



## Report on Wilton Park Conference 773

### UKRAINE: THE PROSPECTS

Monday 31 January – Friday 4 February 2005

#### The context

1. The electoral upheavals of November and December 2004 that led to mass street protests in Kiev, which many believe could have disintegrated into violence, culminated in the inauguration of Victor Yushchenko as the new President of Ukraine. The President had only just announced his choice as Prime Minister, Yulia Tymoshenko, and was in the process of forming the rest of the government when the Wilton Park meeting occurred.

#### A revolution?

2. The final election results reflected a profound divide in voting patterns between the south and east of the country, where people voted overwhelmingly for the candidate, Victor Yanukovich, and other areas. At the height of the electoral battles, politicians and commentators raised the possibility that Ukraine would not survive as one nation. Was this schism real or a fabrication of the *spin doctors*' and spoilers who wanted to influence the outcome of the election?

3. Whatever the reality, one of the most important tasks of the new administration is to demonstrate that it has the interests of all Ukrainians at heart. The composition of the new government, and its response to questions such as use of the Russian language and economic regeneration of the industrial heartlands of the south east, will be key tests of Mr Yushchenko's resolve and ability to unite the country.

4. The opposition will also play a key role in the new political environment. It needs to form a strong, cohesive force that will provide necessary checks and balances and, in the long-term, appear to offer the possibility of an alternative, effective, independent, government.

5. Some were strongly critical of the role played by Russia, including the President himself, to try to ensure that its preferred candidate won the elections. This included the overt support shown by Mr Putin to Mr Yanukovich. Some have made allegations, as yet unproven, that parts of the Russian state apparatus were directly involved in an attempted assassination, by poisoning, of Mr Yushchenko

6. Many argue that The European Union and United States also wrought to influence the election, albeit less heavy-handedly; the shuttle diplomacy of western leaders in the crucial November-December period was designed to ensure success for Mr Yushchenko. Others also deeply distrust the role played by election observation missions, run by organisations such as ENEMO and OSCE, which declared the first two rounds of the election, deeply flawed. Those involved in monitoring stressed that the missions' sole concern was to ensure that the conduct of the elections was free and fair. As far as they were concerned, the outcome was for the Ukrainian people to decide.

7. Did the *Orange Revolution* constitute a real revolution? The military and security forces of Ukraine did not use force against the protesters, or against each other (although at times they came very close to doing so) but even so, for most observers, the shift in the relationship between Ukrainians and the state constituted a political revolution. A large proportion of the population showed their disgust at the way the

previous administration had used the apparatus of the state, and control of the media, to manipulate the results of the first two election rounds.

### **Priorities for the new administration**

8. • To distinguish between top priority and merely urgent tasks. Mr Yushchenko made many campaign promises, raising expectations that must now be managed.
  - To select and implement recommendations. Mr Yushchenko has received much advice - the United Nations Development Programme's (UNDP) Blue Ribbon Commission report and the European Union's Neighbourhood Policy Action Plan for Ukraine are two examples. Each contains a long checklist of broadly similar reforms that need to be undertaken urgently if Ukraine is to consolidate its credentials as a democratic, market economy fit to integrate into Euro-Atlantic structures.
  - To transform the state-citizen relationship. The state will no longer be able to ignore the rights, needs and opinions of the citizen and will have to recognise that it exists to protect the interests of all rather than those of the powerful few.

### **The Ukraine – European Union – Russia triangle**

9. The elections polarised the country into those who see Ukraine's future as a democratic market economy, and eventual full member of the European Union, and those who feel that relinquishing Euro-Atlantic aspirations, and strengthening ties with Russia and other CIS countries, would be more beneficial. Pragmatists argue that this need not be an either/or situation – Ukraine's closer integration with Europe need not come at the expense of good relations with Russia. The countries share cultural ties and have vital economic links.

## The European Union

10. Many Ukrainians feel deep disappointment at the European Union response to their declared desire for closer integration with, and eventual membership of, the Union. They call for a more positive approach. The EU and Ukraine seem to be caught in a 'chicken and egg' situation – the EU says it wants to encourage Ukraine to adopt reforms that will bring it closer to EU standards and hints that, if achieved, this might eventually open the way for Ukraine to apply for membership – the 'we never say never to membership' approach.

