THE MORNING AFTER 54

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WHERE IS UKRAINE HEADED UNDER PRESIDENT YANUKOVYCH?

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- The past five tumultuous years of the Viktor Yushchenko presidency laid bare Ukraine's gravest problem—its seeming inability to govern itself properly.
- Following the victory at the polls, the new Ukrainian leadership will inevitably be seeking to consolidate power, correct the country's flawed constitutional design and establish a strong government. This is a tall order indeed, given the anarchic state of Ukraine's political system and the weakness of most of its public institutions.
- Ukraine's dismal economic situation and the limited set of international options will severely constrain the president-elect in pursuing domestic and foreign policies. For the new leader, the job ahead will be a balancing act, at home and abroad.
- To see Kiev succeed in its attempts at stabilization and reform, the European Union needs to re-engage Ukraine. Disillusionment and frustration should give way to patience and perseverance. Focusing on step-by-step integration will be a good way to revitalize the troubled relationship.

Russia in the Regional and Global Context research programme
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Photo: Maija Hyypiä

To get a better sense of the direction Ukraine is likely to take after the country's fiercely competitive presidential election, one has to look beyond the soap opera-like theatrics of Ukrainian politics and consider what is really at stake in the aftermath of the polls. This is no easy task as the highly personalized and bitter contest between Ukraine's main political rivals has long eclipsed the true nature of the deep-seated socio-political processes in this strategic East European country.

The dust has now settled after the decisive skirmish of the campaign—the February 7 runoff—and we know the name of the winner. What we don't know, however, is the answer to the far more crucial question: whether Ukraine's new leader will be able to build a properly governed, highly institutionalized and preferably democratic state. It can be argued that Ukraine's direction will very much depend on whether or not President-elect Viktor Yanukovych succeeds in tackling this monumental task. The acute deficit of public trust and the dire straits of Ukraine's economy, however, will significantly constrain the new leadership's room for manoeuvre.

À la recherche du temps perdu

President Yanukovych will be presiding over a country that is arguably more dysfunctional, more corrupt and in worse economic shape than it was five years ago following the heady days of the so-called Orange Revolution. Given the immense euphoria and the high hopes generated by the 2004 political upheaval in Kiev, it comes as no surprise that there is much talk of "lost time" and the fading of the "colour orange".

The problem is that the Orange Revolution's legacy is rather complex and contradictory. On the one hand, we are witnessing the slow emergence of democratic polity: elections as the only legitimate way of changing power, vibrant civil society and freedom of speech (or rather pluralism of the mass media). This part of the Orange Revolution's mixed legacy didn't go away and is still with us—in fact, it vigorously manifested itself in the last election. International recognition of the 2010 ballot as free and fair as well as the incumbent's inglorious defeat in the election's first round are no minor achievements—particularly when viewed against the depressing backdrop of the authoritarian politics in most post-Soviet states.

But the Orange Revolution's legacy also embodies something else, namely institutional chaos and poor governance. The constitutional amendments that turned Ukraine's presidential system into a parliamentary-presidential one were at the heart of the negotiated compromise that led to the third round of elections in 2004—and ultimately propelled Viktor Yushchenko into the Ukrainian presidency. This unfortunate change in Ukraine's constitutional design created a situation whereby the executive power is badly fragmented, with president and prime minister blocking each other's moves. The permanent gridlock in Ukrainian domestic politics stems basically from the very imprecise, vague and ambiguous wording of the 2004 constitutional amendments, particularly in the sections pertaining to the delimitation of powers between president

Photo: Igor Kruglenko

and prime-minister. For the past 5 years, this ill-conceived piece of legislation allowed for conflicting interpretations and triggered off the acrimonious infighting that was the main cause of the political stalemate.

At the same time, as nothing was done to break the "unholy alliance" between political power and big business, Ukraine's largest financial-industrial groups turned parliament into their principal power base. As the constitutional reform made Ukrainian legislature stronger, the oligarchic clans didn't lose much time in forming a kind of cartel in parliament—a move, an astute commentator notes, very similar to the one made by the English aristocrats against the king in the 18th century.

