



CENTRE FOR EUROPEAN REFORM

policy brief

Ukraine after the Orange Revolution

By *Kataryna Wolczuk*

- ★ Ukraine's new president, Viktor Yushchenko, wants Ukraine to become a candidate for EU membership. For the application to be credible, he must open up the economy, fight corruption and heal post-election rifts – reforms that will proceed slowly and suffer setbacks.
- ★ The EU's refusal to consider the possibility of Ukrainian membership looks untenable after the Orange Revolution. And it risks undermining Yushchenko's reformist, pro-European platform.
- ★ The EU's new neighbourhood policy is a welcome attempt to help stabilise and modernise Ukraine, but it needs stronger incentives to be effective.

The pace and scope of change triggered by Ukraine's presidential elections in late 2004 has surprised the EU, the US, Russia and, not least, most Ukrainians themselves. The rigged first round of the elections in October sparked the so-called Orange Revolution – mass protests under the orange banners of the opposition – as well as widespread international criticism of the regime of President Leonid Kuchma. In the second round of voting in December, the Kuchma regime's candidate, Prime Minister Viktor Yanukovych, lost to the opposition leader Viktor Yushchenko.

The election brought about the most radical shake-up of Ukraine's political scene since the country's independence. Yushchenko's victory promises big changes, both in terms of domestic and foreign policy. During his spell as prime minister in 2000-01, Yushchenko built a track record as a liberal but pragmatic reformer. As president, he has promised to kick-start Ukraine's sluggish economic reform process, helped by his prime minister-designate, Yulia Tymoshenko. The new president has also promised to work hard to improve Ukraine's ties with the West and end the semi-isolation that Ukraine endured during most of Kuchma's second term in office. In particular, Yushchenko has made it clear that he wants his country to join the EU and NATO. He has

frequently reminded European leaders that Ukraine has a rightful place in Europe's political and economic clubs. "I don't feel comfortable striving to join Europe," he explained during the Davos World Economic Forum in January 2005, "I feel like I am a European. I live in a European country and possess European values."

The EU remains cautious

The EU has congratulated Yushchenko on his victory. It has sent its foreign policy chief, Javier Solana, to his inauguration. In a ten-point plan in January 2005, the EU offered Ukraine better trade relations, more aid, easier visas and closer co-operation in security and other areas. But it has so far studiously avoided the question of membership for Ukraine. While the European Parliament has called on EU leaders to give Ukraine a 'membership perspective', EU foreign ministers only went so far as to acknowledge that the Orange Revolution "is credible proof that Ukraine's European aspirations are based on common values shared by both European states and citizens". The European Commission insists that the EU and Ukraine should first make headway under the EU's new 'European neighbourhood policy', a programme that is only just getting under way.

The EU's cautious response to Ukraine's EU aspirations will disappoint the Ukrainians. But it is in line with the EU's long-standing neglect of Ukraine. Throughout most of the 1990s, the EU was busy completing its single market, getting ready for the euro and helping the Central and East European applicants with their internal reforms. It paid little attention to the countries further east, such as Ukraine, Belarus and Moldova. EU policymakers saw the former members of the Soviet Union – with the notable exception of the Baltic states – as a fairly homogenous lot. So the EU offered them all more or less the same treatment: a Partnership and Co-operation Agreement (PCA) for closer trade and political ties, and financial aid and expert advice under the Tacis assistance programme.

But the former Soviet countries have differed greatly in their approach to the European Union. Russia has sought a broad-based relationship of equals, or 'strategic partnership', while jealously guarding its national sovereignty. Belarus has shunned closer ties with Western Europe, preferring re-integration with Russia as a way of propping up its ailing economy. Ukraine, by contrast, left little doubt that it wanted to integrate with the EU and eventually become a full-fledged member of the club. Successive Ukrainian governments asked the EU to give their country a 'membership perspective'. They did not, however, push through the political and economic reforms that would have made these demands credible. Perhaps not surprisingly, the EU showed little enthusiasm for Ukraine's membership aspirations. 'Don't ask us for candidate status', the EU insisted 'because the answer would be No.'

Past disappointments

Meanwhile, the EU offered little help to keep Ukraine on a pro-European, pro-reform path. The PCA between the EU and Ukraine that came into force in 1998 committed both sides to gradually opening their markets for goods, services and capital. Ukraine also promised to bring its rules and regulations more in line with those of the EU and the World Trade Organisation (WTO), which Ukraine has long sought to join. Yet, seven years later, trade between the EU and Ukraine does still not flow freely. The EU boasts that its average import tariff is only 3 per cent, but it still imposes tight restrictions in those sectors where Ukraine is most competitive, such as food, textiles and steel. The EU officially supports Kiev's WTO bid, but it has not upgraded the country to 'market economy status' for trade policy purposes. (The upgrade would change Ukraine's WTO accession terms and make it harder for the EU to impose anti-dumping duties on Ukrainian goods.)