11. The European Union's Neighbourhood Policy Action Plan, agreed between the EU and Ukraine, is presented by the EU as a generous and appropriate 'toolbox' especially tailored to Ukraine's pressing needs. The new administration should be eager to employ it. But, for many in Ukraine, this is not enough. At present, there is a deep sense that Ukraine is being excluded from the European project. (A view shared by several other recent EU members with similar political and economic histories.) They consider that formal opening of the membership process would provide a major stimulus for reform, and help the government 'sell' the reform agenda to a still sceptical electorate – those who fear that the process will be all pain with little clear gain.

12. There is a sense that the EU's position towards Ukraine is coloured by the lack of good faith shown by the previous administration. It was good at "talking the talk" but did little to advance the reform agenda in real terms. If the new Yushchenko administration demonstrates quickly that it is serious, adopting clearly visible reforms early in the presidency, the EU may be persuaded to use more positive, less ambiguous language in return. As an early signal, some suggest the Action Plan could be amended to contain more incentives that would impact on the lives of ordinary citizens such as cheaper or free visas, and greater facility for labour movement into the EU.

## Russia

13. Russia's, ultimately failed, attempts to influence the outcome of the presidential elections in Ukraine, will have lasting effects on relations between the two countries and in the wider region. Some consider that future historians will see the *Orange Revolution* as the true start of Ukraine's status as an independent sovereign state. Most agree, however, that President Yushchenko's visit to meet President Putin in Moscow, soon after his inauguration was a shrewd and statesman-like gesture. It was recognition of the vital importance of Russia to Ukraine, EU aspirations notwithstanding, and may have helped to temper the humiliating effect of the *Orange Revolution*.

14. The question of Moldova and the breakaway region of TransDniestr will test the new relationship between Russia and Ukraine. This is one of President Yushchenko's most pressing and intractable foreign policy concerns. Much of the illegal activity carried on in this Russian-supported enclave is facilitated by the highly porous border with Ukraine and the inefficiency of customs and other security structures. Effective Ukrainian border controls would be greatly welcomed by the European Union, but less so by Russia.

15. The *Orange Revolution* may prove to be a wake-up call for Russia. Although it too was angry at what it perceived as the manipulation of the elections by the West, it was undoubtedly taken by surprise at the effect of 'people-power' on the *maidan*, the main square in Kiev where protestors congregated. It will be conscious that the extraordinary scenes were broadcast across Russia and in countries of the former Soviet Union (such as Belarus and certain countries of central Asia) where Russian influence is still strong and democratic freedoms largely absent. It will also be acutely aware that the European Union has been disturbed by the role Russia played in trying to manipulate the elections (though some argue that it is unlikely to be too concerned, knowing that the Western Europe's reliance on Russian energy remains undiminished).

## Reforms – what is needed?

16. Optimists believe that the *Orange Revolution* has changed the relationship between the Ukrainian state and its citizens irrevocably. If the concept of managed democracy, whereby decisions are taken by the ruling elite and imposed on the populous without consultation, is dead; a considerable shift is required in the way the state and its organs have traditionally interacted with the ordinary citizen.

- Administrative reform. Many people working within the state apparatus will find radical administrative reform extremely difficult, either because they have never known any other way of working and will find it hard to adapt to new ways, or because they have actively profited from the old system, which provided many opportunities for corruption. No one underestimates the challenge facing the new government in trying to sever the old links between power, authority and privilege that have affected much of Ukrainian society.
- Curbing corruption. The climate of immunity for politicians and senior officials will have to be dissolved. Wage levels need to be increased so that bribes are not needed to provide a decent living wage, and service delivery must be improved across all sectors so that ordinary citizens are not tempted to pay bribes to gain access to severely restricted services like health or education.