The outcome of *this* legacy of the Orange Revolution is plain to see: five years of incessant factional squabbling and nigh-on complete political paralysis. The following data speak volumes about Ukraine's sorry degradation. According to Transparency International's Corruption Perception Index, in 2004 Ukraine's ranking was 122, while it is now 146. In the World Economic Forum's Global Competitiveness Report, Ukraine's ranking moved up slightly from 86 to 82; but in terms of the quality of its institutions, Ukraine's ranking slid from 97 (out of 104) to 120 (out of 133). The World Bank's Doing Business Project, a survey measuring business regulations worldwide, registered Ukraine's ranking as slipping from 124 to 142.

The lesson that these five frustrating years should teach Ukraine is this: holding free elections is important; but it is even more important to have smooth-functioning institutions and a responsible political class that is able and willing to push through the necessary reforms. It is notable that the current debate on Ukraine has revived interest in a key insight by the late Samuel Huntington, who famously argued that what makes states really different is not so much their specific *form* of government as their *degree* of government. For Huntington, "A government with a low level of institutionalization is not just a weak government; it is also a bad government."

The main challenge that President Yanukovych is facing is to prove that Ukraine is able to govern itself. It is hard to tell at this point whether the new leader will succeed in this respect. In the meantime, though, it would be worthwhile taking a look at the "corridor of possibilities" within which the president will operate and at the key constraints he will have to cope with.

Domestic politics: streamlining the political process

Following the chaotic period of perpetual political infighting, the new president will likely be seeking to establish a strong government. In the short run, there will be attempts at forging a solid majority in parliament—either through the inter-elite deals (buying up lawmakers from rival factions and co-opting the willing defectors) or, should this tactic prove inadequate, by opting for a snap parliamentary election. Ultimately, though, the president will undoubtedly seek to change the constitution—simply because in its present form it will all but guarantee a continuation of the conflict between

Photo: The Ministry of Foreign Affairs of the Republic of Poland

president and prime minister. Although there is no general consensus as to which system of power—a presidential or a parliamentary one—is better, most analysts would agree that Ukraine's current version of the hybrid presidential-parliamentary system is simply a recipe for disaster.

There are several factors, however, that will work against the Yanukovych administration's attempts at consolidating power and, more generally, streamlining the country's political process. First, the election has naturally reconfigured the political landscape, but most key actors, including the seemingly intransigent Prime Minister Yulia Tymoshenko, are still in play. Until Yanukovych's Party of Regions is able to establish its control in parliament, the new president will be rather weak—resembling in a way the hapless Yushchenko, who had his veto powers but could not pursue resolute policies, lacking as he did the strong backing in the *Verkhovna Rada*. Even if the Party of Regions manages to gain enough votes in the parliament to oust Tymoshenko's government, it may well fail to garner enough support to form its own.

Second, the Party of Regions itself is a loose grouping consisting of rival factions. Thus Yanukovych is facing an uphill struggle to control the competing interests of his big business sponsors.

Third, there appears to be a consensus among the country's "oligarchs" that the current political arrangement—whereby they have, thanks to their "cartel" in parliament, a significant leverage over whoever occupies the presidential post—is far preferable to a strong presidential power. Many of the oligarchs lived through the "Kuchma times" when they had to kowtow to the authoritarian president, and they took a dim view of it. The present-day "democratic" system is definitely much more to their liking. The following pronouncement by Ukraine's wealthiest man and Yanukovych's main financial backer, the metals tycoon Rinat Akhmetov, is revealing. "We cannot give up democracy," Akhmetov said recently, clearly referring to the current political configuration, which basically gives the oligarchs a free hand. "Democracy," he added, "is a constituent element of our state's value."

Finally, an extremely low credit from the voters means the new president's room for manoeuvre is limited. The fact that around 5 % of those who went to the polls cast their ballots "against all" highlights the disillusionment of a legion of Ukrainians with the leading figures of the country's political class.

Mopping up the economic mess

Whatever political moves the president is going to make, he will be severely constrained by the deplorable state of Ukraine's economy. Ukraine has been hit extremely hard by the global economic downturn. Its economy contracted by almost 16 %, and the growth in 2010 is forecast to be a meagre 2.7 %. But while the economy shrank in such a dramatic fashion, the budgeted spending rose by 35 %. Ukraine's budget deficit stands at 12 % of GDP and the country has no real way of financing it.

