

**The New Eastern Europe:
Ukraine, Belarus, Moldova**

Editors

Daniel Hamilton *and* Gerhard Mangott

Hamilton, Daniel and Mangott, Gerhard (eds.), *The New Eastern Europe: Ukraine, Belarus, Moldova* (Washington, DC: Center for Transatlantic Relations, 2007)

© Center for Transatlantic Relations/Austrian Institute for International Affairs, 2007

**Center for Transatlantic Relations
American Consortium on EU Studies**

EU Center of Excellence Washington DC
The Paul H. Nitze School of Advanced
International Studies
The Johns Hopkins University
1717 Massachusetts Ave., NW, Suite 525
Washington, D.C. 20036
Tel: (202) 663-5880
Fax: (202) 663-5879
Email: transatlantic@jhu.edu
<http://transatlantic.sais-jhu.edu>

Austrian Institute for International Affairs

Operngasse 20B
A-1040 Vienna
Tel: +43/1/581 11 06
Fax: +43/1/581 11 06-10
Email: info@oiip.at
<http://www.oiip.at>

Austrian Marshall Plan Foundation

Ungargasse 37
A-1031 Vienna
Tel: +43/1/50175 400
Fax: +43/1/50175 491
Email: office@marshallplan.at
<http://www.marshallplan.at>

ISBN 0: 978-0-9788821-3-6

ISBN 13: 0-9788821-3-X

Table of Contents

Preface v
Daniel Hamilton and Gerhard Mangott

**The Lands In Between: The New Eastern Europe
in the Twenty-First Century** 1
Angela E. Stent

Shifting Ground

**Prospects for the Political and Economic
Development of Ukraine** 25
Taras Kuzio

**Neighborhood in Flux: EU-Belarus-Russia
Prospects for the European Union's Belarus Policy** 55
Rainer Lindner

Moldova's Uncertain Future 77
International Crisis Group

Economic and Energy Perspectives

**Belarus, Ukraine and Moldova:
Economic Developments and Integration Prospects** 127
Vasily Astrov and Peter Havlik

**Ukraine and Belarus: Their Energy Dependence
on Russia and their Roles as Transit Countries** 149
Roland Götz

Ukraine and Its Neighbors

Ukraine's Role in Changing Europe 171
Elena Kovalova

Russia and Ukraine 195
Dmitri Trenin

Ukraine and the European Union 215
Michael Emerson

Ukraine and NATO 239
F. Stephen Larrabee

The New Eastern Europe?

Deconstructing a Region 261
Gerhard Mangott

About the Contributors 287

Preface

Daniel Hamilton and Gerhard Mangott

The nations of Ukraine, Belarus and Moldova are the new Eastern Europe—sandwiched between a larger European Union and a resurgent Russia. Historically the object of fluid and volatile geopolitical shifts, none has ever existed as a state within its current borders, and none enjoys consensus on its respective national identity. All are located along key military, transportation and energy corridors linking Europe to Eurasia. Their problems—infectious diseases, organized crime, drug and human trafficking, pollution and illegal migration—directly spill over into the EU. Their success could have a beneficial impact on the development of democracy, pluralism and the rule of law throughout the post-Soviet space. Their future will help shape Russia's own destiny and ultimately determine where Europe ends.

In this volume leading European, Russian and American scholars address the dynamics of the new Eastern Europe, examine whether it can justifiably be described as a coherent region, and identify major interests of these nations and key external actors. Their analysis is the result of a collaborative research project organized by the Center for Transatlantic Relations at Johns Hopkins School of Advanced International Studies, the Austrian Institute for International Affairs (OIIP) in Vienna, and the Austrian Marshall Plan Foundation.

We would like to thank the authors for their engagement and their contributions, and our own colleagues at CTR and OIIP for their energy and assistance with this project. Particular thanks go to our colleagues at the Austrian Marshall Plan Foundation for their encouragement and unflagging support of this initiative. Each author writes in his or her personal capacity; the views expressed are those of the authors and not of their institutions.

The Lands In Between: The New Eastern Europe in the Twenty-First Century

Angela E. Stent

At the end of the twentieth century, Ukraine, Moldova and Belarus emerged from the disintegrating Soviet Union in search of a usable past and a viable national identity that would enable them to benefit to the fullest from the statehood that had been thrust upon them. Historically the object of fluid and volatile geopolitical shifts, lying in an area contested by Russia and Germany, they have faced challenges from both the East and the West. None of them had ever existed as states with these borders, nor did they have a tradition of consensus on what constituted their respective national identities. Indeed, they were the legacies of the Molotov-Ribbentrop pact that carved up Romania and Poland. Ukraine, with two brief previous episodes of independence, was divided between East and West, both of which subscribed to different historical narratives and definitions of national identity. Moldova, created in 1945 as a Soviet republic, faced a breakaway region that wanted to be united with Russia and parts of its population who sought unification with Romania. Belarus had no history as an independent entity and even less consensus on national identity.

In short, the emergence of the new eastern Europe was not auspicious, and it was unclear whether these new states would survive in their new boundaries. Yet, as the twenty-first century enters its second decade, they have survived and are slowly developing a more viable consensus on nationhood and statehood, despite the enormous problems they face. Their future development and ability to find a viable *modus vivendi* with their two powerful neighbors—Russia and the European Union—will determine whether indeed post cold war Europe will be “whole and free.”

The future of Ukraine, Moldova and Belarus is important because they are located on key military, transportation and energy corridors that link Eurasia and Europe. Ukraine is particularly significant, both because of its size and resources and because 80 percent of Central Asian and Russian gas flows through Ukrainian territory into Central and Western Europe. Bordering on the expanded EU, their “soft” security problems—infectious diseases, organized crime, drug and human trafficking, pollution and illegal migration—directly spill over into Europe and impact its development. On a more positive note, their successes—for instance, Ukraine’s Orange Revolution—could have a beneficial impact on the development of democracy, pluralism and the rule of law in other post-Soviet states. They can, in short, be a source of stability or instability for wider Europe. Their ability to deal with conflicting national and sub-national identities, and Europe’s willingness to re-examine questions of future enlargement will ultimately determine where Europe ends. How that issue is resolved will also have a significant impact on Russia’s future and whether it pursues a more isolationist path or engages with Euro-Atlantic structures.

Ukraine, Belarus and Moldova share many features in common with the other states of Eurasia. Most of these countries practice some form of “managed” democracy, with elections that are competitive only in appearance, no agreed succession mechanisms, nontransparent economic systems rife with corruption, rule by biological or political clans, and close ties between political and business elites. Belarus is on one end of the spectrum, with rule by an authoritarian leader who represses the opposition, and Ukraine on the other end of the spectrum, having broken out of the post-Soviet syndrome during the Orange Revolution and introduced free, fair, competitive elections and a free media. Moldova, which has re-elected communists yet seeks closer ties to Europe, has a political system that lies somewhere between the more democratic Ukraine and the more repressive Belarus.

Although these three countries are referred to as the “Western Newly Independent States (NIS)”, it is not clear that they form a region in terms of common goals or consensus on interaction with each other. Apart from their common Soviet legacy and geographic contiguity, it is premature to speak of them as a region. Moreover, they do not consider themselves as such. In order to understand where their future might lie, it is necessary first to examine their past and the

way in which their nationhood and statehood have developed. Then we will discuss the impact of their current situation on their future relations with their immediate neighbors—Russia and the EU—and with the United States. How might very different domestic trajectories affect their future ties with Russia and the West? To what extent do developments in one country affect those in the other two? Will they be able to resolve contested territorial issues, such as Transnistria and Crimea, in ways that preserve their territorial integrity? Will Belarus and Russia merge? What impact can the outside world have on these issues?

The Past as Prologue: Identities, Regions and Nations

Ukraine, Moldova and Belarus are accidental nation-states, inasmuch as they are the product of postwar Soviet geopolitical gerrymandering which survived the breakup of the USSR. In order to understand their current and future prospects, it is instructive to take a brief historical *tour d'horizon* examining how their respective national identities emerged and developed.¹ Key issues are: what are the agreed-upon and contested aspects of national identity? Did these three national groups ever form a self-defined region? Did they ever define themselves in relationship to each other? How has the debate on these issues evolved since the Soviet collapse?

Ukraine

Of the three countries examined in this book, Ukraine has the most robust tradition of national consciousness and history as a nation-state. Yet, the question of who is a Ukrainian remains contested between Ukrainians, Russians and Belarusians.² Indeed, one historian has argued that only after the violence of World War Two and the mutual ethnic cleansing of Ukrainians and Poles did a modern national iden-

¹ Timothy Snyder, in *The Reconstruction of Nations: Poland, Ukraine and Belarus, 1569-1999* (New Haven: Yale University Press, 2003) pp. 7-12, reminds us that Ukrainians, and Belarusians (and the same is true for Moldovans) have always lived in multiethnic states where identity could be defined either by ethnicity or in a political sense. Thus, many "Ukrainian" cities historically had more non-Ukrainian inhabitants, for instance, Jews, than the titular nationality.

² Andrew Wilson, *The Ukrainians: Unexpected Nation* (New Haven: Yale University Press, 2002) ch.1; Frank Golczewski, ed., *Geschichte der Ukraine* (Göttingen: Vandenhoeck and Ruprecht, 1993) pp. 7-17.

tity emerge.³ The historical problems of differentiating the various East Slavic groups from each other still resonate in contemporary debates—for instance, are Ukrainians, as many Russians claim, not a separate ethnic group but “little Russians” who are descendants of the Rus? The Russo-Ukrainian argument, which continues to affect debates about Ukraine’s future, goes back to the 1187 document *Lay of Ihor’s Host*, the narrative epic of the period. Thus, Russian and Ukrainian histories have engaged in “a struggle for the exclusive possession of the supposed legacy of Kievan Rus.”⁴ What emerges from this shared past is that the Ukrainian search for a separate national origin has become a political minefield in its relationship with Russia, leading one historian to claim that Russians “suffer an existential blackout” when they are confronted with Ukrainian history.⁵

Further complicating the Ukrainian construction of identity is that it remains an identity contested among Ukrainians themselves, because Ukrainians have lived under many different rulers. Under the Polish-Lithuanian Commonwealth, Ukrainians, called Ruthenians, mainly professed the Orthodox religion, but a minority became Uniates, accepting the authority of the Pope in 1596. In 1648, a Cossack uprising under Bogdan Khmelnytsky led to the first period of Ukraine’s existence as an independent state, but it lasted only until 1654, when part of Ukraine united with Russia largely in the name of protecting the Orthodox faith, while the rest remained in the Polish-Lithuanian Commonwealth. However, one can debate whether Khmelnytsky’s Ukraine was really a “state”, even by 17th-century standards. Between 1654 and 1795 what are now Ukrainian lands were progressively absorbed into the newly-dominant empires of Central and Eastern Europe, namely the Russian and Austro-Hungarian empires. After the end of the Polish partitions, therefore, Ukrainians were divided between the two empires, called Ruthenians in Vienna and Little Russians in St. Petersburg.

The roots of many of Ukraine’s current political and cultural divisions date back to the nineteenth century, when Ukrainians evolved under two empires with significantly different systems. Tsarist attempts

³ Snyder, p. 2.

⁴ Anatol Lieven, *Ukraine and Russia: A Fraternal Rivalry* (Washington, DC: United States Institute of Peace, 1999) p.13.

⁵ Wilson, p. 19.

to Russify Ukrainian peasants were inconsistent and not particularly effective while Uniates were persecuted. On the other hand, many educated Ukrainians became loyal servants of the Russian empire and its military and rose to positions of power. Moreover, complex identities coexisted amongst the intelligentsia. The great Russian writer Nikolai Gogol (Mykola Hohol) wrote, "I myself do not know whether my soul is Ukrainian or Russian."⁶ The Russian empire's treatment of Ukrainians was not one of a classic colonizer-colonized. The Austrians' treatment of Ruthenians was similarly complex. Educated Ruthenians aspired to become *Kaisertreu* "political Austrians," and the Austro-Hungarian empire did not aspire to become a "nationalizing" state in the manner of the Romanovs. But Ukrainian national consciousness in Austro-Hungary was divided between inhabitants of Galicia, on the one hand, and Carpathia, on the other, and there was little consciousness of links between the Ruthenians in the Austro-Hungarian empire and those living under the Russian Tsars.⁷

Ukraine experienced a chaotic second period of independence at the end of World War One, when Ukrainians in the collapsing Russian empire formed the Ukrainian Peoples' Republic, proclaiming the First Universal in January 1917, but its existence was very brief. After the Bolshevik revolution, a new Ukrainian state was proclaimed, but the Red Army eventually liquidated it. At the same time, West Ukrainians formed their own republic as the Austro-Hungarian empire collapsed. Soon the newly-independent Poland had taken over the West Ukrainian state. In the interwar years, when Ukrainians lived either in the USSR or Poland, national consciousness evolved in response to the perceived twin evils of Polish and Russian rule.⁸ During the interwar years Polish rule was harsh, but not comparable to Soviet rule, which led to the Ukrainian famine (Holodomyr) and purges under Stalin and the suppression of an independent Ukrainian identity. Nevertheless, Stalin ultimately facilitated the creation of modern Ukraine after the Molotov-Ribbentrop pact by uniting most of the Ukrainian-speaking areas when the USSR took Galicia and Volhynia from Poland.⁹ At the end of the Second World War, a civil

⁶ Cited in Wilson, p.88.

⁷ Wilson, pp. 106-109; Golczewski, chs. 6,7; Snyder, p. 122.

⁸ Wilson, pp. 122-127; Snyder, ch.7.

⁹ Lieven, p. 32

war between Poles and Ukrainians led to ethnic cleansing and ultimately the creation of a larger Ukrainian SSR within the USSR that facilitated the consolidation of a new Ukrainian identity.

From 1945–1991, the relationship of Ukrainians and Russians within the USSR evolved in a complex fashion that continues to influence current Russian-Ukrainian relations. On the one hand, Ukrainians were disproportionately prominent in the Soviet officer corps, they were largely integrated into the Soviet elite, and Khrushchev and Brezhnev both had Ukrainian political roots. On the other hand, a dissident Ukrainian national identity emerged under Brezhnev. Yet, when the USSR disintegrated in 1991, Ukraine, like all the other Soviet republics, was not well prepared for independence, Eastern and Western Ukrainians had a divided sense of national consciousness, and most Russians did not view Ukrainians as a separate nation.

Moldova

If Ukrainians have a contested history of national identity, the same is even truer for Moldovans. Indeed, the difference between the Romanian and Moldovan languages and cultures is a matter of some debate. Although there is historical evidence for a Moldovan people, their national identity has historically been “malleable”; they were dispersed between the Ottoman, Russian and Austro-Hungarian empires and did not have their own political entity until the Soviet era.¹⁰ Like the Ukrainians and Belarussians, they moved between different imperial systems. From 1530–1812, they were under Ottoman rule; in 1812, Russia annexed Bessarabia, where many of them lived, Russian became their official language, and Moldovan remained the language of peasants. In 1918, with the redrawing of Europe’s borders and the creation of a new Romanian state, Bessarabia was incorporated in Romania, while a smaller territory carved from Ukrainian and Transnistrian lands became the USSR’s Moldovan Autonomous Soviet Socialist Republic (MASSR) from 1924–1940. In their attempts to attract Bessarabians in Romania to immigrate to the USSR, the Soviet authorities focused on creating a separate Moldovan national identity and language in the MASSR, competing with Romania for the loyalty

¹⁰ Charles King, *The Moldovans: Romania, Russia and the Politics of Culture* (Stanford University: Hoover Institute Press, 2000) ch.1.

of this newly-defined nationality.¹¹ With the secret protocols to the Molotov-Ribbentrop pact in 1939, whereby the USSR was “awarded” Bessarabia, the Soviets switched from encouraging revolution in Romanian Bessarabia to outright annexation, thus creating a larger Moldovan Soviet Socialist Republic. Between 1940 and the collapse of the Soviet Union, Moscow’s major goal was to construct a new Moldovan identity that further distinguished Moldovans from Romanians. In the opinion of a leading scholar of Moldova, the cult of a new Moldovan language and identity reached its peak during the perestroika years, and yet, although a distinct Moldovan language has emerged, it remains very close to Romanian.¹² Thus, Moldovans, by 1991, were divided over their identity and relations with both Romania and Russia.

