards come into use, because this will mean a very different government and very different business—and that means an end to those who have adapted to what currently is. Still, both those in power and those in business understand quite well that, without europeanization, Ukraine cannot succeed economically or politically.

A broken down Soviet government system is a major obstacle to eurointegration

The Association Agreement—so what?

The EU would like Ukraine to be a reliable, consistent partner. But this is possible only in a democratic country that is reconstructing its internal and external policies along European lines.

What Ukraine's present and past governments have seen as a key component of eurointegration policy, the Association Agreement, is actually only an instrument for cooperation that the EU has been developing with a large number of both close and distant countries. If this kind of twisted logic is followed to its conclusion, then Mexico, Israel and North African countries are way ahead of Ukraine on the path to EU membership, as they all signed their Association Agreements with the EU back in 2000!

The EU has AAs with 25 countries and is negotiating with 14 more

The EU currently has Association Agreements or their equivalent with 25 countries. Another 14 Association Agreements are at various phases of the negotiation process, including the one with Ukraine. The reason why the European Union uses this instrument so broadly is that it cannot lose with them. In fact, by signing such an agreement, the two sides commit themselves to playing by the same European rules.

Opponents of eurointegration are very clear about the threat that an Association Agreement carries for Ukraine. The format of the Agreement, especially as regards the functioning of the Free Trade Area, only specifies the broad-based expansion of European norms. In the case of Ukraine, this is supposed to be “deep and all-encompassing.” Depending on the overall world situation, this can be either convenient or the opposite to political and commercial interests within the country. But it is always convenient for the EU, where companies gain access to new markets on their own terms.

Ukraine is not ready to undertake an AA with the EU

Meanwhile, few people in Ukraine are talking about the fact that the reason for any threats related to the institution of European standards lies not in the standards themselves, but in the institutional capacity—or lack thereof—of Ukraine to adopt them. The way Ukraine's government bodies are operating today, there is no point in expecting any Association Agreement with the EU to be properly carried out. Should the status quo be maintained after the signing of such an agreement, the Government will have serious trouble organizing implementation. The main problem areas are:

Lack of a centralized coordination mechanism

Ukraine still lacks a single coordinating unit for European integration policy. At the moment, a series of separate processes takes place in individual CEBs that often operate in parallel. Most aspects of eurointegration policy are coordinated by the Economy and Justice Ministries and the Cabinet Secretariat.

Individual coordinating functions are established in law but are actually carried out by more than one body. When this kind of duplication takes place, the entire system of coordination becomes ineffective. Worse, no one takes responsibility for specific problems or failures.

If this kind of situation remains in eurointegration, the Government will not be able to ensure effective communication and coordination among CEBs both during the drafting of a National Implementation Program (NIP) for the AA and during its execution.

Inability to properly plan the AA implementation process

The current Government planning system, especially strategic and budget planning makes it impossible to make use of such management instruments as the NIP, which is based on procedures and templates used by all the countries that have executed or are executing similar agreements with the EU.

Ukraine has myriad planning procedures and templates, especially for budget programs. In the way that they are structured, they are completely in line with best European practice. However, the lack of standards and quality control means that the goals of these programs are not related to problems or problems with decisions, while funding goes to measures that will never help reach the established goals. Instead of budget funding to carry out the country's development priorities, this instrument has turned into a plan for how the main recipients of public funds will spend this money.

Lack of capacity among CEBs

Today, Ukraine's CEBs are not clearly assigned the specific objectives that they need to achieve in order to successfully carry out programs and plans regarding integration into the EU, nor is it established what products they are supposed to develop.

At the same time, their internal structure gets in the way of carrying out such objectives and preparing the necessary products. Furthermore, it is anything but clear who will be responsible for the individual products that will be necessary during the preparation phase and the execution of the National AA Implementation Program. Since the same functions are often handled by several sub-units, none of them is ultimately responsible for the end product.

“The EU: The key to democracy and prosperity”

The europeanization of Ukraine is the point where Ukraine’s interests and those of the EU coincide. Ukraine absolutely needs European norms and standards in order to reform the public administration system and ensure its own functioning democracy in daily life. As for now, none of the incumbents—neither the President, Parliament nor the Cabinet of Ministers—had shown such intent. They abuse the European aspirations of Ukrainians, but in reality rely on authoritarian instruments of governing and consider the wealth of the State to be a source of their own enrichment.

Only freedom spurs initiative, whether it be commercial, social or spiritual

Ukrainians are so fixated on eurointegration that no President will be able to ignore this, no matter how much pressure is exerted. Ukrainians want the freedom to live, work, be politically engaged, travel around the world, and decide where they want to live. All this was impossible in the Soviet Union. Everybody understands that only freedom spurs initiative, whether it be commercial, social or spiritual. Countries that live in democratic environments have an immeasurably higher quality of life, education, healthcare and public services.

In all totalitarian countries, where the government has been objectively and inevitably usurped by embezzlers, democracy is presented as something terrible and threatening to the national interest, as something that “does not suit the national mentality.” Totalitarian regimes without free economic competition are never highly developed. At least, the world has not seen such examples.

Russia vs the EU is a choice of quality of life for many Ukrainians

Ukraine’s freedom and democracy depend on its foreign policy. Integration with the current regime in Russia or integration with the European Union is ultimately a question of quality of life for Ukrainians. Integration with today’s Russia, in which the repressive systems of a totalitarian form of government are being restored, will inevitably infect Ukraine with these same systems.