## The economy

17. Ukraine's macroeconomic indicators over the last few years have been fairly good. Economists predict that growth rates of 7 – 8 % per annum are attainable; exports have gone up and inflation is at a manageable level of around 10%. The Central Bank is strong. Ukraine's growth is largely dependent on its vibrant and diversified manufacturing sector, unlike Russia where growth is almost entirely dependent on the oil sector. But Ukraine remains a poor country with GDP per capita at around \$5000 (purchasing power parity) that is about half the level of its neighbour Poland and lower

than Romania. The average wage level is about half that of Russia, though this could be seen as a positive factor in attracting foreign investment. The statistics disguise major inequalities in wealth, with a small but very wealthy rich urban class contrasted with the rest. Many feel that the *Orange Revolution* will not be complete until some attempts have been made to lessen this disparity in Ukrainian society.

- **Budgeting.** One of the major problems facing the new administration is how to fulfil the big vote-grabbing promises that were made prior to the elections. These included commitments to maintain the level of pensions that are not sustainable given current performance. Adjustments will be necessary to tailor budgets more realistically to revenues.
- **Tax reform.** Major efforts are required in the area of taxation to regularise VAT procedures, fight tax evasion, and to block loopholes and reduce the size of the grey and black economies.
- **Privatisation.** A number of politicians are keen for some of the more questionable and opaque privatisations of recent years to be 'revisited' with a view to re-nationalising industrial concerns. Others argue that a line should be drawn under all but the most flagrant abuses and that re-nationalisations would scare off many potential investors.
- **Investment,** both domestic and foreign, is needed urgently as the true engine of growth. Measured by international indices the investment climate is not good, though this has not deterred many of the more intrepid international investors to invest successfully in Ukraine. If more are to follow, major reforms are needed to strengthen and enforce the institutional and legal framework for corporate governance, protecting the rights of shareholders.
- **The banking sector** also requires a stronger regulatory framework and a degree of consolidation. Analysts say that there are too many inefficient banks whose ownership is unclear and survival unnecessary.

- Market economy status. In the wider international arena, Ukraine has an image problem. Many economists agree that the country now functions as a market economy at least as well as Russia and cannot understand why the EU has not accorded this status to Ukraine.
- Related to this is eventual membership of the World Trade Organisation that would give Ukraine enhanced credibility on the global stage.

## **The Media**

18. In the run-up to, and during, the presidential elections, the media, television in particular, were subjected to unprecedented levels of harassment, manipulation and censorship. Key media professionals revolted openly against the pressures. Many journalists realised they had a duty to report events in a fair and objective manner. Much still needs to be done but there is a strong perception among media professionals, and in society as a whole, that such state manipulation should never be allowed to happen again. An era when the actions and policies of the government will be open to free debate and criticism appears to have begun. The fact that Ukraine will very soon be facing new elections for the Rada adds particular urgency. The role of the media will be absolutely vital, not least because a unified and coherent political opposition to the government has yet to emerge.

19. Optimism about the future is not universally shared. The true ownership of many media outlets remains obscure but much is still in the hands of people who are actively engaged in Ukrainian political life. They are likely to continue to try to use their media assets to further their political agenda (not that this doesn't happen on occasions in Western Europe too). Self-censorship is a problem. Many older journalists have not been trained to professional standards of objectivity and feel that it is their duty to promote the interests of their paymasters in their writing. There is therefore a pressing need to liberalise the media market, create transparent licensing and ownership, and to ensure that new generations of journalists are trained to the standards expected of a



modern democratic state. This is an area in which foreign assistance is already being provided but more is needed.

## **Security issues**

20. Reform of the security sector is one of the most pressing and difficult challenges to face the new administration. There is an urgent need to introduce effective civilian control of the various security organisations and to overhaul the system of defence planning and budgeting. Entrenched attitudes and the existence of parallel structures in certain parts of the security apparatus are likely to prove obstacles to reform.

21. The change of regime in Kiev signals another phase in Ukraine's relations with NATO. Former President Kuchma had sent ambivalent messages about the country's long-term ambitions for partnership with the Alliance (as with the EU). Many in the country shared this ambivalence. The previous government was strong on rhetoric but less good at taking positive action that signalled true commitment to the ideals and objectives of both NATO and the EU. Following a perceived snub to the Ukrainian leadership at a NATO summit held in Istanbul in 2004 the stated goal of NATO membership was actually removed from Ukraine's draft military doctrine.