Belarus

Of the three states under discussion, Belarus has the weakest history of a distinct national identity, which has developed “only feebly and fitfully”, and has never had a territorial base. Historically, Belarus and Ukraine shared a common “southern Rus” or “Ruthenian” identity until the seventeenth century. National identity in both groups was divided between the rival attractions of “Europe” and the Russia/Slavic idea, a divide that continues to exist today.¹³ Disputes continue whether the Belarusian language is a separate language group or a dialect of Russian. During the Soviet period, while there was a strong (albeit largely underground) Ukrainian identity and an emerging Moldovan identity, the Belarussian SSR had a much weaker identity, official or unofficial. Thus, Belarus was less well prepared for independence than either Moldova or Ukraine and Russians are even less inclined to accept Belarus as a separate nation than are Ukrainians or Moldovans.

¹¹ King, ch.4.

¹² King, p. 25.

¹³ Robert Legvold and Celeste Wallander, eds., *Swords and Sustenance: The Economics of Security in Belarus and Ukraine* (Cambridge, MA: American Academy of Arts and Science, 2004) pp.11, 23.

Prelude to the Present: Independence and Beyond

When Russian leader Boris Yeltsin, Ukraine's Leonid Kravchuk and Belarusian leader Stanislau Shushkevich sat down at a hastily-convened meeting in a hunting lodge outside Minsk on December 8, 1991 and agreed to dissolve the USSR, their agendas were very different. Yeltsin wanted to dissolve the USSR and ensure that Gorbachev had no country over which to preside, but he may have assumed that, with his rival gone, some loose association of former Soviet states might one day be recreated. Indeed, Kazakhstan's Nursultan Nazarabyev was not even invited to this initial gathering of the troika, much to his displeasure. Kravchuk, although a former loyal communist, had now reinvented himself as a supporter of Ukrainian independence and probably believed that this would be a decisive break with Russia. Shushkevich, a liberal nationalist, wanted to create an independent Belarus for the first time in history. Thus, the formation of the Commonwealth of Independent States (CIS) was barely planned in advance and subsequently came to be known as a means of "civilized divorce" for the 15 republics of the Soviet Union.

The birth of these new East European countries was thus accidental, and remains a subject of debate as to their origins and, from the Russian point of view at least, their legitimacy. In the Ukrainian and Belarusian case, former communist leaders, imitating Russia's lead, joined the independence bandwagon after the failed August 1991 coup and held elections in 1991 that brought them to power as the heads of the new states. Moldova's birth was more violent and contested. In the late Gorbachev period, as the Moldovan-speaking population was reasserting its separateness, the mainly Russian-speaking population of Transnistria and the Turkic-speaking Gagauz minority declared separate republics within Moldova. Although all constituent Soviet republics were multi-ethnic, it was more difficult for Moldova than, say, Ukraine, to keep its population in one state. Between 1990 and 1992 there was major fighting between the secessionist Tiraspol and the central government forces from Chisinau and, by the time a ceasefire was declared in 1992, Russian forces from the Fourteenth Army had come to the aid of the separatists and were occupying Transnistria.¹⁴ In 1994, the Russians and Moldovans signed a status of forces agreement and many of the Russian troops withdrew. However,

¹⁴For a chronology of the conflict, see King, p.190.

Russia remains a major supporter of the Transnistrian regime. Thus, Moldova, from the outset, was unable to assert its sovereignty over Transnistria, which has operated since 1992 as a de facto “statelet” that thrives on corruption.¹⁵ Moldova’s tenuous national identity has constantly been challenged by its inability to preserve its territorial integrity and Russian support of the Tiraspol government.

Ukraine, Belarus and Moldova have developed in very different directions since independence, suggesting that their twenty-first century futures may be quite diverse. Their common Soviet heritage, close economic ties and nontransparent political and economic modus operandi continue to influence their development but, as the current ruling generation with its Soviet past passes from the scene, a truly post-Soviet generation could lead these countries further away from the politics of “managed democracy” and opaque economic elites who dominate the system. Thus, despite its Soviet roots, Ukraine has managed to reject elements of the post-Soviet syndrome. The Orange Revolution in November 2004 ushered in an era of optimism about the possibility of introducing democracy to Ukraine and integrating it in the Euro-Atlantic system.¹⁶ Although the revolution failed to accomplish fully either goal, Ukraine is no longer a “managed democracy.”¹⁷ The March 2006 elections were generally considered to be free and fair, there is genuine political competition (albeit somewhat opaque) and the media remain pluralistic. Moreover, the Ukrainian economy continues to enjoy high growth rates. While the twin goals of EU and NATO membership remain some way off, relations with the West have improved. Despite the continuing differences between eastern and western Ukraine, Ukrainian national identity is more developed than it was when the USSR fell apart.

Moldova’s trajectory in the fifteen years since independence has been more problematic. It remains poor, and the existence of Transnistria as a haven for smuggling and nontransparent economic activity further complicates its economic development. The current leadership

¹⁵ See Charles King, “The Benefits of Ethnic War: Understanding Eurasia’s Unrecognized States,” *World Politics*, Vol. 53, no. 4, July 2001, pp. 524-52.

¹⁶ For a discussion of the Orange Revolution, see Paul D’Anieri, “What has changed in Ukrainian politics? Assessing the Implications of the Orange Revolution,” *Problems of Post-Communism*, Vol. 52, no. 5, September/October 2005, pp. 82-91.

¹⁷ Rainer Lindner, *Das Ende von Orange* (Berlin: SWP Studie 20: August 2006).

seeks closer ties to the West, but commands considerably less attention from the EU and the United States than does Ukraine. Belarus, on the other hand, has been the object of considerable Western concern because of its negative development. Once Lukashenko took power in 1994, he ensured that Belarus remained largely Soviet both in its state-run economy and its repressive political system than brooks no opposition, stifles free expression and jails opposition figures. Belarus has no Euro-Atlantic aspirations, its leadership is aggressively anti-American and since 1996 it has been allied to Russia in the Russia-Belarus union, which is formally dedicated to creating one unified state. Theoretically, therefore, Belarus could merge with Russia over the next decades, although this looks increasingly unlikely, given the growing public antagonism between the two countries in the wake of Russia's January 2007 oil cutoff to Belarus.

Ukraine, Moldova and Belarus, are, therefore, moving in different directions at the beginning of the twenty-first century. With its sizeable resources, large population (52 million) and central location, Ukraine has the potential to become a significant European power over the next decades, whereas the much smaller Moldova (population 4 million) and Belarus (population 10 million) face major challenges, including the existential question of whether they will continue to exist as sovereign states. The common Soviet past and common Soviet political culture is slowly giving way to more differential developments in the three countries. Moreover, they remain heavily dependent on Russia for their energy supplies and for their economic development. Thus, their domestic future will be influenced by Russia's own development. They represent the shared Russian-EU neighborhood, but the influence of these two powers is asymmetric. Russia exercises more influence over the three countries than does the EU, for economic, historical and cultural reasons.

Future Scenarios

The future of the new Eastern Europe will largely be determined by the choices the three countries themselves make but, since they are all relatively weak states whose sovereignty is still a work in progress, their future will also be influenced by the policies pursued by their more powerful neighbors, Russia and the EU, and, to a lesser extent, by the United States. In Ukraine's case, the key question will be

whether Ukraine slides back into a “Kuchma-Plus” situation or eventually is able to revitalize the goals of the Orange Revolution and pursue them. This would involve tackling corruption head-on, including the opaque energy trading system; developing effective institutions of governance; implementing rational constitutional changes and finding a viable *modus vivendi* for competing political parties and forces to work together for the common good, as opposed to continuing the pattern of political paralysis or inactivity. In Moldova’s case, the challenges of governance and corruption are greater than those in Ukraine, and they are further complicated by the issue of territorial integrity, without which Moldova’s fate is uncertain. The future trajectory of Belarus is even more questionable. Will it choose to move away from a soviet-type system or will it remain locked in a twentieth-century authoritarian time warp? For all three countries, Russia’s role will be crucial.

Russia—Present and Future

Sixteen years after the collapse of the Soviet Union, Russia is still coming to terms with the loss of its empire and is developing a new framework for dealing with its former republics. The Kremlin views the new Eastern Europe through both a domestic and foreign policy lens. Inasmuch as it has not accepted these states as fully sovereign countries, it views them partly through the prism of its own domestic politics. What happens in Ukraine, for example, has direct implications for Russia’s own society, and thus the Orange Revolution was a shock that prompted the Kremlin to take pre-emptive measures—such as the creation of the pro-Kremlin youth group *Nasbi*—to inoculate its youth from the dangerous virus of colored revolutions. Moreover, Moscow largely views the U.S. and EU presence in the Western NIS as a zero-sum game and a challenge to its security as it competes for Western influence. Indeed, some Kremlin insiders have opined that the ultimate goal of the United States and the EU is to promote regime change by organizing a colored revolution in Russia itself.¹⁸

¹⁸In September 2006, a report came out under the signature of the last head of the CPSU’s International Department, alleging in some detail how the United States was planning to unseat the Putin government. See Valentin Falin, Gennadii Evstaf’ev, “O Veroiatnom Szenarii Deitsvii SSHA v Otmoshenii Rossii v 2006–2008 godakh,” *Politicheskii Klass* no. 21, September 2006, available at <http://www.politklass.ru>.

The overarching Russian interest in Eurasia is to preserve regime stability in countries that have not experienced colored revolutions and to encourage a return to business as usual in those countries that have. It is intent on preventing any state in its “near abroad” from joining an alliance deemed hostile to Russia, primarily NATO. Although Russia itself enjoys special partnership relationship with NATO (as does Ukraine), and although NATO has regularly repeated that it does not view Russia as an adversary, the Kremlin has made it clear that it would view Ukraine’s or Georgia’s membership in NATO as a hostile act that threatens its security.¹⁹ The Russian political elite used to be more sanguine about the EU, viewing it as more benign than NATO, but the EU’s role in promoting the Orange Revolution and its new neighborhood policy have given the Kremlin second thoughts about the desirability of its neighbors joining the EU, remote as that prospect may currently be.

The Kremlin has a variety of means available to pursue its goals in the new Eastern Europe. Firstly, there are the deep and enduring ties that bind—the historical, linguistic, cultural and educational ties between Russia and its former republics, as the first part of this chapter has shown. Personal and business ties between Russia and the post-Soviet states are multifaceted, as are ties among the leaders of the NIS, many of whom used to be colleagues in the Soviet communist party. Moreover, for those leaders who fear the challenge of a colored revolution, Russia represents a bulwark against popular uprisings, whereas the EU and US are viewed with suspicion because of their work with civil society NGOs. Add to this the close economic ties between many Russian businesses and their counterparts in Ukraine or Moldova, and the overwhelming dependence of all three countries on Russian energy, this adds up to a considerable amount of “soft” power.²⁰

Moreover, Russia maintains a military presence both in all three countries—its Black Sea Fleet will remain in Ukraine until 2017, and it has troops in Transnistria and Belarus. Thus, it employs a variety of means to pursue its goals of maintaining “managed” democracies in its

¹⁹ See Putin’s speech at the Munich Security conference, February 10, 2007, at <http://www.kremlin.ru/text/appears/2007/02/118109.shtml>.

²⁰ Of course, one could question whether some of these instruments, especially energy, are indeed “soft” power, or maybe hard soft power. For a good discussion of this issue, see Nicu Popescu, “Russia’s Soft Power Ambitions,” CEPS Policy Brief, no. 115, October 2006 (<http://www.ceps.be>).

neighborhood, containing Western influence there are maximizing its own leverage.

If Russia were to continue its present trajectory, it would support the status quo, including the non-resolution of the Transnistria problem, and seek to prevent the Euro-Atlantic integration of these countries. The Kremlin will remain unconvinced that it would do better with stable, prosperous states on its borders, even if they do not share its domestic “managed” democracy system and join NATO or the EU, than with less stable, poorer neighbors that reject Euro-Atlantic integration. However, if Russia’s trajectory changes, that could have a major impact on the future of these countries. Given their continuing economic—especially energy—dependence on Russia, Moscow will retain considerable influence over their development.

If one looks out over the next two decades, there are three possible scenarios for Russia. The first would be a continuation of the present Putin-like system where the state continues to leverage its natural resources to the detriment of the full development of other sectors. This Russia would act as a great power largely based on its role as an energy supplier and would use that leverage to bind its neighbors to itself. Under this scenario, however, governance could gradually improve and the rule of law could slowly be introduced. Civil society would remain embryonic, but pressure for greater autonomy would grow. A pragmatic leadership would maintain tolerable relations with the West but also focus on China.

A second scenario is less benign and envisages a Russian “petro-state,” where a political class bent on its own enrichment and enjoying vast energy rents fails to invest in infrastructure, maintains high levels of corruption, and does nothing to improve governance. This Russia would use the energy lever more bluntly with its neighbors, its ties to the West could deteriorate and it would focus on China and other non-democratic states.

A final and most benign scenario would be a Russia that gradually moves from “managed” democracy to a state based on the rule of law, genuine political competition and free media. Such a Russia might be willing to accept the sovereignty and independence of the post-Soviet states and not impede their drive to Euro-Atlantic integration. Indeed, it could encourage them to move closer to the West as it itself did.²¹

²¹ These scenarios are based on scenarios developed by the World Economic Forum, on which the author worked. See *Russia and the World: Scenarios to 2025* (Geneva: World Economic Forum, 2006).

The relationship between Russia and Ukraine in the first scenario would continue along current lines, assuming that Ukraine remains politically divided and does not reject the gains of the Orange Revolution. In this scenario, the non-transparent energy ties between the two countries, epitomized by the opaque joint Russian-Ukrainian middleman company RosUkrEnergo, would dominate the economic relationship between the two countries, diminishing the chances for the development of more effective governance in either country.²² Ukraine would maintain a foreign policy that balances its relations between Russia and the West and there would be disincentives to reform. Of course, if the EU made a concerted and sustained effort to promote Ukraine's membership, that could counter the influences from Russia but, as will be discussed below, this is highly unlikely for the foreseeable future. On the other hand, a Russia that becomes a petro-state could have a negative influence on Ukraine, making its Western integration less likely. It could adversely affect the Ukrainian economy by charging even higher prices for energy exports, particularly if Ukraine does not reform its own energy sector. Moreover, it could use economic leverage to insist on prolonging the lease for the Black Sea Fleet beyond 2017, thus seeking to further limit Ukrainian sovereignty. In the third scenario, a more democratic Russia could have a beneficial effect on Ukraine and, in the best case, encourage its moves toward Euro-Atlantic integration as Russia itself moves in that direction. Thus, Russia will retain influence over whether Ukraine joins either NATO or the European Union.

A Russia that continues on its present trajectory could pursue a more muscular relationship with Belarus. Putin's Russia appears increasingly to base its ties with its neighbors on what it judges to be legitimate economic interests, refusing to subsidize even its closest partner Belarus in the anticipation that this will buy political loyalty. The relationship between the current leaders is complex, and it is by no means certain that the Russia-Belarus Union would move beyond its current limited stage, given Lukashenko's criticism of Moscow's actions during the oil dispute. If Belarus were to open up after Lukashenko, then the relationship with Russia could change, even

²² See *It's a Gas: Funny Business in the Turkmen-Ukraine Gas Trade* (London: Global Witness, April 2006) and Margarita Balmaceda, *Energy, Energy transport and Corruption in the former Soviet Union: Oligarchs' Profits, Russia's Power and Ukraine's Missing Energy Policy, 1995-2006* (London: Routledge, 2007).

under a Putin-like system. In the second scenario, a Russian petro-state could put more economic pressure on Belarus and possibly seek to absorb it into Russia, but that would only happen if Belarus itself were willing to be absorbed. A more pluralistic Russia that is guided by the rule of law, on the other hand, could have a beneficial effect on Belarus. It is difficult to imagine that an authoritarian Belarus could for any length of time coexist with a democratic Russia.