Such an integration offers no chance for sustainable long-term development. Not only will Ukraine not be able to ever build an effective public administration system, it will be impossible to modernize the two economies, no matter what politicians say.

There is a very real and important reason why many people in Belarus and Russia—and lately in Ukraine as well—might think that democracy does not work for us, does not suit us. These countries have so far only experienced political freedom without the institution of democratic order, democratic oversight and democratic state institutions.

The failure to work at establishing democratic state institutions has led to a situation where the political and economic freedoms that were brought by Boris Yeltsin in Russia and by Viktor Yushchenko and Yulia Tymoshenko in Ukraine also failed to change to a freewheeling state apparatus, whose absolute lack of oversight has led to total corruption. Uncontrolled, unburdened by strict laws that punish for violations of norms and human rights, the government machine has been transformed into an army of marauders.

In the battle of ideas at the World Bank in the 1990s, the theories of Jeffrey Sachs won out. These promoted shock therapy, that is, total liberalization without concern for building institutions, which were supposed to develop on their own. Had his rival, Joseph Stiglitz won out, all technical assistance would have gone to establishing market and democratic institutions and there might not have been the chaos and disillusionment that both Ukrainians and Russians have had to struggle with.

Vladimir Putin and Viktor Yanukovich appeal to voters who are desperate for social order and discipline. Neither one nor the other has anything but Soviet experience behind him, when it comes to public administration. For them, order means a single top-down chain-of-command, which is called the executive.

What neither Ukraine nor Russia know is that, in a democracy, freedom and competition are meant for politics and economics. **Freedom and liberalism within the government machine are completely inadmissible.** Democracy, on the contrary, means that there is a strict executive chain-of-command, a strict hierarchy, subordination, and severe, immediate consequences for not carrying out orders and procedures.

Freedom and liberalism within the state apparatus is unacceptable

Today, Ukraine's bureaucrats steal while voters point fingers at the President for corruption, but this has nothing to do with democracy. Democracy means free elections, the right of the individual to freedom of speech and of confession and the rule of law, with a President who is the guarantor of these rights.

Ukraine's problem is not political freedom, as Ukrainians have earned that. Ukrainians want a European freedom to live free and be prosperous—and a democracy with the proper public administration.

Democratic governance: Reviving eurointegration

Relations between Ukraine and the EU are currently in a state where there is no way out in the current model of simulated European integration. Rewriting stale promises and commitments will go nowhere.

Opponents of eurointegration point to the threat that Ukraine will become a buffer zone for the EU. This risk lies in the very geographic location of the country, between the EU and Russia. For that very reason, Ukraine needs EU assistance in embodying European principles of integration in the Eurasian region. The key condition here is a strong and democratic government machine.

Ukraine needs EU help transforming public institutions, not promises of accession

Ukraine needs no promises about membership from the EU. It needs help transforming the Soviet government machine into a system that functions according to European standards and is capable of ensuring the necessary quality of governance for Ukraine to be a reliable EU partner.

Russia may protest against Ukraine getting closer to the EU, but it is hard to imagine it dictating to Europe what kind of technical assistance should or should not be granted to Ukraine. The focus of foreign aid needs to be to democratize the government machine. This will make it possible to separate political integration from the form of technical assistance.

The AA could be a platform for reform

Ukraine's President and Government have clearly stated their intentions to preserve the course to eurointegration. Clearly, they are primarily concerned to see concrete results from this process and not virtual prospects for their country. This realistic and grounded view could help transform the Association Agreement

from a half-measure designed to maintain the status quo into a platform for reform.

For this to happen, Ukraine needs to see a change in thinking about who controls whom in the country: the state controls the people and business or the people and business control the state through a system of public oversight institutions. The key requirement for this is to institute European principles of anti-corruption legislation, where violations are clearly established in every norm and every violation is clearly tied to a specific penalty.

The EU cannot allow itself not to think what is going to happen on our common European soil in the future. It has no right to shrug off the obligation to support democratization and the security of its neighboring states, especially Ukraine.

The EU may not have an obligation to offer Ukraine membership, it does have a duty before its own citizens and the global democratic community to support democratization in Ukraine. Yet the EU keeps talking about Ukraine's lack of capacity, which Europeans like to call "unwillingness to fulfill" commitments without ever raising the question why Ukraine does not do so.

Support for democratization is an EU obligation, for it has the experience, skills and knowledge necessary to transform undeveloped countries into democratic and economically developed ones. The assistance it provided to candidate countries in acceding to the EU is an excellent example of the role of EU assistance as a catalyst for the transformational processes of democratization.

Still, this is not happening with Ukraine. Despite the fact that over 1991–2010, just the national component of financial instruments for cooperation between Ukraine and the EU, through TACIS and the ENPI, have cost nearly EUR 1.385bn in EU aid, the carrying out of numberless aid programs has only substituted for the idea of reform and imitated lively reformist activity, presenting results that are mostly wishful thinking. Ineffective aid is actually damaging to Ukraine, as it fills in the vacuum created by the lack of reforms with a pointless process of executing aid programs that cannot possibly reach their declared goals.

The fundamental difference lies in the approaches and instruments to providing assistance. Countries that were candidates for accession were given aid whose primary focus was on building up

state institutions and developing infrastructure with a clear understanding that further funding depended on concrete results.