22. The new administration has swiftly recognised the parallels between reforms needed to advance Ukraine's national interest and those outlined in the NATO-Ukraine Action Plan. There is also a new understanding that NATO is not concerned solely with military hardware and personnel but that it exists to champion and defend the same democratic freedoms that have been fought for so vigorously by Ukrainians in recent months. Finally, trying to build up an effective defence capability independent of NATO, or some other international system, would impose an impossibly high burden on Ukraine's overstretched resources.

23. Ukraine faces the same challenge in relation to NATO as it does in relation to the EU. It has a very detailed NATO-Ukraine Action Plan, and annual targets for 2005.

However this differs from less elaborate Action Plans, such as those drawn up for Romania and Bulgaria, which are specifically designed to pave the way for full membership of NATO. If NATO membership is open to any European democracy that fulfils all the necessary conditions, the fulfilment of the NATO-Ukraine Action Plan would automatically seem to qualify Ukraine for membership. There is however a degree of reticence on both sides. It will be understandable if President Yushchenko concentrates his initial attention on the EU because of its huge political and economic importance to the country's future. The benefits of seeking NATO membership are perhaps less obvious. There is no guarantee that all current members would welcome Ukraine without reservation, and an early push would certainly antagonise Russia, particularly in view of the consequences for the status of the Black Sea Fleet based in Crimea. From the NATO side, a premature membership bid, that at present would have to be rejected on purely objective grounds, would be seen as counter-productive. As with the EU, NATO favours a period of enhanced cooperation and mutual trust-building as the correct way forward. When the reform programmes are seen to be well-advanced and irreversible, commentators are generally agreed that NATO will have no cause to deny Ukraine a membership prospect, if the country decides that is the security orientation it wants to follow.

24. NATO's developing relationships with both Ukraine and Russia, and the state of relations between the latter two, are naturally of great interest to every partner. It is generally agreed that there are no incompatibilities in this – the overall objective being a stable and peaceful Europe that can only benefit all. Transparency is a key word to ensure the success of this triangle.

25. In considering this concept, it is important to think beyond the traditional notion of security, in terms of the military, police and intelligence services, and to consider the human dimension of security. Poverty, poorly functioning government institutions, lack of access to justice, corruption and many other factors contribute to a lack of security experienced by many Ukrainians in their daily lives. It provides a fertile breeding ground for political unrest, criminality and other social problems. A holistic approach to the promotion of security is therefore imperative.

## Conclusions

- I. For many, the *Orange Revolution* is best viewed from a moral perspective. The rigged elections of 2004 were the final catalyst for an outpouring of civil disgust at the corruption that had characterised so much political and public life in previous years. The people made it clear that they would no longer tolerate such behaviour. As such, it represents a moral regeneration of Ukrainian society. It did, however, cause deep rifts between groups in different parts of the country. President Yushchenko faces the urgent and delicate task of trying to reunite them and prove that he has the interests of all parts of Ukrainian society at heart.
  
- II. Following the initial euphoria of the *Orange Revolution*, the new administration is under intense international and domestic scrutiny. Expectations are high. Decisions and actions taken in the next few months will have far-reaching consequences. Will Ukraine set itself irreversibly on the path to becoming a modern, democratic state fully integrated into Euro-Atlantic structures or will it remain in the rather unsatisfactory position it has occupied since independence, a natural member of the *European family*, yet unable to participate fully in family life?
  
- III. There is a new optimism in the West about Ukraine's future. It wants the new government to embrace reform in all sectors as a worthwhile enterprise in itself that will benefit Ukrainian society rather than simply regard reforms as hoops to go through on the way to membership of Euro Atlantic structures. However many stress that the West must recognise that it will be harder to 'sell' painful reforms to the general public without the prospect of this 'reward' at the end; formally granting Ukraine market economy status, or implicitly offering the prospect of EU or NATO membership, however far off or implausible that may seem today, would not cost the West very much, but withholding them could cost President Yushchenko dearly. The challenges facing the new government are

daunting but achievable. It is up to Ukraine's friends, old and new, to recognise that the consolidation of Ukraine as a united, prosperous and democratic country will have implications, and reap benefits, far beyond its borders. Ukraine should be actively and generously supported in these endeavours.

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**March 2005**

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