Russia's major influence over Moldova will be whether it is willing to support Western efforts to resolve the Transnistria situation or whether it will insist on proposing solutions similar to the Kozak plan that are unacceptable to Chisinau and its Western partners.²³ The failure to resolve the issue of Moldova's territorial integrity further complicates Moldova's domestic development and its ability to work with the West. In scenario one, Russia would continue to maintain its presence in Transnistria and would have few incentives to change the separatist enclave's status. Russia under scenario two would be even less inclined to unfreeze the conflict, but could seek to strengthen ties with Tiraspol. The most benign Russian scenario might incline Moscow to resolving the conflict, but by this time, Tiraspol might be functioning as a viable statelet.²⁴

Ukraine, Belarus and Moldova will have considerable control over their own futures, but Russia's role will remain key because it has the leverage to affect developments in all three countries. What happens inside Russia will determine how much Moscow will be willing to respect their sovereign decisions and how far the dense business relations between these countries and Russia will determine their respective political trajectories.

The European Union

The EU's role in influencing the future of the new Eastern Europe will have two main components: its willingness to offer closer association to these countries and how it balances the need for good relations with Russia against encouraging Ukraine, Moldova and conceivably Belarus to seek closer Euro-Atlantic integration. As of 2007, Ukraine

²³ See International Crisis Group, *Moldova's Uncertain Future*, (Washington, DC: Europe Report no. 175, August 2006) and the chapter on Moldova in this volume.

²⁴ Charles King, in "The Benefits of Ethnic War," argues that it already is.

and Moldova have expressed interest in moving closer to the EU and Yushchenko and his supporters favor both EU and NATO membership. However, as the Turkish case shows, the key institution that determines whether a country can achieve integration with the West is the EU, not NATO. Future scenarios for the EU revolve around whether Brussels is suffering from such acute “enlargement fatigue” that further enlargement after the admission of Bulgaria and Romania is unlikely for a very long time, if not forever. They also focus on whether the EU’s internal difficulties, especially over the question of a constitution, will weaken the institution or even eventually lead to its slow demise. The real issue for these three states, however, is how the new neighborhood policy (ENP) will work in practice and whether Brussels is willing to move beyond the neighborhood policy. It is undeniable that the prospect of membership and the road map given to countries such as Poland and the Baltic states and the necessity of working through every chapter of the *acquis communautaire* enabled them to move from post-communism to democracy and markets. In the absence of these concrete incentives and the prospect of integration, the EU’s ability to influence developments in these countries will remain limited, while Russia’s remains robust because Russia’s ties to Ukraine, Moldova and Belarus are stronger than are the EU’s.

Within the EU, there are two countries that have a particular interest in the new Eastern European states—Germany and Poland. They will play a major role in determining how the EU moves forward. Given Germany’s historical role in this part of the world, there was some concern immediately after unification in 1990 that a reunified Germany might harbor new designs on its Eastern “near abroad.” But it soon became clear that Germany’s historical *Drang nach Osten* had become a *Zwang nach Osten*, a recognition of its obligation to support its needy eastern neighbors.²⁵ Berlin’s initial goals, therefore, centered on ensuring that Germany did not remain the easternmost outpost of stability and prosperity in Europe by enlarging the EU and also assisting Russia and the other newly-independent states in their transition away from communism.²⁶

²⁵ Angela E. Stent, “The Overburdened Partner: Germany and the Successor States,” in John W. Blaney, ed., *The Successor States to the USSR* (Washington, DC: Congressional Quarterly Press, 1995) pp.280-293.

²⁶ See Angela Stent, *Russia and Germany Reborn: Unification, The Soviet Collapse and the New Europe* (Princeton, NJ: Princeton University Press, 1999) ch. 6.

Germany's long and enduring ties with Russia and the USSR have ensured that Berlin's major eastern focus since 1990 has been on Russia, and it has recognized the need to calibrate its ties to the new eastern Europe with its relationship with Moscow. Thus, although Germany has pursued an active relationship with Ukraine, its views on Ukraine's potential NATO membership have been influenced by its cognizance of the need to take into account Russia's sensitivities on this issue.²⁷ Nevertheless, Germany has been a prime mover in the EU's neighborhood policy and remains committed to enhancing this policy as much as possible. It is also conceivable that German ideas of creating an "associated" membership status for countries unlikely to gain full EU membership, or offering selective adherence to parts of the *acquis*, could provide stronger incentives for Ukraine to introduce needed reforms and move closer to Europe. Germany has also taken an active role in Moldova and in Belarus, where it favors engagement with the government and opposition. Although Germany cannot determine EU policy towards its new neighbors, Berlin's policy of balancing its encouragement of closer links for Ukraine and Moldova to the EU against promoting closer EU-Russia ties will have an impact on how Brussels moves forward. For the foreseeable future, Germany's policies toward the new Eastern Europe will be one of cautious encouragement of reform and flexible promotion of different forms of engagement but with no promise of eventual membership.²⁸

Poland, however, takes a different attitude toward these three countries, particularly Ukraine, and is supported by other new EU members, particularly the Baltic states. In view of Poland's complex historical relationship with both Belarus and Ukraine, it pursued a policy of reconciliation with these countries in the 1990's in large part because it did not want historical animosities with its eastern neighbors to hinder its own integration into Europe.²⁹ It also understood that the independence of these two states was a *sine qua non* for preventing a resurgence of Russian imperial ambitions. Since joining the EU,

²⁷ Angela Stent, "Ukraine and Germany: Toward a New Partnership?" *Harvard Ukrainian Studies*, XXI (3/4) 1997, pp 287-309.

²⁸ Angela Stent, "Berlin's Russia Challenge," *The National Interest*, no. 88, March/April 2007, 2007, pp. 46-51.

²⁹ See Snyder, ch. 13. See also Ilya Prizel, *National Identity and Foreign Policy: Nationalism and leadership in Poland, Russia and Ukraine* (Cambridge: Cambridge University Press, 1998), ch.4.

Poland has emerged as a champion of Ukraine's Euro-Atlantic integration. President Aleksander Kwasniewski's key role in persuading the EU's Javier Solana to join him in brokering the negotiations that enabled Viktor Yushchenko to come to power in December 2004 established Poland—along with Lithuania—as Ukraine's major EU and NATO advocates. These new EU members are less inclined to take into account Russian sensitivities about Ukraine's Euro-Atlantic integration and are likely to continue advocating for Kyiv in ways that will continue to highlight divisions within the EU about how much to engage its new neighbors and Russia. Moreover, the half million strong Polish minority in Belarus, which has been the object of persecution by the Lukashenko regime, will ensure an enduring engagement by Warsaw with Minsk.³⁰ The EU's challenge, therefore, is to develop a common *Ostpolitik* among 27 states whose interest in this region varies and whose views of Russia and its legitimate role in the post-Soviet space are likely to remain at odds for some time to come.

The United States

Washington's influence over the future of the new Eastern Europe is of a different order of magnitude than that of the EU or of Russia. It is further away, it views these states through a global, as opposed to a regional, prism, and is not as directly affected as is the EU by the soft security challenges—contagious diseases, organized crime and corruption, trafficking in humans and narcotics, environmental and ecological problems—presented by these countries that necessitate Brussels' engagement. Nevertheless, the U.S. has, from the beginning, recognized the strategic importance of this area, particularly of Ukraine, and has devoted more financial resources to assisting it than has the EU. Encouraged by a powerful domestic Ukrainian-American lobby, the Clinton administration became actively involved in Ukraine in the 1990s—it was for a number of years the third largest recipient of U.S. aid after Israel and Egypt. Washington was also instrumental in establishing the NATO-Ukraine Council. American NGOs have been active in Ukraine and played an important role during the Orange Revolution through their training of Ukrainian electoral

³⁰ Antoni Kaminski, "Belarus as an Object of Polish Security concerns," in ed. Sherman W. Garnett and Robert Legvold, *Belarus at the Crossroads* (Washington, DC: Carnegie Endowment for International Peace, 1999) ch. 3.

monitoring groups. Bilateral U.S.-Ukrainian military ties have also grown in the past decade. From the U.S. point of view, a sovereign, independent, prosperous Ukraine with effective and transparent institutions of governance would not only contribute greatly to the security and stability of the region but would serve as a bulwark against what some fear as potential resurgent Russian neo-imperialism. Indeed, it could have a beneficial impact on domestic Russian developments.

After the Orange Revolution, the Bush administration responded to Yushchenko's request for NATO membership by working with different political groups in Ukraine to encourage the adoption of policies that would increase Ukraine's eligibility. From Washington's standpoint, NATO membership would be the first step toward Ukraine's Euro-Atlantic integration, eventually followed, it was hoped, by EU membership. However, the Yushchenko government failed to undertake the necessary steps to influence public opinion about the desirability of joining NATO. After the March 2006 elections and the return to power of Viktor Yanukovich, the NATO issue has been tabled until such time as the Ukrainian government and its population seek a Membership Action Plan. For the foreseeable future, therefore, Washington will continue to encourage Ukrainian economic and political reforms and its NATO information campaign, but it cannot be more enthusiastic about NATO membership than is Kyiv.

Relations with Russia will also continue to influence U.S. ties with Ukraine. The Orange Revolution became a major source of contention between Washington and Moscow, and Ukraine remains a potential problem for the two countries. The most productive way of dealing with issues in Eurasia would be for a direct dialogue on what constitutes legitimate Russian and American interests in the region, but so far such a dialogue has proven elusive. It will have to await the 2008 succession process in Russia, but the issue of Ukraine—including its energy dimensions—will continue to play a central role in the U.S.-Russian agenda.

Washington's relations with Moldova are of a different order of magnitude than its ties to Ukraine. Nevertheless, the State Department has for some time appointed a diplomat to deal with the issue of frozen conflicts, and the U.S. remains involved with the EU and OSCE in seeking a solution to the Transnistria question. U.S. policy on Belarus

has also been coordinated with that of the EU, and it is unclear how it might change as long as Lukashenko is in power. Were he to depart the political scene, however, a policy of greater engagement might emerge, but that will depend on domestic developments in Belarus.

For the next few years, the amount of attention that Washington can give to this part of the world will also be determined by its other foreign policy priorities, particularly the imperative of dealing with the crises in Iraq, Iran, Afghanistan and the broader Middle East. It will continue to offer financial and military incentives to Ukraine to move in a western direction, but will also look to the EU to assume more responsibilities in the region.

Whither Ukraine, Moldova and Belarus?

Lying between an expanding but closed EU and a resurgent Russia, these “lands in-between” remain in a grey zone. Can Europe devise an architecture that can include them, or will they remain for the foreseeable future suspended between a prosperous, democratic EU and a largely authoritarian Eurasia? Can Europe indeed be “whole and free” if they are excluded, or does Europe end at the Polish-Ukrainian border? Since the fall of communism, there have only been two clubs that aspiring East European countries sought to join—the European Union and NATO. If these are closed to them, is it time to create new clubs, or further enhance the “variable geometry” of the EU to devise associated status that does not include membership but offers concrete rewards for economic and political reform beyond what the ENP offers? What will be the consequences of excluding these countries from these organizations if they are prepared to do what is necessary to join?

If these countries continue on their present trajectory, Ukraine will gradually become more prosperous and, if it returns to its “orange” agenda, better governed. It could serve as an alternative model for other Eurasian states still caught in a post-Soviet syndrome. Its foreign policy could also change the dynamics in Eurasia. For instance, if it continues the Yushchenko policy of cracking down on customs violations on the Transnistrian-Ukrainian border, this could have long-term beneficial effects for Moldova. Likewise, a reinvigorated GUAM and Community of Democratic Choice could provide alternatives to the CIS and could encourage cooperation among the new East Euro-

pean states. Ukraine could also influence events in Belarus were it to play a more active role there, possibly in conjunction with Poland. If Ukraine returns to Kuchma-like politics and foreign policy, however, there is less prospect for Western-leaning change in this area.

Moldova's future will depend not only on whether it tackles its governance and corruption issues—as must Ukraine—but whether it can resolve the Transnistria question. It is possible that a Romania in the EU will succeed in focusing more EU attention on Moldova. Unlike in the immediate post-communist period, however, there is little talk of Moldova joining Romania. Unless there is some major regional upheaval, Moldova is likely to remain an independent state. Belarus' future as an independent state is less certain. The future of the Russia-Belarus union will depend on developments within Russia and within Belarus, but it may take some years until Belarus decides whether it is interested in developing ties to the EU.

Given the differences between these countries, there are several directions in which the West can move if it wants to promote stability, good governance and security in its neighborhood. First, Washington and Brussels should, to the greatest extent possible, coordinate their policies in this region and not work at cross purposes with each other. The Orange Revolution was an example where U.S.-EU cooperation was instrumental in a peaceful, democratic outcome. Second, both the EU and the U.S. must continue and intensify a dialogue with Russia about the shared neighborhood, however challenging that is. It is to be hoped that, as the 21st century unfolds, this region will not always be viewed in zero sum terms by Russia, but that cooperation between Washington, Brussels and Moscow will one day be possible. In the near term, the major challenge for these countries is to tackle corruption and introduce the rule of law. Both the U.S. and EU can offer multiple forms of assistance to achieve these ends, especially by focusing on the younger generation. The most optimistic scenario is one where all three countries eventually become functioning democracies with transparent institutions, linked to Euro-Atlantic institutions in some form. The least optimistic is one where they achieve none of these goals, slide further into corruption and poverty and remain a potential threat to Europe's stability. Transitioning from "lands in-between" to viable members of the European family of nations will remain a challenge for the foreseeable future.

Shifting Ground

Prospects for the Political and Economic Development of Ukraine

Taras Kuzio

This chapter is divided into three sections. The first integrates three areas of theory into Ukraine's transition, specifically the importance of path dependence, pacted compromises and the national question. The second section investigates Ukraine in comparative perspective with transitions in other post-communist states and the Orange Revolution in comparison with other democratic revolutions. The third section discusses prospects for reform in post-Orange Ukraine. Divided into three sections, it critically examines the first two years of the Orange administration. Based on this record and Ukraine's path dependence and pacted compromises, the paper outlines Ukraine's muddled transition and political regime in the approach to the next election cycle in 2009–2011.

Ukraine and Transition Theory

Path Dependence

Path dependence explains why Ukraine and other CIS states found it more difficult to undertake a consistent path of democratic transition following the country's independence in 1991. Ukraine inherited a quasi-state, weak institutions and a regionally divided population. Regionalism and language influence domestic politics and foreign policy. A culture of deep rooted corruption and nepotism from the former Communist Party of Ukraine has had a strong influence on political culture and policy making.¹ Overcoming a deeply entrenched Soviet political culture has proved more difficult to accomplish than removing the Communist legacy in central-eastern Europe. The com-

¹ Hans V. Zon, "Political Culture and Neo-Patrimonialism under Leonid Kuchma," *Problems of Post-Communism*, vol. 52, no.5 (September/October 2005), pp. 12-22.

petitive authoritarian regime which emerged in Ukraine during Leonid Kuchma's second term in office included many attributes of Soviet political culture, such as a return to censorship (*temnyky*), 'telephone law' (use of verbal commands to supercede the rule of law) and a wide gulf between official rhetoric and reality.²

The higher echelons of the Communist Party of Ukraine transmuted into the party of power, an informal network of the 'old boy' Communist Party senior *nomenklatura* network, in the first half of the 1990s. The party of power was followed by the emergence of oligarchs and their centrist political parties in the 1998–1999 elections who attempted to unsuccessfully capture the state in 2001–2004.³ The post-Soviet era witnessed former Soviet political and economic networks transforming themselves into predatory oligarchs in the post-Soviet era.⁴

Former Soviet institutions coupled with post-Soviet elites have been resistant to reform⁵ and, when they have supported the rhetoric of reform, the transition process has been hijacked with the aim of creating an environment for their personal self enrichment. Ukraine's elites began to support reform in their rhetoric following the election of Kuchma in July 1994. The first tranches of IMF and World Bank funds flowed and Ukraine became the third largest recipient of U.S. assistance. In 1998–1999, post-Soviet elites re-entered Ukrainian politics as enriched oligarchs and during the 2002 parliamentary and 2004 presidential elections they sought to capture the state and install an autocratic regime to safeguard their rule. Their deeply entrenched nature is evidenced in the Party of Regions winning first place in the March 2006 parliamentary elections.

² Lucan A. Way, "The Sources and Dynamics of Competitive Authoritarianism in Ukraine," *Journal of Communist Studies and Transition Politics*, vol.20, no.1 (March 2004), pp.143-161 and Taras Kuzio, "Regime Type and Politics in Ukraine under Kuchma," *Communist and Post-Communist Studies*, vol. 38, no. 2 (June 2005), pp.167-190.