Ukraine has had access to international consultants who mostly developed reform policy recommendations without concerning themselves with the likeliness that these recommendations could or would be put into practice. In other words, to counterweigh advice, conferences and brief study tours, the EU's arsenal includes experience instituting national professional development systems to establish new standards of working in various fields and drafting state policy documents according to democratic standards.

The EU bears some responsibility for the absence of reform in Ukraine

Until now, Ukraine was the only one constantly blamed for the lack of reforms. Yet, some part of the blame lies also with the EU. Demanding that Ukraine carry out reforms that were never made operational in aid programs to match the level of capacity in state institutions to carry out reforms was the same as demanding that a first-grader solve a physics problem from a grade seven textbook.

Even the launch of the Budget Support program as a new form of assistance under the ENPI in 2007 has not changed the situation. The EU continues to stubbornly ignore the unreformed state of Ukraine's government institutions, giving them hard cash for the budget despite the fact that Ukraine does not actually meet EU criteria for allocating this kind of assistance. In this way, the Union shifts responsibility from itself onto Ukrainians. Yet, until the EU actually helps Ukraine reform its corrupt soviet system of state institutions, no systemic reforms will be possible.

For now, membership cannot be on the table

Ukraine understands all the political conditions and restrictions in the EU's position towards it today, and it knows that membership is quite unrealistic under these circumstances. So all efforts need to be directed towards changing the circumstances.

Europeanization means democratic governance and active cooperation along EU standards

So, the first condition for europeanizing Ukraine is to form democratic public administration institutions to replace the current mutations of the soviet administrative machine. The second one is to normalize relations with Russia and move them onto the path of civilized integration according to European norms. Such a constructive and pragmatic position on the part of Ukraine will make it possible to ease tensions in relations with the EU and to move them from the level of allusions, omissions and unfulfilled commitments to consistent cooperation directed at building up the Eurasian region along EU principles.

UKRAINE'S REGIONAL INTEGRATION: TERMS OF REFERENCE

In this section, the authors present their view of how the integration process could unwind in the post-Soviet region and Ukraine's role in this process

Ukraine's Foreign Ministry is faced with an impossible task: to normalize relations with Russia in a way that will not threaten the country's independence. To protect its own sovereignty, Ukraine needs to fulfill integrational "terms of reference." This means to establish solid ground in relations with the European Union, to demystify the Russian factor, and to develop a consolidated foreign policy.

The goal of Ukraine's foreign policy needs to be active integration in the Eurasian region following European principles. Ukraine is located on the border between two centers of power: Europe and Russia. Instead of splitting in two itself, Ukraine should take on the role of a bridge between Russia and Europe and become the platform for common integrational projects. The territorial center of such integrational efforts should be Kyiv, which is politically, geographically and historically equidistant from Russia and the EU.

Solid ground with the EU

By now it is clear that a model of relations between Ukraine and the EU built on the prospects of membership has no future, at least in the short and medium term. For the last five years, it has been a stalemate: Ukraine insists on getting proper signals from the EU, while the EU makes it clear, without actually saying "no," that it does not consider Ukraine potential membership material. As long as this backing and forthing went on, the two sides only became more tense and irritated.

Current geopolitical realities are very different from those that existed at the time that Ukraine declared independence or even at the time that the EU began expanding. Right now, the global economic crisis, the ineffectiveness of government bodies, and

Talking about EU membership for Ukraine must now be taboo

The President's new rhetoric sounds good to European ears

threatening migration trends present Europe with more urgent challenges than the fate of Ukraine.

Having solid ground for relations between Ukraine and the EU starts with a ban on any mention of accession. It's not up to the EU to remind Ukraine, but up to Ukrainians to acknowledge that the country cannot join because of their own lack of preparedness and Russia's hostility to the idea. But economic integration, which Ukraine's President keeps bringing up more and more, frames the purpose of cooperation in a way that suits both sides quite well.

Ukraine's eurointegration policy has largely been built on wishful thinking. The stated aim of joining the EU had none of the substance underpinning it that would be necessary to actually reach that goal. Ukraine so far has been going "one step forward, two steps back" on its path to the EU, all the while complaining that the EU is not meeting it halfway.

For most Ukrainians who see themselves as Europeans, the new rhetoric of the President sounds like a rejection of eurointegration hopes. In fact, the President is proposing that the country's eurointegration policy finally gain some substance, which is both fundamental for Ukraine and acceptable for the EU: "European integration remains a reflection of internal reforms directed at raising the standard of living for ordinary Ukrainians to European levels."²⁸

If Ukraine indeed wants to ultimately find itself in the EU club, it needs to start walking down the path taken by all candidate countries. This means adopting European rules of play. One indicator of Ukraine's readiness to really be part of the EU will be European-standard domestic and foreign policy.

The EU's readiness to sign an Association Agreement with Ukraine and establish a deep Free Trade Zone makes clear that it would like to see European standards extended. The EU's interest is in making Ukraine a reliable and predictable partner, and European standards are seen as one way of guaranteeing that. Life following European standards will automatically lead to a new level of relations between Ukraine and the EU. Right now, relations between the two are a long lament of misunderstandings. Once the two sides begin to speak the same language, misunderstandings should become a thing of the past.