Similarly, under Kuchma's presidency the EU and Ukraine were a long way from the PCA's other stated objective, to promote a political dialogue on democratic values and human rights. Under Kuchma, Ukraine's democratic development suffered numerous

setbacks, without the EU being able to do much about it. The regular EU-Ukraine summits resembled stiff rituals, with little open discussion and even less substantive agreement. A plethora of bilateral expert meetings and commissions achieved some notable results in sectoral co-operation, but did little to improve the overall political relationship. The EU's assistance under Tacis has dwarfed other multilateral aid programmes, making the EU Ukraine's largest donor. But – poorly targeted and at times badly managed – EU assistance has had only a limited impact on Ukraine's transition process. Overall, the EU's policy towards Ukraine has lacked a clear vision, and its instruments have been rather blunt.

Neighbours that need each other

It is clear that EU-Ukraine relations have not lived up to their potential. The EU needs a stable and prosperous Ukraine, and Ukraine needs the EU as an open and reliable economic and political partner. Already, the enlarged EU is Ukraine's most important trading partner, accounting for more than one-third of the country's imports and exports. EU-based companies are also the biggest foreign investors in the Ukrainian economy – although the amounts Ukraine has attracted have been tiny compared with the sums that have flowed into the East European accession states. Perhaps most importantly, the EU can act as an anchor for Ukraine's economic and political reform efforts, emulating the success of other post-Communist countries such as Poland and Hungary. Ukrainian politicians and intellectuals have always cited their country's 'Europeanness' as the key reason for leaving the Soviet Union and aspiring to democracy and an open market economy.

For the EU – with its vastly bigger economy – Ukraine is only a minor trading partner (accounting for around 1 per cent of EU external trade). But it is an important neighbour nonetheless. With a population of 48 million, Ukraine is the most populous non-EU country on the continent, after Russia and Turkey (an EU candidate). Following the EU's eastward enlargement in May 2004, Ukraine now shares a long common border with three EU member countries, Hungary, Poland and Slovakia. Given the presence of ethnic minorities on both sides of the common border, historical cross-border ties and the large volume of shuttle trade going back and forth, the EU cannot and should not try to cordon off Ukraine. Already, Ukrainians are angry that they now require visas to travel to Hungary, Slovakia and Poland – countries that they could previously visit visa-free. The EU should help Ukraine to achieve stability and prosperity, and not only in the border region. An unstable Ukraine could become a major transit route for weapons, drugs and people trafficking coming from further east. Moreover, Ukraine's stability also matters for the EU's energy security, since much of the EU's oil and gas comes from Russia and is shipped through Ukrainian pipelines.

By responding to Ukraine's request for closer ties, the EU could help to build a reliable partner in a potentially unstable region. The EU's nascent common foreign and security policy needs reliable partners. For example, Ukraine could help EU attempts to resolve the 'frozen' conflict in Transdnistria, a breakaway region in Moldova adjoining Ukraine that has become a hotspot for smugglers and other criminals.

Where next after the Orange Revolution?

Given the importance of good bilateral relations, why would the EU be so reluctant to let Ukraine move closer to its self-proclaimed 'European destiny'? Perhaps because EU leaders fear that a hasty U-turn in the EU's Ukraine policy will play into the hands of hard-line Russians who claim that the EU and Russia are engaged in a tug-of-war over their common neighbourhood. Perhaps because the EU is already struggling to 'sell' Turkish accession to European voters and does not want to add another large, poor country to the candidates list. Or perhaps because EU leaders want to wait and see whether and how quickly Yushchenko's government can push through the reforms that would make Ukraine's membership bid credible.

Yushchenko may be determined but he does face some formidable challenges. Ukraine's people – especially those who took to the streets to back Yushchenko – want to see tangible improvements, and fast. However, a decade of muddled reforms, political corruption and 'oligarchic' capitalism cannot easily be undone. Yushchenko will have to push through difficult and painful reforms of the economy and public sector – which will require a lot of courage, given that parliamentary elections are coming up in early 2006. He will have to trample on deeply entrenched vested interests, including those of some of his own supporters, and of the powerful oligarchs who ran much of Ukraine like their own personal fiefdom during the Kuchma years. These oligarchs are particularly strong in the eastern part of the country, where voters generally preferred Yushchenko's opponent, Viktor Yanukovich. Yushchenko must now try to bridge the east-west divide that opened up during the elections.