³ See Taras Kuzio, "Oligarchs, Tapes and Oranges: Kuchmagate to the Orange Revolution," *Journal of Communist Studies and Transition Politics*, vol.23, no.1 (March 2007), pp.5-31.

⁴ Lucan A. Way, "Rapacious individualism and competitive authoritarianism in Ukraine, 1992-2004," *Communist and Post-Communist Studies*, vol. 38, no. 2 (June 2005), pp. 191-206; and Rosaria Puglisi, "The Rise of the Ukrainian Oligarchs," *Democratization*, vol. 10, no. 3 (Autumn 2003), pp. 99-123.

⁵ Paul Kubicek, *Unbroken Ties. The State, Interest Associations and Corporations in Post-Soviet Ukraine* (Ann Arbor: University of Michigan, 2000).

Elite Pacting

Pacted transitions seek to assuage fears within the former ruling elites of their personal security and ensure they have a place in the new system. As Mansfield and Snyder point out, democratic breakthroughs are more likely when former elites see a future for themselves in the new system.⁶ What the former elites fear most is uncertainty, “ideologically, psychologically and politically.”⁷ During times of rapid social change, “people have an overriding need to feel that they belong to a community, hierarchy or belief system.”⁸ Former ruling elites foster a sense of continuity by integrating old values into the new ideology of the emerging system. Eastern and southern Ukraine voted in December 1991 for Leonid Kravchuk, the former ideological secretary of the Communist Party of Ukraine and parliamentary speaker in 1990–1991, as Ukraine’s first president. Kravchuk won in the first round, the only occasion when a presidential election has not had to go to a second round. For a large proportion of Ukrainian voters, Kravchuk represented a continuity and lack of radical break with the immediate past. Ukraine’s post-Soviet transition has been an archetypal pacted, negotiated agreement by softliners within the ruling elites who have marginalized hardliners.⁹ Ukraine’s transition was therefore a case of transplacement, rather than replacement (where opposition groups take control) or transformation (where ruling elites impose reform from above).

In 1990–1991, softliners in the Communist Party (‘sovereign [national] Communists’) and softliners in the opposition national

⁶ Edward Mansfield and Jack Snyder, “Democracy and War,” *Foreign Affairs*, vol. 74, no. 3 (May–June 1995), p. 96.

⁷ Adam Przeworski, “Some Problems in the Study of the Transition to Democracy,” in Guillermo O’Donnell, Philippe C. Schmitter and Laurence Whitehead eds., *Transitions from Authoritarian Rule. Prospects for Democracy* (Baltimore: John Hopkins University Press, 1986), p. 59.

⁸ Anthony D. Smith, “The Nation: Invented, Imagined, Reconstituted?” *Millennium. Journal of International Studies*, vol. 20, no. 3 (Winter 1991), p. 356.

⁹ On how softliners in the *ancien regime* and opposition have negotiated a transition through excluding hardliners, see David Potter, “Explaining Democratization,” in David Potter, David Goldblatt, Margaret Kiloh and Paul Lewis, eds., *Democratisation* (Milton Keynes, The Open University, 1997), pp.1–40. Munck describes them as standpatters and liberal reformers, rather than hardliners and softliners. His transaction conforms to transformation, extrication to transplacement and defeat to replacement. See Gerardo L. Munck, “Democratic Transitions in Comparative Perspective,” *Comparative Politics*, vol. 26, no. 3 (April 1994), pp. 355–375.

democratic camp negotiated a non-violent transition from the USSR to independent Ukraine, in the process marginalizing radical ‘imperial Communists’ and extreme nationalists.¹⁰ The creation of the CIS was described by then President Kravchuk as a “civilized divorce” to assuage fears of Ukraine and the USSR becoming a ‘nuclear Yugoslavia’. A similar pacted transition took place in 2004–2005 but with one crucial difference to 1990–1991. In the former case, the dominant political force was the ‘sovereign Communists’ (i.e. softliners in the Communist Party of Ukraine) while in the latter the dominant force was opposition reformers backed by the Orange Revolution. The one crucial similarity in both pacted transitions to independence, in 1990–1991, and to democracy in 2004–2005, was that hardliners within the regime (‘imperial ‘Communists’ and the Social Democratic United Party¹¹) and opposition (extreme nationalists and the Yulia Tymoshenko bloc) were sidelined.

Regime softliners need a powerful and credible group of moderates in the opposition with whom to negotiate a pacted transition. For Kuchma and his softliner regime allies in 2004 the moderate partner would be Yushchenko and Our Ukraine, which had always been a loyal opposition since its creation in 2001.¹² In 2000–2001, national democrats (who formed Our Ukraine) refused to support the Ukraine without Kuchma movement or Kuchma’s impeachment over his alleged involvement in the murder of opposition journalist Heorhiy Gongadze. In February 2001, Prime Minister Yushchenko joined President Kuchma and parliamentary speaker Ivan Pliushch in denouncing Ukraine without Kuchma protestors in an open statement. In 2002–2003, Our Ukraine was reluctant to join Arise Ukraine! protests, vacillating between joining a coalition of moderate centrists who backed the Kuchma regime or the anti-Kuchma opposi-

¹⁰ Bohdan Nahaylo, *The Ukrainian Resurgence* (London: Hurst, 1998), p. 350.

¹¹ The Social Democratic United Party (SDPUo) led by Viktor Medvedchuk, head of the presidential administration in 2002–2004, belonged to the hardliners who called for the use of force against the Orange Revolution. The discrediting of Medvedchuk, architect of the regime’s growing authoritarianism in Kuchma’s second term, led to the failure of the SDPUo to enter the 2006 parliament (after two successful elections in 1998 and 2002). Yanukovych also felt that he was betrayed by Kuchma whose main concern was personal immunity, not the election of Yanukovych.

¹² On the phenomenon of ‘constructive (loyal) opposition’ in Ukraine see T.Kuzio, “Groundhog Day Politics,” *Kyiv Post*, October 12, 2006; “Yushchenko: Constructing an Opposition,” *Transitions On Line*, August 11, 2006 and “How to understand Yushchenko,” *Kyiv Post*, June 15, 2006.

tion. Ukraine without Kuchma and Arise Ukraine! protests were dominated and organized by the radical opposition Tymoshenko bloc and Socialists. In the Orange revolution, Yushchenko refused to permit the radical wing of the Orange camp led by Tymoshenko to attend round-table negotiations. The softliner Yushchenko negotiated with outgoing President Kuchma, softliners in the regime, such as parliamentary speaker Volodymyr Lytvyn, and his election opponent Yanukovych in a pacted compromise facilitated by the EU. The resultant compromise voted in by parliament on December 8, 2004 led to Yushchenko's election on December 26 in a pacted transition ensured through a revamped Central Election Commission and changes in the election law. The softliner Our Ukraine, together with regime softliner centrists, voted for the compromise package while the hardliner Tymoshenko bloc voted against. Included in the pacted compromise was constitutional reforms to be implemented in 2006 and immunity for prosecution for Kuchma.

Ukraine's centrist-national democrat alliance had endured throughout most of the 1990s but collapsed in 2000–2001 following the Kuchmagate crisis and the removal of the Yushchenko government. Thereafter centrists and national democrats became the main protagonists in the 2002 and 2004 elections. After eighteen months in office, the national democrats (led by President Yushchenko) opted to reforge an alliance after a round-table and signing of the Universal of National Unity. Our Ukraine, President Yushchenko's failed party of power which has been unable to transform itself into a real opposition party, continues to remain bitterly divided over whether it should be in opposition or in a coalition with the Party of Regions.¹³ Tymoshenko explained Our Ukraine's split personality: "Those people who are used to being in power stand before the doors of the opposition like before the office of a dentist; that is, without much enthusiasm. One can only be in opposition if one holds certain beliefs."¹⁴

Pacted transition between centrists and national democrats in Ukraine arose because of the inability of either side to achieve a convincing knockout blow on the other. National democrats remain largely confined to their strongholds of western-central Ukraine while

¹³ See T. Kuzio, "Groundhog Day Politics," *Kyiv Post*, October 12, 2006 and "Yushchenko: Constructing an Opposition," *Transitions On Line*, August 11, 2006.

¹⁴ Interview with Tymoshenko in *Ukrayinska Pravda*, 11 October 2006.

centrists are entrenched in eastern-southern Ukraine. Pacting therefore has the hallmarks of earlier elite pacts made in Latin America, Spain and Portugal to achieve a smooth transition to a new regime.

As discussed later, pacting inevitably produces muddled domestic and foreign policies and an inherently unstable regime, particularly during elections. Latin American states have not experienced rapid transitions, have maintained closed economies and polities and have been plagued by left-wing populist nationalism.¹⁵ Compromise and pacted negotiations in Ukraine have brought slower change with less conflict than that experienced by Russia and other CIS states. The downside, as Horowitz points out, is that “compromise has many virtues, but consistency of purpose and coherence of outcome are not usually among them.”¹⁶

Mobilization by civil society from below in support of reform occurred during Ukraine’s two transitions in 1989–1991 and in the Orange Revolution, leading on both occasions to elite pacts transiting to an independent state and democratic regime respectively. The Orange Revolution was neither exclusively a civil society event or, as Aslund argues, a “revolt by millionaires against billionaires.”¹⁷ The Orange Revolution was led by civil society and a united opposition but Yushchenko’s non-violent election victory was ultimately ensured by pacting between softliner opposition and regime elites in a roundtable facilitated by the EU. In the absence of mass mobilization in 2001–2003, Kuchma had refused to organize roundtables between the softliner opposition, called for by Yushchenko and Our Ukraine, and the authorities. Round-tables have only taken place in December 2004 and July–August 2006, the first following mass mobilization by Orange supporters and the second following months of mobilization by Blue voters and the replacement of the Orange by the Anti-Crisis coalition and government. On both occasions one side was forced to

¹⁵ Nicolas J. Lyn, “Geography and Transition: Reconceptualising Systematic Change in the Former Soviet Union,” *Slavic Review*, vol. 58, no. 4 (Winter 1999), pp. 824–840.

¹⁶ Donald L. Horowitz, “Democracy in Divided Societies,” *Journal of Democracy*, vol. 4, no. 1 (October 1993), p.36.

¹⁷ Quoted from Anders Aslund, “Ukraine Whole and Free: What I saw at the Orange Revolution,” *The Weekly Standard*, December 27, 2004. See T.Kuzio, “Everyday Ukrainians and the Orange Revolution,” in Anders Aslund and Michael McFaul eds., *Revolution in Orange* (Washington DC; Carnegie Endowment, 2006), pp.45–68 and ‘Civil Society, Youth and Societal Mobilization in Democratic Revolutions’, *Communist and Post-Communist Studies*, vol.389, no.3 (September 2006), pp.365–386.

the negotiating table, Kuchma in 2004 and Yushchenko in 2006. The hardline opposition, led by Tymoshenko, had called for Kuchma's impeachment and would have refused to join round-table negotiations, if they had been held during his rule. The hardliner Tymoshenko bloc voted against the December 8, 2004 compromise package, which Our Ukraine backed, and refused to sign the August 2006 Universal on National Unity, that President Yushchenko initiated with the support of Our Ukraine.

Civil society mobilization in both 1990–1991 and in 2004–2005 played an important role in pressuring elites and, as importantly, opening up divisions between softliners and hardliners in the Communist Party and Kuchma regime. Pressure from below, as Huntington has noted, was unusual in most of the democratic transitions of the third wave and the involvement of the opposition in the pacted negotiation “were essential to successful transformations.”¹⁸ While opposition movements from below were rarer in transitions in the third wave, McFaul has noted that transitions in the post-communist world's fourth wave proved to be different, with pressure from below a more common feature than that found in the third wave in Latin America and Southern Europe.¹⁹ In Ukraine, pressure from below was never sufficient for reformers to *completely* take power, either in 1990–1991 or in 2004, but by opening up divisions in the *ancien regime's* elites the opposition reformers were able to push through transplacement. Between both transplacements, Ukraine underwent thirteen years of state and nation building. The head of the Ukrainian Popular Movement (Rukh), Vyacheslav Chornovil, failed to be elected in 1991, losing to Kravchuk in the first round. In 2004 Yushchenko succeeded in being elected in a repeat of the second round following mass protests and a Supreme Court ruling overturning the Central Election Commission decision, declaring Yanukovych duly elected.

The core of a pacted transition includes “a negotiated compromise under which actors agree to forego or underutilize their capacity to harm each other by extending guarantees not to threaten each others

¹⁸ Samuel Huntington, *The Third Wave. Democratization in the Late Twentieth Century* (Norman and London: University of Oklahoma Press, 1993), pp. 140–146. Mass protests played central roles in only 6 transitions underway in the third wave in the 1980s.

¹⁹ Michael McFaul, “The Fourth Wave of Democratization and Dictatorship. Noncooperative Transitions in the Postcommunist world,” *World Politics*, vol. 54, no. 2 (January 2002), pp. 212–244.

corporate autonomies or vital interests.”²⁰ The former regime obtained unwritten immunity for Kuchma and other senior elites and constitutional reforms that reduced the president’s powers from 2006. Former Prosecutor Sviatoslav Piskun returned to office on December 9, 2004 to ‘guarantee’ a smooth transition to the Orange administration, a day after parliament voted through a compromise package of constitutional reforms and changes to the election law. Although permitted to remove the Prosecutor under the 1996 constitution, President Yushchenko only replaced him in October 2005, a month after he had signed a memorandum with Yanukovych which included an agreement to give immunity for election fraud and to halt alleged ‘persecution’ of the opposition. Immunity for Kuchma and his elites was undoubtedly partly instrumental in ensuring the Orange Revolution and Yushchenko’s election was non-violent. But, the pacted compromise of non-violent transplacement from Kuchma to Yushchenko in return for immunity sowed the seeds of Yushchenko’s own destruction. Yushchenko never sold the pacted transplacement and immunity deal to Orange voters immediately after he was elected when his popularity would have permitted him to do so. The non-fulfillment of the election slogan ‘bandits to prison’ led to widespread disillusionment among Orange voters, and Our Ukraine coming in at a distant third to the Tymoshenko bloc’s second place in the 2006 elections.²¹ Two years into Yushchenko’s presidency his support rests at eleven percent.

In Serbia and Ukraine, the Democratic Opposition of Serbia (DOS) and Orange coalitions made informal, unwritten agreements during their democratic revolutions with the *ancien regime*, particularly with those implicated in crimes, such as the president and law enforcement agencies. Former elites are never punished during transformations (when existing elites impose reform from above) while during replacements, pro-reform elites can be punished or marginalized from the political process. Ukraine’s transplacement is typical of earlier transplacements where the decision of how to deal with former elites is confusing, unclear and dependent on the outcome of pacted negotiations.²²

²⁰ Whitehead, p.38.

²¹ Compare and contrast the surveys conducted by the International Foundation for Electoral Systems in February and November 2005 at: <http://www.ifes.org/publications-detail.html?id=175> and <http://www.ifes.org/publications-detail.html?id=270>.

²² Huntington, p. 161.

In Serbia, the DOS was divided over whether to heed international pressure to hand over Slobodan Milosevic to the International War Crimes tribunal. In Serbia, the democratic wing of the DOS (led by Prime Minister Zoran Djindjic) did eventually transfer Milosevic to the Hague, against the wishes of the national-democratic wing of DOS (led by President Vojislav Kostunica), but further high level war crimes offenders have not been transferred. In Ukraine, the Orange Revolution demand of ‘bandits to prison’ was never acted upon by President Yushchenko, with no members of the senior Kuchma elite charged with high level corruption, abuse of office, election fraud, or the murder of journalist Gongadze. Kuchma and his senior allies were given immunity during the round-table negotiations in the Orange Revolution. Pacting in Ukraine in 1990–1991 and in 2004–2005 led to non-violent transfers of power from the Soviet Union to independent Ukraine and from Kuchma to Yushchenko.²³ Nevertheless, both transplacements also produced an informal elite consensus on Ukraine’s elites being above the law; it is ironically only the U.S. that has criminally charged a senior Ukrainian official, former Prime Minister Pavlo Lazarenko.²⁴

Ukraine’s Quadruple Transition

Scholars have noted the importance of state and institution building to transition in post-communist states by describing it as a triple transition.²⁵ In doing so, they have ignored the national question, which is discussed below. Ukraine inherited a quasi-state with some institutions from the USSR, but these were insufficient for an independent state. Ukraine received a Supreme Soviet, which needed to be transformed into a parliament, and through its seat at the UN some diplomats, but not a ministry of foreign affairs sufficient for an independent state. Other institutions, such as embassies, airlines, tax administration, and ministry of defense, needed to be built from the bottom up. An independent state also needs skilled officials, a “competent central bureau-

²³ Serhiy Kudelia, “Revolutionary Bargain: The Unmaking of Ukraine’s Autocracy Through Pacting,” *Journal of Communist Studies and Transition Politics*, vol. 23, no. 1 (March 2007), pp. 159–175.