²⁸ According to a report in Ukrinform, a news agency, dated 13.09.2010: <http://www.ukrinform.ua/ukr/order/?id=937989>

The ideology of those opposed to free trade with the EU is based on protecting “the national interest,” which comes down to supporting the absurd soviet system of universal certification and resistance to the idea of market oversight, sanitary and phyto-sanitary control according to EU standards. Still, there’s little point to thinking that these opponents are bad Ukrainian manufacturers. Many of them have long ago brought their production in line with EU requirements and are successfully exporting. The greatest source of resistance is actually among Ukrainian bureaucrats who, under the slogan of protecting national interests, are reaping bribes and turning a blind eye towards unsanitary conditions, poisonous toys and dangerous electrical appliances.

The EU has a very limited range of leverage over its neighbors, including over Ukraine. The prospect of membership was and remains a decisive factor in relations with candidate-countries. Given that Ukraine is not in this position, this lever will not work. The only means of influencing Ukraine that the EU really has is foreign aid.

Right now, the EU is using this instrument in a harmful rather than helpful way. It is not improving Ukraine’s quality as an EU partner, supporting instead and even reinforcing the unreformed system of public administration. In George Orwell’s prescient novel, *1984*, the Ministry of Peace is responsible for war, while the Ministry of Truth handles propaganda. The same is evident in many EU technical assistance programs. Thanks to them, corrupt public institutions in Ukraine have become even stronger and have been able to engage in inappropriate activities even more effectively.

TA has not improved but rather fed negative aspects of the state machine

Demystifying the Russian factor

In Ukrainian circles, political debate continues to demonize Russia. Opinion on Russia tends to be polarized: fight or give in. Given that Russia is undoubtedly stronger, the result will always be the same: submission.

Russia sees itself as the heir to the Soviet Union and has publicly taken on responsibility for the post-Soviet region. This position is the basis for all of Russia’s actions. Every individual step taken by Russia in relation to Ukraine has one single goal: cooperation and integration—a phenomenon seen among all countries on the planet. Russia sells gas and buys assets in Ukraine just like it does

in Poland and Germany. What Ukraine sees as a threat to sovereignty and a betrayal of the national interest is normal international relations for other European countries.

Because of Russia's more determined approach, the West has already become used to thinking of Moscow as its key partner in the post-Soviet region. All negotiating positions related to other countries in the regions are typically agreed with the Kremlin first, as both the US and Europe see this as Russia's zone of geopolitical interests. It seems as though Moscow is dictating to Kyiv what steps the latter should take in the foreign policy arena. Evidence of this could be seen during Mr. Yanukovich's visit to Berlin and Paris. In Berlin, the participation of Russia-friendly Germany in modernizing Ukraine's GTS was pretty well legitimated on the international level. In Paris, the French press barely noticed Mr. Yanukovich's visit, a serious indicator of the country's geopolitical absence.

Ukraine-Russia relations are following Russia's agenda because Ukraine has none of its own

At this time, cooperation between Ukraine and Russia is going strictly according to Moscow's agenda. Still, it is already evident that the results of this cooperation will not be 100% the way Russia would like it to be. Ukraine is finding enough internal strength to oppose those projects that do not suit it, such as a merger of Naftogaz Ukrainy with Gazprom. Although Ukraine can agree or actively not agree with elements of the Russian agenda, it has no agenda of its own.

The growth in trade volumes between Ukraine and Russia is one indicator of the intensity of cooperation. Over January-July 2010, turnover in trade between the two countries nearly doubled. The pace of expansion of bilateral trade is far higher than the pace of expansion of Russia's overall foreign trade, which was only about 40% for the same period and only 37% with other CIS countries.

Russia has revived old integration plans for the energy sector...

In the energy sector, there was a revival of old integrational plans to set up a closed nuclear fuel production cycle for AESs. Despite Ukraine's supposed determination to diversify sources of fuel supplies and to reduce its dependence on Russia, the winner of a competition to build a plant to manufacture nuclear fuel was the Russian company TVEL, which is a long-time monopolist on Ukraine's market.

... is buying up assets in Ukraine's steel industry...

Russian companies have not slowed down their efforts to absorb companies in Ukraine's steel industry. For instance, stakes in Industrial Union of Donbas, Zaporizhstal and MMK Illich all went

to an unknown owner through Vneshekonombank, Russia's foreign trade bank. An agreement between the Industry Ministries of Ukraine and the Russian Federation to preserve specialized enterprises and two-way cooperative deliveries in the metallurgical sector fosters continued joint production, similar to Soviet times.

In information technologies, Russia's GLONASS navigating system, similar to and a competitor for the American GPS, is making inroads. An agreement between Ukraine's Government and the Russian Federation's Government on cooperation in the use and development of GLONASS will ensure that the Russian system is used in Ukraine and that a land-based functional Ukrainian addition to the system will be made.

... promoting the GLONASS navigation system...

In educational policy, Ukraine has shifted the linguistic balance in a way that does not favor the Ukrainian language. Among others, Decree №243 issued by the Education Ministry on 26 March 2010 changed the conditions for admitting students into post-secondary institutions, making it possible for applicants not to take entrance exams in Ukrainian.