He must also overcome bureaucratic inefficiency and inertia and curb widespread corruption. He must deprive the sprawling state apparatus of its arbitrary powers to redistribute, tax, regulate and inspect. He will have to go against the interests of some powerful elites, which are still well entrenched in the parliament and at the regional level. And he has to keep the disparate pro-reform forces united behind him. He will therefore be torn between haste – to satisfy the eager expectations of his voters and impress Brussels – and a much more cautious approach that is dictated by the need to consolidate and strengthen his power base. In addition, Yushchenko's own powers will be curtailed at the end

of 2005, as a result of constitutional changes that he agreed with his opponents during the political crisis.

Ukraine's foreign policy after the election

In his foreign policy, Yushchenko faces similarly difficult choices. Yushchenko's priorities may lie in Brussels. But no Ukrainian president can afford to alienate the country's biggest neighbour, Russia (See Katinka Barysch and Charles Grant, *Ukraine should not be part of a great game*. Open democracy, December 7th, 2004). Although Russia is now less important for Ukrainian exports (accounting for 18 per cent of the total, half of what it was in the mid-1990s), Russia's influence over Ukraine's economy has grown in other areas. Ukraine's all-important industrial sector is heavily dependent on Russian energy supplies, and Russian businesses have acquired direct ownership of large chunks of Ukraine's economy. But it is not only for economic reasons that Russia still regards Ukraine as very much within its sphere of influence. As Russia's global influence has waned, it sought to tighten control over what Russians call 'the near abroad', the post-Soviet countries in the neighbourhood.

Nevertheless, the degree to which Russia interfered into the Ukrainian election surprised even seasoned Russia watchers. The Russian president, Vladimir Putin, openly backed Prime Minister Yanukovich, while Russian spin-doctors and donations fuelled his campaign. But the strategy backfired. Russia's heavy-handed interference alienated Ukrainian politicians and voters. The election outcome left Moscow with less influence in Ukraine, not more.

Although Putin had openly backed his opponent, Yushchenko chose Moscow for his first trip abroad after his inauguration, as a "sign of respect" for Russia, as he put it. But Putin's belated congratulations and talk about an "eternal strategic partnership" could hardly paper over the remaining disagreements. In particular, Putin reminded Yushchenko that his predecessor, Kuchma, had signed up to the creation of a 'single economic space' with Russia, Belarus and Kazakhstan in 2003. Yushchenko, who prioritises economic integration with the EU, has little enthusiasm for the scheme and may yet pull out. His government is also expected to review a number of Kuchma's energy deals with Moscow, for example the decision to reverse the flow of the Odessa-Brody pipeline, which now pumps Russian oil southwards rather than Caspian oil into Ukraine and on to Western Europe.

How will Putin react to Ukraine's quest for EU candidate status? The Kremlin has never voiced outright opposition to Ukraine's EU aspirations. However, many Russian policymakers see Ukraine's rapprochement with the West as a zero-sum game, arguing that the country cannot integrate with the EU and Russia at the same time. The humiliation over Yushchenko's victory deepened Russia's resentment of

western ‘meddling’ in Ukraine, and anti-western, cold-war style rhetoric was widespread in Russia during the Orange Revolution.

Is the neighbourhood policy enough?

For now, it seems, the Kremlin can relax about Ukraine’s EU aspirations, since the EU refuses to discuss the issue of membership. EU officials insist that the new ‘European neighbourhood policy’ (ENP), launched only last year, offers enough scope for the EU and Ukraine to move closer to each other – at least for now. However, the policy in its current form is not a clear and effective alternative policy to accession. It provides weak incentives and will not serve as a sufficiently firm anchor for Ukrainian reform. The EU has a window of opportunity in the aftermath of the Orange Revolution to help set Ukraine on an unambiguous pro-European and pro-reform path. By clinging to the neighbourhood policy in its current form, it may squander this opportunity.

The stated aim of the ENP is to promote “prosperity and stability in Europe” by creating a “ring of friends” around the EU’s external border. The basic idea is this: the EU offers its neighbours better access to its €10 trillion internal market and stronger bilateral political ties. In return, the EU demands that the neighbouring countries implement political and economic reforms. Concrete reform steps are to be spelled out in ‘action plans’ that each country draws up together with the EU. (See also Heather Grabbe, *How the EU should help its neighbours*, CER Policy brief, June 2004).