²⁴ T.Kuzio, “Only the U.S. tries and convicts,” *Kyiv Post*, September 7, 2006.

²⁵ Juan J. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation. Southern Europe, South America and Post Communist Europe* (Baltimore: John Hopkins University, 1996).

cracy.”²⁶ Some officials are inherited from the Soviet regime, but maybe unsuitable and an obstacle to the transition to a market democracy. Other officials need to be trained to fill new positions opened up by institution building and the drive to create a market economy. Ukraine’s state and institution building built on former Soviet quasi-institutions using former colonial elites. Democratic transitions need a strong state that is effective and supportive of reform.

The national question is part of Ukraine’s path dependence and a major factor leading to a longer, more complicated and deeper transition.²⁷ Nation-building (in addition to state and institution building) became part of Ukraine’s democratic and economic transition. These four aspects of the transition process have been earlier termed by Kuzio as a ‘quadruple transition’, to differentiate this broader and deeper transition type from that which had been termed a dual or triple transition in central-eastern Europe, southern Europe and Latin America.²⁸ The different aspects of the quadruple transition did not always work towards a common transition goal of establishing a democratic market economy. During Kuchma’s first term, for example, domestic and external threats dominated much of the Ukrainian state’s policy making process. The Communist Party of Ukraine was the largest faction in the 1994–1998 and 1998–2002 parliaments, and the left were only unseated from their control of parliament in the 2000 ‘velvet revolution’. The Communist Party of Ukraine grouped the Stalinist hard core of the late Soviet Communist Party which had been banned in August 1991. They were not only anti-reform but against the very existence of an independent state. Few newly independent post-communist states were faced with their largest political party seeking to abolish the state. During the 1990s, national democrats and the post-Soviet party of power (future centrists) aligned in the face of the internal and external threats, outlined above, to the Ukrainian state. This internal threat was coupled with an external Russian unwillingness until 1997–1999 to recognize the Ukrainian

²⁶ Leslie Elliott Armijo, Thomas J. Biersteker and Abraham F. Lowenthal, “The Problems of Simultaneous Transitions,” *Journal of Democracy*, vol. 5, no. 4 (October 1994), p. 172.

²⁷ Stephen Shulman, “Ukrainian Nation-Building under Kuchma,” *Problems of Post-Communism*, vol. 52, no. 5 (September-October 2005), pp. 32-47.

²⁸ T. Kuzio, “Transition in Post-Communist States: Triple or Quadruple?” *Politics*, vol. 21, no. 3 (September 2001), pp. 169-178; and “The National Factor in Ukraine’s Quadruple Transition,” *Contemporary Politics*, vol. 6, no. 2 (June 2000), pp. 143-164.

state and its borders. Again, the stumbling block was national identity; that is, Russia's inability to accept Ukrainians as a separate people.

The national factor was not entirely negative. As D'Anieri has convincingly shown, regionalism can have both positive and negative consequences. Negative aspects of regionalism have been extensively discussed in scholarly studies of Ukraine that point to weak national integration and the threat of regionalism evolving into separatism. Regionalism has forced Ukraine's elites to compromise over Ukraine's domestic and foreign policies.²⁹ Neither eastern or western Ukraine is powerful enough to capture the Ukrainian state, as seen in 1991–1992, during Ukraine's negotiated transition to independence, and again in 2004–2006, during the two round-tables in the Orange Revolution and the signing of the Universal on National Unity. Ukraine's regional divide is not premised on ethnic or religious intolerance and hatreds.

The national question plays an important factor in facilitating greater civil society activity in the political and economic realms. Abdelal, Roper and Fesnic have noted the importance of history in shaping modern day political cultures, such as in the Austrian-Hungarian influences on western Ukraine.³⁰ Shulman has pointed to western Ukraine and national democratic parties as being the strongest supporters of reform.³¹ The Orange Revolution would have been impossible without western Ukrainians adding their numbers to the Kyivites who were the first to join the protests against election fraud following round two of the 2004 elections. Ukrainian sociological and research centers, such as Democratic Initiatives and the Razumkov Center for Economic and Political Research, have conducted surveys of the close correlation between the one in five Ukrainians who participated in

²⁹ Paul D'Anieri, "Ethnic Tensions and State Strategies: Understanding the Survival of the Ukrainian State," *Journal of Communist Studies and Transition Politics*, vol. 23, no. 1 (March 2007), pp. 33-58. See also Lowell Barrington, "Examining rival theories of demographic influence on political support: the power of regional, ethnic and linguistic divisions in Ukraine," *European Journal of Political Research*, vol. 41, no. 4 (June 2002), pp. 455-491; and L. Barrington, Lowell and Eric Herron, "One Ukraine or Many?: Regionalism in Ukraine and Its Political Consequences," *Nationalities Papers*, vol. 32, no. 1 (March 2004), pp. 53-86.

³⁰ See Raw Abdelal, "Memories of Nations and States: Institutional History and National Identity in Post-Soviet Eurasia," *Nationalities Papers*, vol. 30, no. 3 (September 2002), pp. 459-484; Steven D. Roper and Florin Fesnic, "Historical Legacies and Their Impact on Post-Communist Voting Behaviour," *Europe-Asia Studies*, vol. 55, no. 1 (January 2003), pp. 119-131.

³¹ S. Shulman, "National Identity and Public Support for Political and Economic Reform in Ukraine," *Slavic Review*, vol. 64, no. 1 (Spring 2005), pp. 59-87.

Orange Revolution protests in Kyiv or locally and their geographic origin in central and western Ukraine.³² The close relationship between national identity and civil society, earlier argued by Ryabchuk and Kuzio, was empirically borne out by the Orange Revolution.³³

Ukraine in Comparative Perspective

The CIS and Central-Eastern Europe

The transition paths of 27 post-communist states since 1989–1991 have reflected the differing types of path dependence and pacted transitions. “Historical factors therefore, produced different outcomes, which in turn produced contrasting postsocialist pathways,” Bunce concludes.³⁴ Economic and political reforms are more likely to take place when non-Communist forces come to power and, “far less likely when the ex-communists succeed in maintaining political power.”³⁵ Bunce places Ukraine in a second group of ‘less stable’ post-Communist states where regimes are not consolidated, boundary disputes exist, ideological consensus is lacking and states remain weak. Ukraine is placed by Bunce alongside Russia, Bulgaria, Romania, Slovakia and Croatia where early elections did not lead to a clear victory for the non-Communist opposition.

Bunce’s second group of post-Communist countries muddled along with no clear victory for either reformers or autocrats. “Not surprisingly, the result was poor economic performance. ‘The “middle ground’ so extolled in established democracies proved to be the worst ground to occupy in post-socialism,” Bunce argues.³⁶ The middle

³² *Politychnyi Portret*, no. 32, 2005, available at www.dif.org.ua. See also Dominique Arel, “The ‘Orange Revolution’: Analysis and Implications of the 2004 Presidential Election in Ukraine.” Third Annual Stasiuk–Cambridge Lecture on Contemporary Ukraine, Cambridge, February 25, 2005. Available at http://www.uottawa.ca/academic/grad-etudesup/ukr/pdf/Arel_Cambridge.pdf.

³³ Mykola Ryabchuk, “Civil Society and National Identity in Ukraine,” in T. Kuzio ed., *Contemporary Ukraine: Dynamics of Post-Soviet Transformation* (Armonk, N.Y.: M.E. Sharpe, 1998), pp. 81–98; and T. Kuzio, “National Identity and Democratic Transition in Post-Soviet Ukraine and Belarus: A Theoretical and Comparative Perspective,” *East European Perspectives*, vol. 4, nos. 15 and 16 (July 24 and August 7, 2002).

³⁴ Valerie Bunce, “The Political Economy of Postsocialism,” *Slavic Review*, vol. 58, no. 4 (Winter 1999).

³⁵ Bunce, p. 769.

group of countries experienced muddled policies, with nationalist, Communist or centrist, oligarchic parties winning large numbers of votes and the reformist opposition remaining weak. Romania was dominated by the post-Communist left from the 1990 revolution until 2004, except for a four year interlude where reformers took power. In Ukraine, the reformist opposition won the 2004 presidential and 2006 parliamentary elections, following fourteen years during which former Communists (first as an un-constituted party of power and then as centrists) and Communists had won presidential and parliamentary elections, therefore dominating and hijacking Ukraine's transition.

A middle, or muddle, ground was ideal territory for the emergence of what Levitsky and Way describe as a competitive authoritarian state.³⁷ Bunce, Levitsky and Way describe muddled, competitive authoritarian states as inherently unstable, particularly during elections. Regimes in transplacements are characterized by uncertainty, ambiguity and divisions within the ruling elites over their support for democratization. "These regimes were not overwhelmingly committed either to holding on to power ruthlessly or to moving decisively towards democracy," Huntington writes.³⁸ Ukraine is described by Way as a case of failed authoritarianism.³⁹

Instability led to either autocratic or democratic paths for the muddle group. Slovakia was the first in Bunce's muddle group to move towards democracy in 1998 with Croatia closely following two years later, and Serbia, Ukraine and Georgia in 2000–2004. Bulgaria and Romania have remained the transition laggards in central-eastern Europe and entered the EU in 2007, three years after other central-eastern European states. The transition paths of Ukraine and Russia diverged in 2000–2004. Russia is firmly on the path towards an autocracy and, as *The Economist* warned, "It is not there yet, but Russia

³⁶ Bunce, p. 784.

³⁷ Steven Levitsky and Lucan A. Way, "The Rise of Competitive Authoritarianism," *Journal of Democracy*, vol. 13, no. 2 (April 2002), pp. 51-65.

³⁸ Huntington, pp. 156-157.

³⁹ L. A. Way, "Kuchma's Failed Authoritarianism," *Journal of Democracy*, vol. 16, no. 2 (April 2005), pp. 131-145 and T. Kuzio, "Ukraine is not Russia: Ukrainian and Russian Youth Compared," *SAIS Review*, vol. XXVI, no.2 (Summer-Fall 2006), pp. 67-83. Alexander J. Motyl earlier pointed to the mistakes of shock therapy in Russia, compared to what he argued was the more preferable muddled, slower transition in Ukraine. See his "Structural Constraints and Starting Points: The Logic of Systematic Change in Ukraine and Russia," *Comparative Politics*, vol. 29, no. 4 (July 1997), pp. 433-447.

sometimes seems to be heading towards fascism.”⁴⁰ Ukraine, on the other hand, even after the return of Yanukovich to government in 2006, is still likely to muddle along towards a democratic market economy. Ukraine has inherited a different legacy than Russia and Ukraine will not follow Russia in moving towards an autocratic future.

The 27 post-Communist states diverged into the Commonwealth of Independent States (CIS) and central-eastern Europe and the Baltic states.⁴¹ Within these two clusters of countries there are rapid transition countries and laggards. The former includes Poland, the Czech Republic and Hungary within central-eastern Europe and the Baltic states and Ukraine, Moldova and Georgia within the CIS. The laggards include Slovakia, Romania, Bulgaria and the western Balkans within central-eastern Europe and Russia, Belarus and Central Asia in the CIS.

The pattern of each of the two clusters of post-communist countries dividing into fast and slow reformers continued throughout the 1990s. From the late 1990s three developments took place. First, the gap between central-eastern Europe and the Baltic states and the CIS grew wider. The former made progress, albeit either rapidly or slowly, in its transition while the latter regressed from its democratic path. In 1998–2000, Slovakia, Croatia and then Serbia experienced the first of the post-Communist democratic breakthroughs and revolutions. During the same time period, and since, CIS countries such as Russia and Belarus have evolved towards autocratic regimes.

Second, within the CIS the trend towards greater autocracy has not been uniform. Following three democratic revolutions in central-eastern Europe and the former Yugoslavia, two democratic revolutions took place in Georgia and Ukraine in 2003–2004. A third attempt in Kyrgyzstan proved to be disorganized and violent, thereby failing to follow the non-violent nature of democratic breakthroughs and revolutions in Slovakia, Croatia, Serbia, Ukraine and Georgia. An Uzbek attempt to emulate its Kyrgyz neighbor ended in mass bloodshed when the regime used force to suppress protestors.

⁴⁰ A. Aslund, “Putin Gets Away With Murder,” *The Weekly Standard*, October 23, 2006, and “The harshest word- Russia,” *The Economist*, October 14, 2006.

⁴¹ See Lucan A. Way, “Authoritarian State-Building and the Sources of Political Liberalization in the Western Former Soviet Union, 1992–2004,” *World Politics*, vol. 57, no. 2 (January 2005), pp. 231–261.

Third, Russia and Ukraine began to take different transition paths in 2000–2004 during Vladimir Putin’s first and Kuchma’s second terms in office. The consolidation of autocracy is taking place during Putin’s second term from 2004, during the same period when Ukraine is attempting to consolidate the gains of the Orange Revolution under Yushchenko’s presidency. Until 2004, the New York-based think tank Freedom House had graded Russia and Ukraine both as ‘Partly Free’. In 2005–2006, Russia was downgraded to ‘Unfree’ and Ukraine upgraded to ‘Free’. Georgia and Moldova remain defined as ‘Partly Free’ with polities that continue to maintain many elements of democratic progress. The return of the Communist Party to power in Moldova in 2000 has not led to democratic regression and in 2003–2004 the regime re-oriented from Russia and the CIS to Europe in the face of Russia’s continued support for the separatist Transdnestr enclave. Both Georgia and Moldova, while candidates to graduate from ‘Partly Free’ to ‘Free’, have one major drawback that escapes Ukraine; namely, frozen conflicts beyond the control of the central authorities.

Ukraine is the only CIS state to be designated as ‘Free’ but this status was granted before the 2006 parliamentary crisis that brought the return of defeated presidential candidate and Party of Regions leader Yanukovich back to government. The possibility of Ukraine entering a fast track reform path following the Orange Revolution was exaggerated, and subsequent events have proven that this optimism was ill founded. Ukraine’s path dependence has inevitably influenced the mixed results of the first two years of the Orange administration. Ukraine’s revolution, like Serbia’s, did not lead to a knockout defeat for the *ancien regime*. Both Kostunica and Yushchenko received only 52 percent in the first and second rounds respectively. As Skocpol has pointed out, “revolutionary crises are not total breakpoints in history that suddenly make everything at all possible if only it is envisaged by willful revolutionaries.”⁴²

Following the 2006 parliamentary crisis, Ukraine is unlikely to stagnate to an autocratic regime. Ukraine’s divergence from Russia and the remainder of the CIS, where is autocratic regression, had already begun well before the Orange Revolution. The most likely scenario is one of Ukraine’s continued muddled, contentious and

⁴² Theda Skocpol, *States and Social Revolutions* (Cambridge: Cambridge University Press, 1979), p. 171.

pacted transition, following a path similarly taken by the transition laggards of central-eastern Europe, such as Romania. Throughout the post-Ceausescu era until December 2004, democratic forces only controlled the presidency for four years. Indeed, it was during the Orange Revolution that a democratic coalition, using Orange symbols, defeated Romania's post-communist rulers. Ukraine is disadvantaged in comparison with Romania in that it is not being offered the 'carrot' of EU membership which has proven to be an important inducement for post-communist elites to pursue reform. Ukraine is a 'Romania' without an EU 'carrot'.

Democratic Revolutions in Comparative Perspective

The Orange Revolution is closer to the Serbian 2000 democratic revolution than to the 2003 Georgian democratic revolution. In Georgia, Mikhail Saakashvili won the 2004 elections convincingly with 96 percent, demolishing the regimes of Eduard Shevardnadze and Aslan Abashidze, with the closest second place candidate obtaining only 1.9 percent.