... and pushing Russian language and culture

Illustrative of the new language policy in Ukraine is yet another Cabinet of Ministers Resolution, №642 issued 28 July 2010, "On amending the Provision on the training of pedagogical and scientific personnel," which removed the rule about mandatory exams in the Ukrainian language for professional applicants entering a doctoral program and for taking the candidate's exam in the Ukrainian language in order to gain an academic level as a candidate of science. Historical parallels for the meaning and bureaucratic rhetoric in this resolution can be found in the Valuyev circular of 1863²⁹ and in the Ems Ukase of 1876.³⁰

The threat to Ukraine's sovereignty lies not in Russia's actions but in the conditions and principles of cooperation. Russia is just as interested in establishing control over the Polish or German gas transport systems as over the Ukrainian one. The reason why it is not succeeding in the first instance and most likely in the second one as well is that EU countries can counter Russia's agenda with

The threat to sovereignty lies in the conditions and principles of cooperation

²⁹ A secret document by the then-Minister of Internal Affairs Piotr Valuyev, i.e., the head of the Tsarist police, setting up censorship committees across the territory of the Russian Empire to restrict the publication of texts in Ukrainian.

³⁰ A second secret edict, issued by Tsar Alexander II, also restricting the use of the Ukrainian language

their own views of how cooperation should take place and to undertake joint projects. Ukraine has no such vision of its own.

Yet, on this issue, the views of the current Administration and opposition concur. Viktor Yanukovych has admitted the real risk that part of Ukraine's economy could be swallowed up by Russia.³¹ Yulia Tymoshenko has also warned that Russia is gradually gobbling up Ukraine.³²

European principles guarantee qualitatively better relations all around

The conclusion is obvious: instituting European principles in Ukraine is the guarantee of qualitatively new relations—not only with the EU but with Russia as well. For the EU, it guarantees that Ukraine will be a reliable partner; for Ukraine, it guarantees security and independence in relations with Russia. Might is right only where other laws fail. In a free-for-all, whoever is stronger wins. But in business negotiations, the size of muscles has little meaning.

A consolidated foreign policy

Ukraine has no foreign policy because it has no single goal

Today, Ukraine has no foreign policy because it has not established a single purpose for it. What it has are foreign policy projects: with the EU, with Russia, with the US. Each one has its own goals and is being carried out without coordination. As a result, Ukraine has found itself virtually isolated from key geopolitical partnerships—NATO, the US and the EU— participating in which could ensure the country's independence as a player in the international arena.

No foreign policy projects can succeed if any one of them fails

Ukraine has already felt the reality that none of its foreign policy projects can succeed if any one of them fails. President Yushchenko's term in office proved that, without civil relations with Russia, Ukraine is useful neither to the EU nor to the US. Events since President Yanukovych came to office have confirmed that, if Ukraine cannot establish its value as a necessary and reliable partner to the West, Russia can simply gobble it up.

Ukraine needs to set itself a single foreign policy goal and to aim its international relations at fulfilling that goal. Today, its foreign policy has two contrary, even antagonistic, directions and they need to be synchronized, brought in line with each other, and transformed

³¹ According to the UNIAN news agency, dated 09.10.2010: <http://economics.unian.net/ukr/detail/62494>.

³² According to BBC, dated 08.06.2010: http://www.bbc.co.uk/ukrainian/news/2010/07/100708_tymoshenko_full_it.shtml.

into a single foreign policy—one that can have different objectives in different regions, but is built on the same set of principles.

The President has stated more than once that “European integration is a key priority for Ukraine.” For most Ukrainians, the euphemism “European integration” is a traditional code-word meaning “membership in the EU.” Yet Ukraine cannot join the EU without the Union’s agreement. If the EU does not see this as a possibility, then it makes no sense at all to make this a foreign policy goal for Ukraine. Lately, the President has insisted that what this primarily means is economic integration. This kind of pragmatic approach is getting support in the EU, which is not prepared for any more political commitments. A study by the World Bank³³ confirms that only economically beneficial integrational projects have any political future.

Ukraine’s Government cannot pretend that it doesn’t see those integrational processes that are unfolding between Ukraine and Russia, based on key priorities for Russia: energy, transport, aviation, shipbuilding, and culture. They cannot be stopped, nor is this necessary for Ukraine, Russia or the EU. The failure of Viktor Yushchenko’s eurointegration policy and Mikhail Saakashvili’s military strategies showed, once more, that the EU is not prepared to sacrifice its strategic partnership with Russia for the sake of post-Soviet countries who cannot take care of themselves in relations with Russia. This means that Ukraine cannot afford to publicly snub Russia and will have to take up the challenge to “live with each other.”

Active cooperation with Russia is modern Ukraine’s shortest path to the EU. This does not mean giving up sovereignty, but building up civilized and mutually beneficial integrational relations with Russia. And this is only possible along European principles.

Ukraine’s capacity to apply European principles to integrational processes with Russia is a kind of test of its ability to join the EU. For Ukraine to be able to pass this test, the country has to adopt European principles itself and make it the basis for its domestic and foreign policies. In foreign policy, European principles are the path to the EU and protection from any aggressive acquisition by Russia; in domestic policy, they are a source of endless political capital for the President and Government.

The EU won’t sacrifice a strategic partner for post-soviet countries that are in conflict with it

Being able to apply European principles to integration with Russia is a test for EU accession

³³ Regional Integration and Development, by Maurice Schiff and Alan Winters, translated from the English, World Bank, Moscow, Ves Mir Publishing, 2005.

A chain of command and freedom in commerce and politics ensure both democracy and a viable state machine

Without public administration reform, Ukraine's 350,000 civil servants will become "enemies" of the President because they won't work on carrying out his decisions and will continue to provide low-quality public services that will turn voters against him as well. The army of bureaucrats is procedurally without proper supervision, they do not risk any kind of punishment for being corrupt or failing to carry out orders—and they quite simply lack the skills necessary to plan the execution of the President's program.