Photo: Maija Hyypiä

In 2009, the country's government was lucky to secure an International Monetary Fund bailout: without the Fund's financial assistance—a $16.4 billion rescue loan—Ukraine would simply not be able to foot its bills—including the monthly payments for Russian gas. However, due to the ballooning public spending which had dramatically increased during the presidential campaign, the IMF suspended its programme. That has put Ukraine in a truly desperate predicament: the only source of finance that is still available is the country's precipitously depleting foreign exchange reserves. Thus the resumption of IMF support is absolutely vital: the renewal of loan disbursements will help reassure markets, ease the pressure on the severely battered hryvnia (which has lost 60 per cent of its value against the dollar since the beginning of the crisis), and somewhat stabilize the badly traumatized banking sector.

However, if the IMF is to renew its support, the new president will need to secure serious political backing in order to push through radical austerity measures. Two moves appear to be the absolute *sine qua non*: slashing public spending and raising heavily subsidized energy prices.

Failure to cut spending will lead to widespread defaults. It has already been reported that some state-owned companies (such as Naftohaz and UkrZaliznytsya) have been unable to meet their contractual obligations on foreign loans and have entered into restructuring negotiations with their creditors. Ukraine's sovereign international debt is manageable, analysts say, but its domestic obligations are not. Some Ukrainian experts predict that by spring Ukraine will run out of cash to pay pensions and salaries.

But whether the president is able to ram through the painful and unpopular measures will depend on whether he can rely on a solid parliamentary majority. Now, we are back to square one: it remains to be seen if the spectre of multiple defaults will force Ukraine's notoriously fractious political elite to get their act together.

International behaviour: a balancing act

Domestic discord and economic woes have dramatically highlighted what would appear to be a banal geopolitical fact—namely that Ukraine is a typical "in between" country.[1] Sandwiched between the European Union and Russia, Ukrainians seem to be living through a moment of truth of sorts—a painful realization of their heavy dependence on their two key neighbours. Gone are the hopes, excited by the Orange Revolution euphoria, for the country's fast-track accession to Euro-Atlantic institutions; back is a sober understanding that Kiev would be much better off if it maintained good relations with both Brussels and Moscow.

1 To be sure, this fact *per se* cannot presage Ukraine's future political direction. But it's also important to keep in mind that Ukraine, as one commentator aptly put it, "is not just a larger version of Poland." Its internal divisions as well as complex and multiple ties with Russia put the country in a special category.

Paradoxically, the previous five years have seen—mainly due to the erratic policies of President Viktor Yushchenko—the steady deterioration of Ukraine's two most important relationships. Brussels was frustrated with the constant bickering and paralysis in Kiev, while Moscow was terribly aggravated by what it perceived as the Ukrainian leadership's premeditated anti-Russian course.

Several factors will be influencing Ukraine's international behaviour under the newly elected president. First is the important shift in perceptions. The economic crisis has revealed the morass of Ukraine's economy and domestic policy. The NATO membership issue is off the agenda for the foreseeable future, and the EU's trust in Kiev's ability to pursue comprehensive reforms needs to be (re) built from scratch. At the same time, Moscow is also recalibrating its stance *vis-à-vis* Kiev: to be sure, its vision of the two Slavic nations' close affinity is still there, although the Kremlin's pet idea of Ukraine's forming any kind of "integrated entity" or a "single economic space" together with Russia (as well as with Belarus and Kazakhstan) seems to be *passé*. Thus Ukraine has ceased to be viewed—at least for the time being—as a place where Russia and the West perennially lock horns in what was at times regarded as a cosmic geopolitical battle over a strategic piece of real estate.

This shift in perceptions entails a mixed set of implications. One thing is clear: Kiev's international options are limited. The president-elect will have to deal with Brussels, which is highly sceptical of Ukraine's ability to deliver, Washington, which is preoccupied with non-European issues, and Moscow, which is probably less paranoid about Ukraine's "geopolitical loyalty" than it was 5 years ago, but still bent on expanding its influence. But at the same time, the new situation appears to allow for more pragmatic and balanced relations with both Russia and the Western countries.

Economic dire straits are nudging Kiev further towards realism and pragmatism. As far as Ukraine-Russia relations are concerned, the new president simply cannot afford to be as antagonistic towards Moscow as his predecessor has been. To put it bluntly, Ukraine is broke. The energy truce between Kiev and Moscow signed a year ago didn't erupt into a new gas war purely because Ukraine miraculously managed to pay its gas bills in 2009. But, in fact, there are no miracles here: the IMF underwrote the Ukrainian government which, in turn, underwrote the bankrupt Naftohaz. Unquestionably, Kiev would have failed to pay $6 billion worth of energy bills last year were it not for the IMF's financial assistance. Now the really big question is: who will help Kiev shoulder the estimated $9 billion worth of gas imports this year? It can only be either the IMF (if a special political decision is taken to this effect) or Moscow (if the Kremlin decides to lower the gas price—a decision that will naturally come with some strings attached).