In Ukraine and Serbia the *ancien regime* was not defeated during the elections and democratic revolution, whereas in Georgia it was vanquished. In Ukraine and Serbia, the *ancien regime* has remained a powerful actor in domestic politics and during elections, as evidenced by the Party of Regions first place in the 2006 Ukrainian elections and the continued support given to the extreme left and right in Serbia. In Ukraine, defeated candidate Yanukovich returned to government in August 2006 at the head of an Anti-Crisis parliamentary coalition comprised of his own Party of Regions, the former pro-Orange Socialists and the hard-line Communists. The coalition renamed itself National Unity in March 2007.

In Ukraine and Serbia, democratic opposition coalitions that came to power during their democratic revolutions (Orange coalition and the DOS) were fractured by bitter in-fighting, negatively influencing policy making and the introduction of reforms. The creation of the Anti-Crisis coalition followed strategic blunders committed by President Yushchenko and the inability of Orange forces (Tymoshenko bloc, Our Ukraine and Socialists) to re-create an Orange coalition and government following the March 2006 elections.⁴³ Democratic forces

in Serbia have been as divided as their counterparts in Ukraine. In Georgia, the Rose Revolution coalition has remained united and the National Movement-Democrats/United National Movement won the March 2004 elections and October 2006 local elections. In Georgia the democratic opposition that came to power (the United National Movement [Saakashvili] and the United Democrats [Nino Burjanedze]) amalgamated on February 5, 2004 into the United National Movement (UNM). The UNM's parliamentary faction is called National Movement-Democrats.

Ukraine did differ in one important regard from Serbia in that the 2004 and 2006 elections and Orange Revolution revealed stark regional voting behavior. Western and central Ukraine voted for Yushchenko in 2004 and Orange political forces in 2006. Meanwhile, eastern and southern Ukraine voted for Yanukovych in 2004 and the Party of Regions in 2006. As seen during the 1994 and 2004 presidential, and 2006 parliamentary elections, Ukraine's path dependency of linguistic and regional legacies has the greatest influence over voting behavior in Ukraine.⁴⁴

Post-Orange Revolution Ukraine

Clockwork Orange

The Orange coalition (comprising the centrist Party of Industrialists and Entrepreneurs, the center-right Our Ukraine, the center-left Tymoshenko bloc, and the Socialist Party) was very broad, a factor that facilitated the Orange Revolution and Yushchenko's election. In the post-election era, when the Orange coalition came to power led by

⁴³ See T. Kuzio, 'The Orange Revolution at a Crossroads', *Demokratyzatsiya*, vol. 14, no. 4. (Fall 2007), pp. 477-492.

⁴⁴ Scholars debate the extent to which language (Arel) or region (Barrington) have the greatest degree of influence over voting behavior in Ukraine. See Lowell Barrington, "Russian-speakers in Ukraine and Kazakhstan: 'Nationality,' 'Population,' or Neither?" *Post-Soviet Affairs*, vol. 17, no. 2 (April-June 2001), pp. 129-158, L.W. Barrington and Erik S. Herron, "One Ukraine or Many? Region and Its Political Consequences," *Nationalities Papers*, vol. 32, no. 1 (March 2004), pp. 53-86; and Valeri Khmelko and Dominique Arel, "Regional Divisions in the 2004 Presidential Elections in Ukraine: The Role of Language and Ethnicity," paper given to the First Annual Danyliw Research Seminar on Contemporary Ukrainian Studies, Chair of Ukrainian Studies, University of Ottawa, September 29-October 1, 2005.

President Yushchenko and the Tymoshenko government, its broad base proved to be its undermining. All revolutionary coalitions and popular fronts eventually disintegrate but the Orange coalition disintegrated only nine months into the Yushchenko presidency, failed to again re-unite after the 2006 elections, and the gulf between them has grown over time. The Tymoshenko bloc and Our Ukraine created a joint opposition in February 2007, 18 months after they had split.

The Orange coalition disintegrated in September 2005 after accusations of corruption were made against pro-Yushchenko businessmen by the head of the presidential secretariat, Oleksandr Zinchenko. President Yushchenko dismissed both his businessmen advisers (so called 'Liubi Druzi' [Dear Friends]) and the Tymoshenko government. Dismissing both warring parties may have seemed to Yushchenko to be a fair decision to make, showing he did not favor either side, but, it was a strategic miscalculation to divide the Orange camp only seven months before parliamentary elections that would install a five year parliament. The disintegration of the Orange coalition was followed by further strategic mistakes undertaken by the Yushchenko administration. These included the September 2005 memorandum with Yanukovych, leader of the Party of Regions, the failure to implement key Orange Revolution election promises and the non-transparent January 2006 gas deal with Russia. The Party of Regions, which averaged 15-20 percent support throughout the first nine months of 2005, grew in support following the September 2005 crisis, coming first in the 2006 elections with 32 percent. The Tymoshenko bloc also gained from the crisis by overtaking Our Ukraine to reach second place and by tripling its support on the 2002 elections to 22 percent in the 2006 elections. The president's Our Ukraine bloc obtained ten percent fewer votes than when it first fought elections in 2002.

The first fifteen months of the Orange Revolution until the 2006 parliamentary elections can be largely categorized as a time of wasted opportunities. Ukraine did not enter a path of faster reform, as was expected following the Orange Revolution and election of Ukraine's first reformist president. Pacting between elites, as in 1991-1992, held back faster reforms, as did major strategic policy mistakes committed by the president and Orange political forces. The *ancien regime* was in disarray until spring 2005, four months during which the Yushchenko administration could have instituted radical reforms in all sectors of

Ukrainian life, as Orange Revolution voters had largely expected to take place. During 2005 the executive still held considerable powers under the 1996 constitution.

The *ancien regime's* fear of a Yushchenko victory (as seen in their attempt to poison him in September 2004) failed to be borne out. No senior level Kuchma era officials have been charged and only one re-privatization was undertaken against oligarchs. Yushchenko failed to use his wide executive powers in 2005. Yushchenko's powers were reduced following 2006 constitutional reforms transforming Ukraine from a semi-presidential into a parliamentary-presidential republic.

Yushchenko's weak leadership style, his lack of political resolve and poor, or non-existent, executive strategy have cost him and Our Ukraine, which he heads as its honorary chairman, popularity. Both Yushchenko and Our Ukraine have popularity ratings less than eleven percent. The strategic mistakes and lack of leadership seen in the first two years of the Yushchenko administration included three months of coalition negotiations within the Orange camp that failed to produce a sustainable coalition and government. Personal conflicts plagued the Orange camp following the 2006 elections. Our Ukraine refused to abide by their pre-election agreement whereby the winning Orange political force (Our Ukraine or the Tymoshenko bloc) had the right to nominate the prime minister. The Orange coalition floundered on Our Ukraine and President Yushchenko being unwilling to accept Tymoshenko's return to government. Between April–June 2006, Prime Minister and Our Ukraine leader Yuriy Yekhanurov negotiated with the Party of Regions for a grand coalition while Roman Besmertnyi negotiated on behalf of Our Ukraine with two Orange allies for an Orange coalition. The defection of the Socialists put paid to any possibility of an Orange coalition and they, together with the Party of Regions and Communists, created the Anti-Crisis coalition with a government led by Prime Minister Yanukovych. Having refused to accept Tymoshenko's return to government, Our Ukraine and President Yushchenko were faced with Yanukovych instead. Our Ukraine's participation in the Anti-Crisis coalition, based on the Universal of National Unity, floundered on the continued presence of the Communists in the coalition and the unpalatable fact of being 'younger brother' in a Yanukovych government.⁴⁵

⁴⁵ On Our Ukraine see T. Kuzio, "Groundhog Day Politics," *Kyiv Post*, October 12, 2006.

Huntington defines a transplacement as existing when neither side can dominate the other, yet when both, at different stages, believe that they could rule alone. The opposition is insufficiently powerful to overthrow the authorities while the regime is insufficiently strong to undertake full scale repression against the opposition. Following the Kuchmagate crisis and removal of the Yushchenko government in November 2000–April 2001, centrists believed they could rule Ukraine alone. Following the 2002 elections, the executive attempted to create a parliamentary majority from disparate centrists but the project largely failed and the majority remained slim, unstable and situational. It failed its first test in April 2004 when some centrists refused to vote for constitutional reforms, which failed to be adopted by a constitutional majority in a second parliamentary session. During the Orange Revolution a negotiated transition ensured there would be no bloodshed, a key element of transplacements. Following Yushchenko's election in January 2005 until the summer 2006 parliamentary crisis, national democrats attempted to rule Ukraine alone through the Orange government and executive but they failed to forge a parliamentary coalition within the Kuchma era parliament. The signing of the Universal of National Unity was premised on the realization of both national democrats and centrists that they could not rule Ukraine without the other. This was the logic behind both the grand coalition that had been unsuccessfully negotiated in April–June 2006 and the coalition on national unity created in August 2006. With Our Ukraine going into opposition in October 2006 the coalition returned to its original Anti-Crisis name.

Muddled Transition

Ukraine held its first free and fair elections in March 2006, an achievement for President Yushchenko's hands-off commitment to permit democratic elections to flourish. Nevertheless, the election outcome was not necessarily conducive to Ukraine's further democratic progress, as evidenced by the failure to create an Orange, pro-reform parliamentary coalition and government. The Yushchenko administration and Our Ukraine took credit for holding free elections while being unwilling to accept the election results that they had lost. The failure to resolutely deal with the *ancien regime* has meant that the Party of Regions has rebounded from post-Orange Revolution stagna-

tion, possessing the largest parliamentary faction, double in size to that of Our Ukraine, and dominating the Anti-Crisis (National Unity) coalition and government.

Nineteen months of Orange administration and the return of Yanukovych to head the government signal that the chances for rapid reforms are unlikely and that muddled progress and moderate democratic progress is likely to continue throughout the decade. A full blown return to Kuchma's authoritarian second term in office is unlikely, as evidence in Ukraine's transformation to a parliamentary system, a free media and vibrant civil society. But, a return to the stalled transition of the Kravchuk era (1991–1994) or Kuchma's first term is entirely feasible. Muddled progress until the October 2009 presidential and March 2011 parliamentary elections will be a product of weak presidential will, lack of a pro-reform parliamentary coalition and government, low institutional capacity, lack of effective strategic planning, a fractured parliament and weakly institutionalized political parties.

Developments since the Orange Revolution point to the conclusion that Ukraine does not possess real political parties with clear ideologies. During the Kuchma era, it was traditionally understood that left and right-wing parties in Ukraine were ideologically driven while those in the center were ideologically amorphous. The line of conflict from Yushchenko's dismissal as prime minister in April 2001 until his election in January 2005 was therefore analyzed as a battle between ideologically driven opposition and materially driven ('pragmatic') pro-regime forces. Following two years of Yushchenko's presidency this framework for understanding Ukrainian politics is badly in need of an upgrade. The Party of Regions, which like other centrist political forces feared proportional elections, came in first in the 2006 elections. Our Ukraine, which wholeheartedly backed proportional elections, obtained ten percent less support in the 2006 elections compared to those held four years earlier.

A major crisis in Ukrainian politics is on the left. Ukraine's Communists were always willing to work with the authorities, including with Kuchma and the oligarchs in the Anti-Crisis coalition. By the 2011 elections, the popularity of the Communists will continue their decline below 3.5 percent in 2006, itself a major decline from 20 percent in the 2002 elections. The 2011 parliament will be Ukraine's first without a Communist presence. By defecting from its Orange allies to

the Anti-Crisis coalition, the Socialists have damaged a positive reputation earned during the Kuchmagate crisis. What was most surprising about their defection was that only two of their 31 factions rebelled against the decision to align with the Party of Regions. The Socialists will be severely challenged in their central Ukrainian base of support in the next elections by the Tymoshenko bloc. The Socialists are also unlikely to enter the 2011 elections.

The Tymoshenko bloc's inherent weakness lies in its dominance by a personality cult, as in essence it is difficult to imagine a Tymoshenko bloc without Tymoshenko. The Tymoshenko bloc excelled as an opposition force in anti-regime protests in 2000–2003 and in 2004. Tymoshenko was the revolutionary, not Yushchenko, during the Orange Revolution. Three challenges face the Tymoshenko bloc. First, its ability to forge a positive alternative program to that of the Anti-Crisis coalition, since Ukrainians know what the Tymoshenko bloc is opposed to rather than what it stands for, such as disbanding parliament and abolishing constitutional reforms. Such a program will have to move beyond the 2004 rhetoric of 'bandits to prison' which will be archaic in 2009–2011. Its second challenge is its ability to fashion itself into an opposition that does not oppose every government proposal on principle. Ukraine's opposition needs to show both strategic vision and balanced judgment. Its third challenge is its ability to develop Tymoshenko as a presidential candidate while being head of the opposition, which requires reaching out to Ukraine's elites, some of whom fear her radicalism and alleged populism. In 2004, fears of the election of Yanukovych and the Donetsk clan led to Ukraine's elites dividing into softliners and hardliners with the former backing Yushchenko.

The Party of Regions never possessed an ideology and first entered politics in the For a United Ukraine bloc, a five party pro-Kuchma alliance created for the 2002 elections. Of the five parties, the Party of Regions is one of two that has survived to the present day and it won the largest number of votes in the 2006 elections. The other survivor is the Party of Industrialists and Entrepreneurs (PPPU) which has backed Yushchenko since the second round of the 2004 elections and in the 2006 elections was a member of the Our Ukraine bloc. Its presence in Our Ukraine strengthened the support of its business wing, which preferred a coalition with the Party of Regions over one with

the Tymoshenko bloc. PPPU deputies in Our Ukraine defected to the Anti-Crisis coalition in March 2007 after Anatoliy Kinakh was appointed Minister of Economics.

Since the Orange Revolution, and especially after returning to power in the Anti-Crisis coalition, the Party of Regions has had the opportunity to transform itself into a post-oligarch and post-Kuchma party that adheres to democratic norms. Ukraine's wealthiest oligarch, Renat Akhmetov, publicly acknowledges the need to increase Systems Capital Management legitimacy and thereby to improve the public and international standing of himself and the Party he funds. The Party of Regions supports economic reform policies but its stance on further democratization, institutionalizing the rule of law, battling corruption and Euro-Atlantic integration is unclear, contradictory and opportunistic.⁴⁶ The Party of Regions is more likely to transform into a post-oligarch, democratic party if it was in opposition or it was a younger partner in a coalition (the grand coalition was premised on Our Ukraine continuing to control the prime minister's position). As the lead party in the Anti-Crisis coalition and government, the Party of Regions has few incentives to change. Events since the Orange Revolution show that the Party of Regions has little interest in transforming along democratic lines and there remains a wide gulf between its *Potemkin* clean image abroad and its policies pursued in Ukraine.

Our Ukraine is the biggest disappointment among political parties following the Orange Revolution as it obtained ten percent fewer votes under Yushchenko than it did under Kuchma in the 2002 elections, a consequence of strategic mistakes and a poorly conducted election campaign. Our Ukraine in 2002 was a broad alliance of national democratic parties united by Yushchenko that made it possible for them to receive 24 percent support; Rukh alone only obtained 10 percent in 1998. By the 2006 elections many of these political parties had deserted Our Ukraine to create separate blocs, leading to the rump Our Ukraine becoming dominated by business groups, rather than by national democrats as in 2002. These business groups, such as the PPPU and Solidarity, had more in common with the Party of Regions than with the Tymoshenko bloc. Our Ukraine remains a divided and ineffectual political force thereby leaving a vacuum in the

⁴⁶ See T. Kuzio, "Indecision and Opportunism Derail NATO in Ukraine," *Ukrainian Observer*, October 2006.

center-right political spectrum that has always played an important role in post-communist states in promoting reform and Euro-Atlantic integration. This political vacuum on the center-right, coupled with a lame duck president, will negatively affect Ukraine's post-Orange Revolution transition.

The Tymoshenko bloc emerged out of the Front for National Salvation, the radical umbrella group created during anti-regime protests in 2000–2001. Tymoshenko represented the radical wing of the Orange Revolution. The key political force in the Tymoshenko bloc is the Fatherland Party led by Tymoshenko, which has a center-left profile and is a competitor for Socialist voters. The Fatherland Party has the second largest number of regional branches of Ukraine's political parties.