Establishing order and ensuring stability is Mr. Yanukovich's main theme as President. This he can try to achieve through authoritarian, repressive means, but he risks facing resistance on the part of an electorate that is used to democratic freedoms in Ukraine and losing face before his Western counterparts. The government is now facing a dilemma: how to preserve democracy and ensure that the state machine can set and reach strategic objectives. EU standards provide the answer to this question: build a strong administrative chain-of-command in government institutions and offer freedom in business and political life.

European standards also mean a completely different level of capitalization in Ukraine's economy, that is, at the level of EU countries. Firstly, such standards will open the door to investors, who will feel confident of the security of their own investments. Secondly, assets in a European country with democratic and effective public administration are worth a lot more than in a post-soviet country suffering from permanent political crisis or hanging on the edge of authoritarianism.

The foreign policy isolation that Ukraine has driven itself into has been caused by its own self-assessment. Ukrainians see themselves either as an undesirable appendage to the EU or booty for Russia. Yet, some of our neighbors continue to respect Ukraine's international authority, even if Ukrainians don't seem to see that. Firstly, these are members of the nearly-forgotten "anti-Russian club," GUAM, whose headquarters are in Kyiv. Belarus could well join them, as it is beginning to feel less and less comfortable being squeezed by Russia.

Ukraine's integration in the region is hardly something unique. Similar processes have been going on in Europe and North America for decades. The difference is in the presence or absence of clear and transparent conditions and principles for this integration that are understood and accepted by all partners in the pro-

cess. The North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico has established very tight ties. But this doesn't mean that Canada has lost its sovereignty or control of its own economy just because the size of its economy and its population is so much smaller than that of the US.

For instance, the independent domestic policy of the Canadian Government meant that during the financial crisis of 2008–2009, the collapse of the US banking system did not threaten Canadian banks. An example of independent foreign policy was Canada's refusal, as the US's constant military ally, to participate in the latest war in Iraq. Both Canada and Mexico only gain from closer integration with the US, which means greater markets and partnership in joint projects.

Ukraine's foreign policy goal should be active integration in the Eurasian region following European principles. The territorial center of this integration project and the location of its common administrative institutions should be Kyiv, which is politically, geographically and historically equidistant from Russia and the EU, as well as from potential eastern partners such as Turkey. This will ensure a balance of interests among key Eurasian players.

The foreign policy goal should be integration in the Eurasian region on European principles

Integrational TOR

For the EU

The EU is certainly not interested in seeing half-barbarian countries with authoritarian governments at its eastern borders who are at each other's throats all the time. As the Russo-Georgian war convincingly demonstrated, this is a direct threat to stability in the region and therefore to the security of the EU itself. The EU wants its neighbors to be states that have a common language both with it and among each other and that are able to make good on their commitments.

Instead of watching anxiously as Russia returns most of the post-Soviet countries, one by one, to its sphere of influence, the EU should remember the integrational principle of balance of interests that underlies its own foundations. The EU needs to finally stop acting as though these principles are so self-evident that it's not worth talking about them, or that there really aren't any principles at all. On the contrary, it needs to formulate them at the official level, clearly and thoroughly. This will be enough for integrational processes on the post-soviet arena to improve in quality.

The EU should officially formulate the principles of a balance of interests in integration

Integrational principles cannot continue to be based on the use of force. Hitler's Germany and the Soviet Union are historical examples of what catastrophic consequences this has. In the interests of democratic development across the entire Eurasian region and for the sake of its own security, the EU needs to adopt a principled position on disseminating principles of mutual interaction among its member countries outside the EU.

If there are no rules, then it's impossible to violate them. In that case, players' actions cannot be judged good or bad. If there are rules and they work for most developed countries in the world, other countries can recognize them or not, violate or uphold them, but there is an objective basis on which both international partners and a country's own citizens can evaluate these actions.

Principles determine a country's history and the lives of its people. The Soviet Union could only exist as long as there was no private property or democratic freedoms. As soon as both of these began to emerge under Mikhail Gorbachev, the most powerful empire in the world, which had stood seemingly unshakeable for 70 years, began to fall apart. For principles to work, countries have to be capable of applying them. In foreign policy, European principles are the principles of integration; in domestic policy, they are the principles of democratic government. The EU has been successful at Europeanizing other post-soviet countries and is well aware that the capacity of a state to apply democratic principles is determined by its public institutions.

One joint EU-OECD program called SIGMA has published the principles underlying building a system of oversight and management in the state apparatus³⁴ and these are the only ones that are able to ensure the carrying out of political decisions under democratic conditions. In October 2010, the EU and Ukraine took another significant step towards forming a democratic government machine: they launched the Capacity and Institution Building (CIB) Program. This is expected to be the focus of all efforts of European donors now. This will allow the EU to finally go from funding an unreformed government apparatus, which undermines stability and security in the region, to transforming Ukraine into a reliable and predictable partner and a worthy participant in integrational projects.

³⁴ <http://www.oecd.org/dataoecd/57/32/35007180.pdf>

The CIB Program has every opportunity to become the foundation for a new European Ukraine, rather than the latest Potemkin village built by Ukrainian bureaucrats together with their European consultants. But for this to happen, the EU needs to consistently uphold its own principles and to demand the same of its Ukrainian partners.