The ENP mainly relies on economic rewards – single market access and aid – to persuade neighbouring countries to open and reform their economies, uphold democratic standards and protect human rights. However, for the rewards to be appealing they must look attainable. At present, they do not. Given the EU’s past behaviour, Ukrainians will be forgiven for questioning the EU’s willingness to remove trade barriers, in particular in the ‘sensitive’ sectors where Ukraine’s exports are concentrated. Moreover, the EU’s offer of gradual market opening may be generous, but it does not take into account the weakness of state institutions in countries such as Ukraine. The EU insists that neighbouring countries can only gain access to the single market if they take over and enforce EU product standards, as well as certain EU rules for enforcing competition, limiting industrial subsidies, protecting the environment, modernising customs and so on. Ukraine’s young and still evolving state will struggle to enact and implement such an extensive legislative programme.

Similarly, the offer of more financial aid – coming from the EU’s ‘new neighbourhood instrument’ – is too vague to provide a strong incentive for policy makers. The EU will only set up the new fund during its next budget period, which will run from 2007 to 2013. So its size, objectives and operation remain

uncertain. And again, some Ukrainians are sceptical about the value of EU aid, given that past programmes have not always achieved their stated objectives. If EU aid is to have any impact on Ukraine’s development, it needs to be better targeted. In particular, aid should support the reforms and investments that are necessary for Ukraine’s integration with the EU, and help to strengthen the domestic institutions needed to take advantage of the EU’s offer of better market access.

Even if the EU’s idea of integrating neighbouring countries into the single market was successful, it is not clear whether this kind of economic integration and technical co-operation would be enough to sustain Ukraine’s enthusiasm for the EU. The appeal of economic integration with the EU may increase as Ukraine’s reform process gains momentum. But for now, it only excites a small number of Ukrainian businesses that have already gained a foothold in the EU market. If European integration is to become a key driver for reform, ‘Europe’ needs to become, above all, a political project. The prospect of integration with the EU needs to engage the minds of politicians and citizens. Like this, Yushchenko could push through comprehensive reforms in the name of ‘Europe’, just like the Central and East European governments have done before him.

But the ‘action plan’ that is at the heart of the ENP is widely unknown outside expert circles. The plan should focus more on issues that affect the lives of Ukrainian citizens, such as visas and the legal emigration of workers. Otherwise, EU-Ukrainian relations – as envisaged by the ENP – will remain highly technical, with little significance for the country’s domestic political debates.

A membership perspective?

The ENP does not offer the prospect of EU membership. Accession has been the EU’s most successful foreign policy tool, helping Central and Eastern Europe along the path of economic and political transition. Ukraine argues that – unlike Morocco or Israel, which are also included in the ENP – it is a European country and as such is entitled to a ‘membership perspective’. The EU will find it difficult to argue with this, particularly now that it is about to start accession talks with Turkey. Even though Ukraine falls far short of many EU standards, there is no doubt about its ‘Europeanness’ in geographical, cultural and historical terms. The Orange Revolution showed that Ukrainians adhere to the democratic values espoused by the EU.

The best way for the EU to engage Ukraine’s political class and its citizens would be to rethink its refusal to talk about membership. Most Ukrainians are aware that EU accession will be long-term project. Clearly, neither the EU nor Ukraine is ready. Ukrainians know that integration with the EU begins at home – it depends on domestic political and economic reforms.

The success of Yushchenko's presidency initially hinges not so much on foreign policies but on domestic reforms. But these are easier to embark on if European integration is viewed as a realistic prospect. In order to rally the domestic support for difficult and costly reforms, Yushchenko needs a more credible perspective from the European Union.

The EU has already changed significantly through the last enlargement, which not only raised the number of members from 15 to 25 but also vastly increased the diversity within the Union. By the time Romania, Bulgaria, Croatia and, eventually, Turkey have joined, the EU will no longer resemble the cosy, coherent club that it once was. A larger, diverse and flexible Union should be able to accommodate a modern and reformed Ukraine.

The EU's reluctance to offer a 'membership perspective' – even in the very long-term – significantly weakens its leverage over Ukraine's development. It also undermines the position of pro-reform forces that advocate the 'European' model of development for Ukraine. Already, many Ukrainians are getting sceptical. They ask whether the EU really welcomes their democratic revolution, given that it was so easy to keep their country at bay during the Kuchma years. A more positive EU stance would signal to Ukrainians that they are welcome in Europe, and it would mitigate their sense of exclusion and suspicion of EU double standards.

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