Therefore, if the Ukrainian parliament continues to remain in place until 2011, it will do so with three of its five political forces in crisis: Communists, Socialists and Our Ukraine. The two largest factions, the Party of Regions and the Tymoshenko bloc, who together control 70 percent of deputies, will continue to determine the outcome of the parliament's deliberations. Until the next election cycle, Ukrainian politics will be determined along a government: opposition axis between these two political forces that dominate the parliament, rather than a consensus over building on the Orange Revolution and pursuing reform. The Tymoshenko bloc seeks early elections and the abolishing of constitutional reform. Our Ukraine and the Socialists-Communists will be the junior partners in the opposition and Anti-Crisis coalition respectively.

There are three areas where reforms could stagnate. The first is weak domestic resolve and political will on the part of President Yushchenko, coupled with continued in-fighting in the Orange camp. Although Our Ukraine officially joined the opposition in October 2006, it only aligned with the opposition Tymoshenko bloc five months later. The PPPU and other business groups in Our Ukraine remain uncomfortable with an alliance with the Tymoshenko bloc. Ukraine will possess, as in 2001–2004, a radical opposition led by the Tymoshenko bloc and a constructive (loyal) opposition led by Our Ukraine. The second factor is the Party of Regions control of parliament's largest faction and domination of the Anti-Crisis coalition and government. Third is the unwillingness of the EU to make Ukraine a

candidate for membership, which makes Ukraine different from the reform laggards in central-eastern Europe. Ukraine could be evolving towards emulating Romania's muddled transition, but Romania has always had one advantage over Ukraine; namely, the 'carrot' of EU membership that has encouraged its elites to play by the rules.⁴⁷ The intervention of an EU 'carrot' of membership could have encouraged the pro-EU business wing of the Party of Regions, even in government, to continue the reform process, just as the EU successfully encouraged Ion Iliescu and the Party of Social Democracy in Romania.

The continued presence of the Party of Regions in government presents Yushchenko with a two-fold dilemma. He can either permit Yanukovych to remain in office until the next elections in 2011 or he can take steps to dissolve parliament and call early elections, as the Tymoshenko bloc has demanded, and a step that Yushchenko retreated from in August 2006.

If Yushchenko permits the Anti-Crisis coalition to remain in place until 2011, he will have two unpalatable outcomes. First, his power will be severely curtailed as Ukraine increasingly moves towards a parliamentary republic. In January 2007, a vote to adopt a new law on the Cabinet of Ministers is evidence of the Anti-Crisis coalition's desire to move Ukraine closer to a full parliamentary system. The leftists in the coalition have always supported the abolishing of the post of president. In February 2007, the Communists introduced draft constitutional amendments that would transform Ukraine along the lines of Moldova's 2000 constitutional changes where the president is elected by parliament. The Party of Regions interest in a parliamentary republic is to deny Tymoshenko the presidency in the 2009 elections; in other words, the same threat that lay behind Kuchma's support for constitutional reforms in 2002-2004 when he feared a Yushchenko victory in the 2004 elections. Defections of businessmen from Our Ukraine and the Tymoshenko bloc, such as the PPPU, could give the Anti-Crisis coalition a constitutional majority.

⁴⁷ Steven Levitsky and L. A. Way, "International Linkage and Democratization," *Journal of Democracy*, vol.16, no.3 (July 2005), pp. 20-34 and L. Whitehead, "International Aspects of Democratization," in Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead eds., *Transitions from Authoritarian Rule. Prospects for Democracy* (Baltimore: John Hopkins University Press, 1986), pp. 3-46.

Second, important democratic, economic and international gains from the Orange Revolution may be reversed or stalled. Ukraine's democratic trajectory, albeit muddled, clearly points towards Ukraine joining the reform laggards in central-eastern Europe, such as Romania, rather than the autocracies in Russia and the majority of the CIS. Muddled democratization and weak political will are likely to be sufficient for membership in the WTO and NATO, two international organizations whose doors are open and membership criteria are easier to meet, but will not be sufficient to impress the EU to open its closed door policy.

Looking Ahead to 2009–2011

Ukraine's chances of breaking out from its post-Soviet path of muddled transition were slim but may have been possible following the Orange Revolution, when opposition forces were in disarray and disillusioned. A similar opportunity existed in 1992 when Ukraine became an independent state and when the Communist Party was illegal.⁴⁸ On both occasions the opportunity to push through radical reforms was not undertaken. New presidents in 1992 and 2005 controlled the executive but had to contend with inherited parliaments dominated by anti-reform forces elected in 1990 and 2002 respectively. More importantly, the new regimes were brought into power through pacted transplacements that themselves led to muddled, slower reforms. The coalitions were also divided on both occasions by similar issues: attitudes to the past (either towards the Soviet era or towards the post-Soviet hijacked transition), and whether national democrats should cooperate with the authorities ('sovereign communists' and centrists). Rukh split in February 1992 over the issue of whether to cooperate with 'sovereign communists' and thereby to prioritize state and nation building over democratic reforms, and the Orange coalition divided in 2005 over how to deal with the Kuchma era. In 1990–1991 and 2004 pressure from below was sufficient to force the authorities to negotiate a compromise between regime and opposition softliners but neither side was able to decisively knock out the other.

The election of Yushchenko was a victory for democratic forces but not a knockout blow to the *ancien regime*. Yanukovych and the Party of

⁴⁸The Communist Party of Ukraine was illegal from August 1991–October 2003.

Regions obtained 44 and 32 percent in 2004 and 2006 respectively, showing that this political force had a large popular base in eastern and southern Ukraine. This popular base is an indication that Ukraine is likely to pursue muddled, slower reform until the next election cycle.

Two key questions face Ukraine. The first is whether the Party of Regions will transform into a post-oligarch, democratic party. The transformation of the Party of Regions would assist Ukraine's democratization but is only likely to happen if the Party of Regions is compelled under pressure to change when it is in opposition or as a junior coalition partner. If parliament and the Anti-Crisis coalition remain in place until 2011 the Party of Regions will continue to be a corrupt, oligarchic party that is ambivalent towards democratic change. A successful transformation of the Party of Regions will only therefore take place if parliament is disbanded, early elections are held and the Party of Regions is no longer the dominant ruling party in a new coalition government.

The second is whether the democratic gains of the Orange Revolution are reversible following the return of Yanukovich to head the government. The Party of Regions, while controlling the largest parliamentary faction and government, is not in a position to be able to return Ukraine to Kuchma's authoritarian second term. Ukraine's regionalism prevents the dominance of one party of power and the installation of an autocratic regime, thereby making Ukraine different than Russia. A 32 percent victory in the 2006 elections will not permit the Party of Regions to monopolize power or to reverse fully the Orange Revolution.

If Ukraine is not yet transformed into a full parliamentary republic, the October 2009 elections will be fought by three well known candidates: Yanukovich, Tymoshenko and incumbent Yushchenko. Current polls point to the second round contest being fought by Tymoshenko and Yanukovich, Ukraine's two most popular politicians. In this eventuality, Ukraine may face a repeat of the 2004 elections between Orange and Blue forces with Yanukovich again launching his candidacy from a strong position of prime minister. Yanukovich and Tymoshenko both need to reach out to voters beyond their home bases of eastern-southern and western-central Ukraine respectively. In many ways, Tymoshenko has the most difficult position of having to combine being opposition leader, which will encourage her to remain on the barricades, and being a stateswoman candidate in the presiden-

tial elections. One factor why Yushchenko won the 2004 elections was his softline position that divided elites in their attitudes towards him. Ukraine's elites are more united in their fear of Tymoshenko's radicalism and alleged populism. At the same time, the Tymoshenko bloc was able to reach second place in eastern Ukraine in the 2006 elections. The Party of Regions has failed to break out of its support base to penetrate western and central Ukraine.

Based on his low popularity and public image of a weak willed leader, Yushchenko is unlikely to win a second term. Yushchenko's performance in the first two years of his administration points to a difficult uphill struggle to reach the second round where, if he succeeded, he would face Yanukovich in a repeat of the 2004 elections. Yushchenko's 2009 election chances are damaged by his weak leadership, aloofness from voters and lack of strategy. Yushchenko's only strategy is that of the compromise candidate who, although a weak leader, is seen as a less divisive president than that of Yanukovich or Tymoshenko.

Conclusion

Political developments in the parliament and the presidency to the next election cycle give sustenance to the argument made in this paper that the Orange Revolution is unlikely to be fully reversed but that transition will continue to be muddled and slow. Ukraine's path dependence of regionalism and elite pacting in 1990–1991 and 2004–2005 also point to a muddled transition and the unlikelihood of a slide towards an autocratic system. With neither former regime hardliners nor the radical opposition powerful enough to monopolize power, Ukraine's policy making process has been traditionally pushed to the center ground where softliners have negotiated pacted transplacements. Ukraine has been, and will continue to be, a state built on compromise.

Muddled transition will still represent forward—although not necessarily linear—movement. This, in itself, will differentiate Ukraine from Russia and other CIS states; indeed, the time may have arrived when scholars need to begin to compare Ukraine to central-eastern Europe, rather than to the CIS. Ukraine has no autocratic future and its trajectory remains haltingly towards Europe because of its path

dependent regional inheritance and the lack of an Orange, pro-reform coalition. Ukraine's political and regional conflicts since the 2004 election can be understood not as zero-sum games, as neither side will have the strength to impose a monopoly of power, but as a process during which new democratic rules are established. The development of these new democratic rules will not have an impact upon Ukraine's economy, which is now operating independently of the political process. During Ukraine's post-2006 election crisis, the economy grew when parliament and the political process were paralyzed. Small and medium sized business development is now the motor of change and development in western-central Ukraine, as it was in post-communist central-eastern Europe. Ukraine's two key areas that have not been reformed and improved upon by the Orange Revolution are the rule of law and corruption.

Neighborhood in Flux: EU-Belarus-Russia Prospects for the European Union's Belarus Policy

Rainer Lindner

The Lukashenko System: The Agony of a Post-Soviet Regime

Belarus—which was more an imperial periphery than a state before 1991, and where modern nation-building only started in the aftermath of Chernobyl in 1986—has faced a deficit of national identity and national elites. That is why the populist post-Soviet Belarusian nationalism of Alexander Lukashenko has rooted itself successfully among the poorly informed Belarusian people, who are lacking any kind of free information resources, especially in the rural areas of the country, while the world around Belarus has been changing dramatically.

The enlargement of the European Union and NATO, the emergence of a newly integrated Europe, and a Russia under Vladimir Putin that is on its way back as a great energy power—exclusively orienting itself around its national interests—as well as the wind of change blowing through the post-Soviet space, have all influenced the domestic evolution of Belarus. The cycle of “colored revolutions,” be they successful in the end or not—and in particular the European choice of Ukraine and Georgia—have generated undercurrents of change in the Belarusian political system. The regime has been jittery about signs of democratic “unrest,” but Lukashenko himself is straightforward: “We resolutely deny the scenarios of ‘democratic change’ of the political elites which are undesirable for the West. All these ‘color revolutions’ are not revolutions. This is banditry under the veneer of democracy. The Belarusian people had enough of these ‘revolutions’ in the last century,” he exclaimed on April 19, 2007, when

delivering the annual message to the Belarusian people and the National Assembly.¹

Opposition forces, on the other hand, were forced to consolidate their activities and to select a single candidate on the eve of the presidential election in March 2006. The “maidan” of Belarus was—certainly only symbolically—the October Square (“Ploshcha”) in Minsk in March and April 2006. It became a symbol of a new level of protest and consolidation of democratic opposition in a country that saw its first post-Soviet protest rally on February 27, 1990, when 100,000 people went out to the streets against the old *nomenklatura*. Due to historical and cultural differences, this movement does not compare with the “Orange” Revolution in Ukraine. But in 2001, after manipulated elections in Ukraine, the first tents (“palatki”) appeared on the Khreshchatik in Kyiv, when the state acted forcefully against peaceful demonstrations and then ex-vice premier Yulia Tymoshenko was arrested by the Kuchma regime for 40 days. On the societal level, NGOs are very active in Belarus. As in Ukraine, entrepreneurs from small and medium sized companies in Belarus were among the most active protestors in 2005 and 2006.

This chapter argues that after a 12-year period of self-isolation from the processes of European integration, the Belarusian regime is in trouble. It faces growing popular unrest and is challenged by domestic democratic forces and the outside world. Russia’s attitude toward its neighboring country is no longer determined by the myth of a fraternal pan-Slavic nation. That myth first came into question during the Orange Revolution. Now, higher prices for gas and oil for Russia’s “last ally” underscore the degree of change within Russia itself. Lukashenko’s hermetically sealed political system faces an agony of power: it has to use increasing amounts of power and violence to control information and communication. The economy thus far has survived on the basis of cheap energy resources. Those days are gone. Freer flows of information, capital, and political services will challenge regime’s stability. This chapter depicts Belarus as a state at risk, and describes the challenges and opportunities for a “European Belarus policy.”

¹ “‘Colour Revolutions’ Banditry under veneer of democracy,” says Alexander Lukashenko, in: Belarusian Telegraph Agency, April 19, 2005 [http://olm.blythe-systems.com/pipermail/nytr/Week-of-Mon-20050418/015880.html].

While the regime is trying to retain and extend its power, the state in Belarus is weakening. While there is a strong authoritarian ruler and the regime continues to wield the main instruments of power (government policy, military, special forces), in reality there is no functioning state. The state was privatized by the president; it was reduced to a system of power and violence. Following decree number 426 of winter 2006, government officials cannot be prosecuted without the president's personal permission; the regime's fellow travelers are immune from judicial oversight, yet remain objects of personal persecution by the president. These examples underscore the weakness of the regime and the cracking loyalty within the apparatus.

Belarus is a unique example of a post-Soviet regime where the president has no party as a political power base. In fact there is no party system at all outside the democratic camp. The state is governed by the president and his praetorians—people like State Secretary of Security Council of Belarus Viktor Sheiman; Chief of Presidential Administration Gennadiy Nevyglas; Minister of Education Radskov; Minister of Information Rusakevich; Minister of Justice Golovanov, General Prosecutor Miklashevich, and KGB chief Stepan Sucharenko. They are personally responsible for violating human and civil rights. They are stabilizers of the regime, but destabilizers of Belarusian statehood. It is symptomatic of this weakness that Lukashenko already fears the main stabilizers, sending them as ambassadors to far away countries such as China or Venezuela. Lukashenko himself appears to be the one and only person to control the regime and the flow of money in and out of Belarus. The latter is the last remaining resource of power.

Self-isolation in foreign affairs is just one of a number of attributes that make Belarus a state at risk. In the aftermath of the colored revolutions in neighboring countries, and facing growing domestic opposition, the propaganda of state-owned TV stations (BT-1 and 2) argues that foreign intelligence services are seeking ways to overthrow the current Belarusian government. The same suggestion was made by the chief of the Belarusian KGB frequently in 2005 and 2006. The state is weak in Belarus, while the regime remains intent on securing its stability. Belarus lacks independent constitutional institutions. Not a single candidate of the 150 oppositional candidates received a seat in parliament during the parliamentary elections in 2004. Belarus has no independent justice system, which played a key role in Ukraine during

the Orange Revolution. Lawyers are appointed and dismissed by the president and there is no independent constitutional court. The country became even more a police state when the former Police General became General Prosecutor and later State Secretary of the Security Council of Belarus.

Belarus, along with Central Asian regimes such as Turkmenistan, has turned into a post-Soviet regime, consisting of the president himself and the presidential structures of a “Belarusian state ideology” that sees its mission as “protecting” the country from political unrest. In every state-run enterprise or institution, for example, one can find a black box for denunciations against workers, students, and colleagues. Soviet-style “ideologization” is taking place, and people have become accustomed to living in fear and repression.

The Lukashenko regime has released various decrees and ordinances that are intended to pressure politicians, NGOs, scientists, scholars, and journalists, but which ultimately indicate the weakness and growing uncertainty of the regime itself. On November 24, 2006, for instance, the regime issued an ordinance “On measures for the state protection of children in unfavorable family conditions,” which declared that the government was establishing “a clear and efficient system of withdrawing children from those parents who evade their obligation to educate and maintain children.”² Of course the regime defines what an “amoral” family looks like, and what “unfavorable family conditions” are. Under the new ordinance, a family that supports the ideas of the democratic opposition or that reads an oppositional newspaper could be charged of being “amoral.” These ordinances are indicative of the Lukashenko regime’s intent to enter the last resort of the private sphere of Belarusian citizen—and signal the beginning of the decline of a post-Soviet regime.