Right now, the same name for a ministry or other government body in Ukraine or Russia and in any EU country or other developed country mean absolutely unrelated things. The difference is in the division and separation of the functions of public institutions. In the EU, the functions of oversight, assessment, human resource management and resource management are not in the hands of the management of various government bodies and are distributed in such a way as to make any kind of conflict of interest virtually impossible. In Ukraine, it's the other way around: they are concentrated and supervised by the very management of government bodies, which makes it impossible to actually carry out those functions and guarantees corruption. Government bodies themselves oversee and evaluate their activities, which is a profanation of both functions.

For Russia

Russia is clearly and indubitably the leader in the post-soviet region. Despite this enormous advantage, today it is not able to effectively use its leadership position. To strengthen its political line, it has to continually use force as a means of influencing: war in Georgia, revolution in Kyrgyzstan, gas wars in Ukraine and Belarus, and bans on imports from Moldova, Georgia, Ukraine and Poland. Russia's leadership understands that these kinds of actions are ineffective, but it doesn't see any alternatives.

Russia's position in the region would be much stronger and its opportunities to defend its geopolitical interests far greater if other post-soviet countries were to freely acknowledge its right to regional leadership. For this, Russia needs to legitimize its status and transform the use of force to the force of authority. This will be facilitated by democratic transformations within Russia itself and its rejection of hard power in favor of much more effective "soft" power of unswerving adherence to the norms of international relations. This means it needs to once and for all acknowledge the sovereignty of post-soviet countries and to support their independence and selfhood in every possible way. No country will

Russia has to change from the Soviet Union into a European one

ever acknowledge as the leadership of a country that is trying to destroy it. Russia, just like the EU, is interested in having strong partners and allies, that these countries be independent and wealthy, not international pariahs with frozen conflicts.

Russia has to change from a Soviet Union to a European one. It should certainly not use weapons and gas as a way to bring post-soviet countries back into its sphere of influence. On the contrary, other countries should be competing to integrate with Russia and to prepare themselves the same way that it happened with the EU.

Russia will be unable to fulfill its geopolitical mission if it is isolated. It needs to recognize and support key geopolitical players. To change from an ambitious second-string player into a real member of the top geopolitical league, Russia needs to build partnerships, not just with its BRIC colleagues, but with the modern-day centers of power, the US and the EU. Russia will never come into its own in their circle as long as it does not begin to unswervingly uphold democratic principles in its domestic and foreign policies. Violating these directly harms Russia's geopolitical interests and prevents it from fully realizing its own enormous potential.

Only reforming public institutions can ensure economic growth and political stability

Playing the game of divide and conquer in the EU, as well as between the EU and the US, and establishing separate partnerships with individual leaders undoubtedly has brought results and already virtually led to a redistribution of spheres of influence, but this has not led to and cannot lead to any internal strengthening of Russia itself. Only reforming public institutions that currently continue to function on soviet principles, can ensure economic growth and political stability.

For Ukraine

Adopting European standards in domestic and foreign policy is a guarantee that Ukraine will be a prosperous European country and that it will play a key integrational role in the Eurasian region. Right now, relations between Ukraine and the EU are framed by the Association Agenda. Ukraine's reform priorities are also set out in this joint document. However, they are not tied to the reform program drawn up by the Government: one of the commitments Ukraine has made to the EU is to set up a system of internal and external control and audit, yet this bit is missing among the internal reform priorities.

In another area of state policy, European integration should become the framework for carrying out all reforms. No reform can contradict or not comply with Ukraine's commitments under the future Association Agreement and FTA. Planning and carrying out the entire set of reforms of state policy and management needs to be done, not separately from eurointegration processes, the way it is right now, but as part of the process of carrying out the Agreement with the EU.

European integration offers a framework for all reforms

Reforming the regulatory environment separately in the light of "Ukrainian conditions" while separately taking on commitments in this area before the EU is the sure path to failure in both regulatory reform and cooperation with the EU. There cannot be a reform committee or the post of Deputy Premier for reform separate from negotiations with the EU regarding Ukraine's commitments under the Association Agreement. These two processes have to be synchronized under a single high-level official, such as the President, Prime Minister or Deputy Prime Minister. This is the way that new EU members prepared to join and this is what candidate countries are currently undertaking.

Ukraine's inability to succeed, whether with internal reforms or in integration with the EU is due to the gap between political will and administrative capacity to carry it out. The country's broken down and unbalanced institutions, which have not seen reforms since soviet times, are unable to carry out such complex tasks. Only in Ukraine can you see a situation where the decisions of the President are blocked at the level of sub-units of separate executive bodies and an endless, fruitless process of approvals. In the end, the decision remains on paper, which undermines the authority of the Head of State. In a totalitarian country, the guilty would be executed; in a democracy, they would be fired. But in Ukraine, this is simply accepted as a sign of democracy and the defense of national interests!

Ukraine's inability to succeed is due to the gap between political will and administrative capacity

The EU has not left Ukraine on its own with a dysfunctional government machine. It is proposing an instrument that is ideal by name and by purpose: the Capacity and Institution Building Program. Ukraine's government needs to focus all its efforts on properly, not fictively or declaratively, taking advantage of this opportunity. Right now, when responsibility for this is at the level of heads of individual government bodies or even at the level of their sub-units, there's no chance that the CIB will work as it should. Ukraine's leadership needs to make sure that the execution of the

Political will should translate into administrative commitment

CIB is concentrated at the highest possible level: at a single center for coordinating European integration and reforms.