At the same time, the Kremlin aggressively continues, with a little help from its friends, to pursue the realization of the Nord Stream and South Stream natural gas pipeline projects, whose key objective is to bypass Ukraine. Late last year Germany approved a $3.85 billion loan guarantee for the Baltic Sea pipeline, tripling its cash backing for a Russian-German venture. The fact that neither the global recession, nor the collapse of the gas prices, have been able to deter Moscow, speaks volumes about how politically important the two projects are for the Kremlin. True, the new pipelines will not be able to fully substitute Ukraine's extensive gas transportation network, but they will significantly limit Kiev's ability to use energy transit as a strategic leverage with Moscow.

Europe's role: getting over "Ukraine fatigue"

Arguing that Kiev will be significantly constrained in its international behaviour, however, should not necessarily imply that Ukraine's elites are uncertain about what their country's foreign policy priorities are. These priorities have long been defined—integration with Europe. Ukraine's "European course"—an ambition to join EU economic and political institutions—predates the Orange Revolution. In fact, Kiev has been pursuing pro-Europe policies—albeit at a varying pace and with a varying level of intensity—under all administrations since gaining independence in 1991.

Under the new president, the pro-Europe course will undoubtedly persist: Kiev will continue negotiating a free trade agreement and association agreement with Brussels. After all, if Ukraine's squabbling elites can agree on anything, it is the vision of Ukraine eventually becoming a "normal European country"—which ultimately means becoming a full member of the EU.

Ukraine's European aspirations, however, are beset by two huge problems. First, the EU was seriously underwhelmed by Kiev's previous performance and is now experiencing what has widely become known as "Ukraine fatigue". What seems to be particularly bad news for Kiev is that the feeling of frustration with Ukraine's infighting and corruption gripped not only the old core countries of the United Europe, but also spilled over into the EU's "eastern wing", including the Baltic nations and Poland —the countries that used to be Ukraine's staunchest supporters within the Union.

The second problem is Russia. Within the EU, some key member states appear to believe that engaging Ukraine cannot go too far lest Moscow gets seriously agitated. So the lowest possible denominator the Union can settle on is the ambiguous formula stating that, for Kiev, "the door is neither open nor shut".

What we now appear to be witnessing is a truly vicious circle in the making. Ukraine's dismal record in reforming its flawed political and economic system, coupled with Europe's angst about Russia's geopolitical sensitivities, discourage the EU from engaging Kiev and make many European policymakers think that Ukraine's European bid is a completely hopeless affair. But at the same time, lacking any powerful external anchor, Ukrainian elites seem incapable of making a decisive breakaway from the post-Soviet limbo on their own.

Most analysts agree that the factor that played an absolutely fundamental role in the democratic transformation of the East European societies in the 1990s was the process of their accession to the EU. Let's face it, the painful reforms in the former Eastern Bloc countries succeeded *only* because at the critical juncture "supra-governmental actors were almost more important than domestic ones", as one cogent analysis argues. Indeed, accession to the EU has been the best news for the former communist countries in the last 500 years, as the leading American political scientist Ken Jowitt noted recently.

This means that Ukraine critically needs more EU engagement, not less. At the same time, both the EU and Ukraine have to re-conceptualize the rules of engagement and, as some perceptive commentators suggest, stop confusing *membership* with *integration*. The former may well become the result of the latter. For the time being, however, the key is to elaborate a set of EU-Ukraine integration projects (energy security, trade, transport corridors, border management and visa regime, climate change, education, etc.) whose implementation will help secure Ukraine's stable development and gradual progress towards ever higher degrees of "Europeanization".

Yet, strategically, Kiev does need an external anchor to encourage and stimulate the country's Western-leaning direction. It would cost the EU virtually nothing to offer Ukraine the prospect of eventual membership. The Union's failure to do this in the immediate aftermath of the Orange Revolution was variously characterized as a "lack of vision" or an "acute case of strategic myopia". It's high time for Brussels to correct its strategic vision.

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