In October 2010, the Constitutional Court cancelled Ukraine's Constitutional reform from 2004. This presented the country with a new political reality and ensures that there is complete capacity to carry reforms out. Political will must now translate into administrative commitment. One important element of this in a democratic country is working with interest groups and stakeholders and mobilizing public support for political decisions.

Any reform is likely to engender considerable resistance in Ukraine, given that it will affect the interests of those who are used to the current state of affairs. For those who are against reforms, it is a matter of survival. But the number of interest groups who want to see reforms, who are eager to support them, is far larger. Right now, Ukraine's government is doing nothing to gain and take advantage of such support for its reforms, so it cannot offer anything to counter to those who don't want or need reforms. The President is taking on a political commitment regarding the Association Agreement, while Ukraine's negotiators are blocking talks under pressure from the industrial lobby. The President seems to be in a weaker position than the bureaucrats at the level of deputy ministers and heads of departments.

The Government tries to control with one hand what it does with the other

The first step that Ukraine's leadership needs to take in order to regain control over the apparatus of state is to separate control and audit functions into internal and external. This is anyway one of Ukraine's commitments before the EU according to the List of Priorities of the Agenda for Ukraine-EU Association for 2010.³⁵ Right now, every government body has within it a separate sub-unit that supposedly handles control and audit functions. Control functions also belong to a number of separate entities, such as the Main Control and Review Administration, but they are all subordinate to the Government as well. As a result, the Government is essentially trying to control with one hand what it is doing with the other.

In advanced democracies, sub-units of government bodies only handle internal control and audit. In addition, there is an institution outside the purview of the Government, whose management is appointed by either the President or the Parliament, that han-

³⁵ http://www.kmu.gov.ua/kmu/control/uk/publish/article?showHidden=1&art_id=243282301&cat_id=223345338&ctime=1266420479150

dles external control and audit. This kind of approach should be instituted in Ukraine, where the head of the MCRA or other entity is independent of the Government or any other institution whose activities his organization is supposed to review and oversee.

Foreign Policy: From multi-vector to consolidation

The unidirectional foreign policy of Viktor Yushchenko—ignoring Russia and integrating with the EU based on this distancing—proved ineffective, as it was acceptable neither to Russia nor to the EU. For Moscow, letting Ukraine swim free meant suddenly shutting down all the government bodies whose purpose had been to keep Greater Russia together. Nor does the EU need a Ukraine that is in conflict with Russia.

With the coming of Viktor Yanukovich to power, the European direction was maintained at an even keel politically, but on a practical level integrational process with Russia took on a new intensity. Indeed, right now Ukraine is returning to the “multi-vec-tored” foreign policy position of Leonid Kuchma. However, this approach is also ineffective, insomuch as it does not offer an opti-mally whole picture of the geopolitical realities that affect Ukraine. As a result, the European and Russian vectors are differ-ently oriented and often incompatible, rather than complement-ing and reinforcing each other.

A multi-vector position is ultimately a passive, reactive position. Indeed, the actual number of “vectors” is determined, not by Ukraine’s position, but by the level of activity of international players in relation to the country.

These days, multi-vector has come down to a Russia-EU axis along which Ukraine swings hither and thither. Ukraine needs to look around and see that there are other international players, possibly not as powerful as the EU and Russia, but not necessarily any less important for the country. Ukraine needs to see countries in the post-soviet arena not as appendages to relations with Rus-sia, but as separate players with their own foreign policies. With each of them, as with Russia and the EU, Ukraine’s relations need to be built in the same manner, in order to ensure that the country reaches its consolidated foreign policy goal.

Europe and Russia are incompatible vectors when they could be complementary

The independence of Belarus, the territorial integrity of Moldova and the conflict in Georgia are not just problems faced by various neighbors, without any significance for Ukraine itself. They are factors affecting stability and security in Ukraine as well. For this reason, the country needs to actively engage in integrational processes in the post-Soviet region, and not just passively observe how Russia's agenda is being carried out.

In matters of cooperation and integration, Ukraine can hardly say "no" to Russia. This only leads to irritation in Moscow, surprise in Minsk and Astana, and little support in Brussels and Washington. It will be that much harder for Russia to refuse Ukraine, if Ukraine takes the initiative into its own hands and begins to propose its own integrational project in the post-soviet region. Moreover, it is very important that this project be not anti-Russian, like GUAM, but one in which Russia actually plays a key role, which naturally flows out of its leadership in the region.

Ukraine is located at the boundary between two centers of power: Europe and Russia. This carries a hidden threat to the country's statehood and territorial integrity, but it is also a major opportunity. Instead of breaking up itself, Ukraine can and should take on the role of a bridge joining Russia and the EU and become the platform for common integrational projects.

Instead of economic projects in the post-Soviet region and economic integration with the EU, Ukraine should initiate a common integrational policy on the Eurasian arena. This should be built on European principles of integration and interaction among countries that have proven effective. The EU and post-Soviet countries should become equal participants in common integrational projects.

Ukraine's negotiating position with the EU will be stronger if it can represent not just itself but the consolidated position of post-Soviet countries, including Russia, as behooves a strategic partner of the EU. Similarly, engaging European partners strengthens Ukraine's role in economic projects in the post-soviet region and ensures their transparency.