Even before the Russia-Belarus energy crisis broke out in the winter of 2006–2007 it was clear that cheap energy prices were an absolute prerequisite for Lukashenko to maintain his Belarusian model. In recent years Russia has subsidized Belarus on a grand scale. Minsk earns about \$6.5 billion annually through cheap energy supplies and re-export of oil products alone. This same sum was lost to

² On additional measures for the state protection of children in unfavorable family conditions: <http://www.president.gov.by/en/press33748.html#doc>.

the Russian budget. Now, however, Belarus is heading for a threefold economic crisis.

First, the Russian gas price increase tears a hole in the Belarusian state budget. Businesses have to cope with a 50 percent increase in the energy price, which could push especially large and energy-intensive enterprises into unprofitability.

Second, Belarus is facing considerable financial losses due to falling revenues from oil refining and re-export to EU countries. The state budget could lose around \$4 billion and the oil refining sector threatens to run into enormous economic difficulties. At Belneftechim, the state-owned enterprise responsible for refining, 125,000 jobs depend directly on oil transport through the “Druzhba” pipeline.

Third, the situation will be exacerbated even further by the Russian announcement that as of February 1, 2007 it intends to impose about \$6 billion in annual import duties on Belarusian goods. The duty-free imports granted under the Russia-Belarus customs union would thus come to an end. Sugar, meat and dairy products, television sets, and furniture would be most affected—goods that Belarus sells almost exclusively on the Russian market and whose production depended on cheap energy and a duty-free export market. For example, since the beginning of 2007 Belarusian sugar can no longer be sold in Russia because Belarus refuses to pay the additional duty. Even though more than half of Belarusian exports now go to countries outside the Confederation of Independent States, above all to the EU, Belarus is still affected by the application of the Russian law on “Special Economic Measures” of December 30, 2006, which permits changes in the customs regime and allows economic sanctions to be imposed on states and organizations.

If all three components of this crisis came together, the regime's stability would be eroded.

The crisis with Russia represents a biographical discontinuity for the Belarusian president. Until now Russia was the guiding light of his political life, toward which he also aligned the country he governed. The domestic mood in Minsk has become frostier, and external economic pressure is leading the regime's reactions to become increasingly unpredictable. Lukashenko's system of power has been weakened both economically and politically. If workers lose their jobs in enterprises that are unable to pay the new energy prices and can no longer

sell their goods in Russia due to the imposition of drastic customs levies, or if people begin to freeze, Belarusians will quickly tire of Lukashenko's propagandistic exhortations to unite behind the regime in a fight on two fronts against Russia and the West, and his support will evaporate. In situations like this the sluggish pace of reform of the Belarusian economic system takes its toll. Unprofitable energy-intensive enterprises are directly endangered, while there is but a scattering of small and medium-sized businesses that would be able to respond more flexibly, and the state—as the sole domestic investor—is running out of funds. All this slows down the pace of economic change.

Even after the compromise of January 13, 2007, under which Belarus will pay Russian export duties of \$53 per ton of crude, Lukashenko can no longer count on Russia's unconditional support, especially given that he himself has called into question the security partnership between the two countries. If Minsk were to carry out the threat it has occasionally made to demand financial compensation for the Russian military bases in Belarus (which the Russian army currently uses for free) it would have unilaterally terminated the 1998 agreement on the joint use of military infrastructure and in the process completely done away with the "United State of Russia and Belarus." So it comes as no surprise that Russia is showing growing interest in a post-Lukashenko solution.

Moscow is developing scenarios to prevent Belarus drifting westward under "orange sails" and to open it up for a calculable pro-Russian perspective that the West would be able to accept. Furthermore, Belarus has confirmed its image in Russia as a "risky corridor" and the Kremlin sees an urgent need to think more intensively about ways to reroute energy supplies to avoid Belarus. Lukashenko responded rashly to the price hikes and growing social tensions with personnel changes and policy action in the areas of energy and local government. More hardliners have been appointed to administer the scarcity of resources and ensure efficient state control. The regime faces its most dangerous crisis so far.

Democratic Forces: Readjustment and Old Problems

For almost a decade the opposition fought a political regime still able to bring a majority of the Belarusian people onto its side. In

autumn 2005 the “Congress of Democratic Forces” assembled around 800 delegates and elected Alexander Milinkevich as their sole candidate to run in the presidential elections in March 2006. That was the first time the Belarusian democratic opposition stood behind one person to challenge President Lukashenko. Following the falsified elections, even the third candidate—Alexander Kozulin, former rector of the Belarusian State University (BGU) in Minsk and representative of the *nomenklatura*—accepted the leading opposition role of Alexander Milinkevich. Other oppositional leaders, such as Nikolaj Statkevich, were arrested before the elections to prevent them from taking part in the election campaign. Statkevich, together with Anatoly Lebedko, was elected after the presidential campaign as head of the National Committee of National Democratic Forces, and led the Chernobyl protest rally on April 26, 2005, after which he was sentenced to prison.

The key to getting large numbers of Belarusians to act publicly was to elect a single presidential candidate from the democratic opposition around whom people could unite. For the first time, the election campaign of the democratic forces was successful. Milinkevich held regional conferences that attracted between 500 and 1000 participants. Even when police and the KGB kept opposition meetings closed or invented last-minute “technical problems,” the opposition leader reached out to the people. The 30-minute appearance on Belarusian state television of both Milinkevich and Kozulin was a media event with an unexpectedly strong information boost that challenged the regime’s stability. For the first time a politician openly questioned the personal integrity of the president.

Alexander Kozulin’s television appearance and his criticism of Lukashenko led to his imprisonment, rather than to a leading role in the anti-Lukashenko rally after the March 2006 elections. Kozulin was arrested and sentenced to five years in a working colony in summer 2006. He is the most prominent example of growing dissent among former regime stabilizers, who have become strong opponents of the regime. They include ex-Chairman of the National Bank Stanislav Bogdankevich, ex-Minister of Labor Alexander Sosnov, ex-Deputy Chairman of the Constitutional Court Valeri Fadeev, ex-Judge of the Constitutional Court Mikhail Pastukhov, member of the National Academy of Sciences Alexander Vojtovich, and former Ambassador to Latvia Mikhail Marinich.

The attacks of the regime are not limited to key political players and oppositional politicians, however, but also to newspapers such as *Nasha Niva* or NGOs such as the “Belarusian Helsinki Committee,” which was founded in 1995. Since 2004 the latter has been under severe legal pressure as the government has made repeated attempts to fine it for allegedly evading tax payments on tax-exempt EU grants. In December 2006 bailiffs from the Minsk Economic Court entered the Committee’s premises and seized its office equipment.

The regime is getting nervous, and the year 2006 and the first months of 2007 signaled the beginning of its agony of power. Lukashenko’s symbolic politics—“market socialism,” Orthodox atheism,” “eternal brotherhood with Russia,” “stability,” the uses of the “subbotniki”—are in trouble, because the very basis for the regime’s stability—low oil and gas prices—is in danger. The issue is not only about energy, but also literally the beginning of the end of the Russian-Belarusian Union state and the “brotherly” neighborhood. In return, the democratic opposition, within the framework of the Congress of Democratic Forces, failed in early 2007 to reconfirm the support of Aleksander Milinkevich as single leader of the opposition. When Milinkevich wrote an open letter to president Lukashenko in February 2007, representatives of the democratic forces camp rejected the idea of engaging the regime and using any means of direct communication. Milinkevich argued that he has “no right not to use all chances for the future of our Belarus.” The opposition faces the old problem of lack of consolidation and contested leadership.³

From Virtual to Mortal: The End of the Russian-Belarusian Union State

Russia’s policy toward Minsk is in flux. When Putin came to power in 1999, it was obvious that Russia’s new president would not follow the policies of former president Boris Yeltsin. This was bad news for Lukashenko, since the economic difficulties of Yeltsin’s Russia had given Lukashenko reason to hope for a political career even beyond Belarus. As an authoritarian politician, Putin changed Russia’s attitudes toward the post-Soviet region as he changed Russia itself. May

³ *Open Letter of Aleksandr Milinkevich to Aleksandr Lukashenko*, February 7, 2007, in: <http://www.americanchronicle.com/articles/viewArticle.asp?articleID=20387>.

2006 will be remembered in the new history of Russia as the month of the *New Energy Doctrine*—a new strategy toward the post-Soviet space. At that time, Gazprom decided that 2007 gas deliveries to Belarus would be made at market prices. Similar announcements were made regarding Moldova, Lithuania, and Ukraine. This was the beginning of the end of the Russian-Belarusian Union state.

The relationship between Moscow and Minsk is characterized by talk of confederation and the stationing of Russian troops and weapons in Belarus on the one hand, and simmering crisis on the other. Significantly, the decline in the relationship is both personal and economic. To begin with the latter, in 2005 Belarus imported 12.4 percent fewer goods from Russia, Belarusian exports dropped by 10.9 percent, and many of them were being replaced by EU products. Ambitious plans to introduce a single currency are obsolete and have proven especially unacceptable for Belarus for economic but mainly ideological reasons. Until the end of 2006, Belarus received significant revenues from the re-export of refined products of Russian crude oil (89 percent into countries beyond the CIS, mainly in the European Union) and the extraction of potassium salt on its territory, generating around \$4 billion annually in revenues. But Russia's great reorientation toward national interests is becoming a crucial issue for Belarus and the Lukashenko *Wirtschaftswunder*: Putin declared a halt on major subsidies for the Belarusian economy on May 9, 2006—the tenth anniversary of the virtual “Russian-Belarusian Union.” The new policy toward the neighboring countries of the former Soviet Union is certainly a reaction to the political developments both within and outside Russia. After the “colored revolutions” in Ukraine and Georgia, and after the Andishan massacre in Uzbekistan, Putin started to pay more attention to his political ratings. He can and will not risk a fundamental change in Russia during the parliamentary and presidential elections in Russia in 2007 and 2008. Putin wants to stabilize Russia's position as a center of economic integration for countries like Belarus, Kazakhstan, and even Ukraine within the Common Economic Space as well as within the relationship with Central Asian countries. The major currency for this policy is energy.

Russia has taken a number of rather ambivalent steps towards Belarus. Russia's strategy is not as coherent as Putin would like it to be. Analysts like Sergey Karaganov support a strong Russian position

toward Lukashenko. Karaganov and others argue that Russia's unwillingness to intervene in Minsk would be assessed as weakness, and that Russia would be perceived as slowly turning into a paper tiger, while encouraging opinion in Belarus that Lukashenko could do anything, due to his relations with Moscow. At the same time, Belarus belongs to the sphere of vital Russian interests—not because of Belarus itself, but because of Russia and Putin's political future. For Putin and his advisers, Belarus still plays, at least theoretically, a strategic role in one of the scenarios to secure a third term for Putin without having to change the constitution: the Russian-Belarusian union state could appear as a new state with a newly elected President Vladimir Putin.

Interestingly enough, the main opponent of unification has now become Lukashenko himself, who is frightened by two prospects: first, that unification would force Belarus to adopt market reforms; and second, that he would not be able to play a key role in that union. For Putin, a union state would lead him to a *de facto* third term in office. Putin needs a pro-Russian Belarus, but he certainly does not need Lukashenko, because having Lukashenko as his deputy would undermine Putin's legitimacy—and not only in Western eyes.

In 2006 Russia demonstrated that it is no longer interested in supporting Lukashenko by any means. Russia has dropped its value-driven attitude toward its neighbor, which had been based on ideology and historical myths, in exchange for a pragmatic approach based on purely national interests. By doing so, Russia is *not* a partner of the West organizing a “revolution” in Belarus. But the European Union should foster dialogue with Russia and the United States on the highest political level and coordinate their policies toward Belarus before the Russian elections in 2007/8.

The economic foundations of the “Treaty on the Formation of a Union State” that Russia and Belarus signed on December 8, 1999, have been swept away by the latest energy dispute. After Lukashenko's veto ended the project of a common monetary and financial system (which had been in the two parliaments' draft constitution since 2003), Russia has now to all intents and purposes dissolved the customs union. The energy conflict reveals that Moscow's alliances are determined no longer by ideological considerations but by market interests, especially when a neighboring state starts pursuing its own interests.

Russia's New Energy Doctrine in Belarus

In 2006 the dialogue between Russia and Belarus was close to an end. The increase in gas prices to the level of \$200, as proposed by Russia's Gazprom in the beginning of the talks, would have caused "the end of the relationship," President Lukashenko announced. Lukashenko's personal link with President Putin is rather cold. From a Russian perspective, post-Soviet leaders such as Yushchenko, Saakashvili and Lukashenko are acting independently of or even contrary to Russian interests. That is why Putin is determined not to distinguish between the three of them. As of 2007, Ukraine pays \$130 per 1000 m³ and Georgia even pays \$260. That is why both Yushchenko and Lukashenko are increasingly making friends outside Russia and the post-Soviet space. In the Belarusian case this has meant outreach to Venezuela, Cuba, Syria, Iran, southern Africa, and China.

When the biography of Alexander Lukashenko is written, 2006 will be characterized as the year when he was forced to become more of a post-Soviet realist. Departing from ideology, the Belarusian leader even seems to be ready for an energy alliance with post-Orange Ukraine. During the CIS summit in December 2006 in Minsk, the presidents of Ukraine, Azerbaijan and Belarus decided to create an energy task force that would evaluate the prospects and costs of a joint energy project to build pipelines from Baku via Ukraine and Belarus to EU countries.

Despite six full-fledged meetings with Putin in 2006, Lukashenko did not hesitate to criticize the Russian president in the Russian media, accusing him of not pushing the idea of the Union State. The Belarusian leader added that the introduction of the Russian ruble in Belarus would be dangerous for Belarusian independence. And at the beginning of 2006, a new Belarusian foreign policy strategy was outlined by the Ministry of Foreign Affairs that identified new strategic partners and allies. Lukashenko's new foreign policy would reach out to a circle "from the Caribbean basin, Venezuela, southern Africa, the Persian Gulf, Iran, North Korea, Malaysia, and Vietnam." "We will invest in the upsurge of oil in Venezuela, sell it on the world market, and pay our brother Russia."

The negotiations on energy between Russia and Belarus are a symbol of the final dissolution of the post-Soviet Soviet Union. The political

and economic relations between the two eastern, Slavic, fraternal people had become as close as during the late Soviet period. The core of the union state agreement of 1996, signed by Yeltsin and Lukashenko, was cheap energy. From January 1, 2007, however, that symbol of a privileged non-market neighborhood ceased to exist. Belarus is finally becoming an independent state. Russia is setting free its last ideology-based ally. Not only is the CIS entering a period of difficulty, but the Russian-Belarusian Union State is no longer an option.

According to a survey of the Minsk-based Institute for Privatization and Management (IPM) from November 2006, only 29 percent of Belarusians are in favor of the integration of the five Belarusian *oblasti* into the Russian Federation. Only 31 percent would vote for a Russian-Belarusian Union State with a single currency, president, and parliament. The Moscow daydream of a newly-established big state on the post-Soviet territory—including Belarus, Ukraine, Kazakhstan, and even others, based on Russia's oil and gas—is not attractive even for its closest neighbors. The emergence of Russia as an energy power based on national interests is the final step in dissolving the Soviet empire.

Belarus is going to be a testing ground for the Kremlin's great energy power doctrine. Russia is testing how much countries can withstand severe economic pressure from Gazprom, which is acting more and more as a "normal" monopolist while Russia itself is acting—from a neorealist perspective—more and more as a *normal* national state. The "normalization" of the relationship between Moscow and Minsk would put immense pressure on Lukashenko, because normalization would sharply reduce the annual subsidy Russia has provided to Belarus. The end of the Lukashenko system has begun.

By raising the gas price for Belarus, buying a major stake in the Belarusian gas pipeline network, imposing export duties on Russian oil deliveries to Belarus, and restricting duty-free import of Belarusian goods to Russia, the Russians have ended an era in relations between the two states. At a stroke, the core of the "united state of Russia and Belarus"—the customs union—has been rendered obsolete. Russia's economic policy toward its western neighbor is part and parcel of a new foreign policy that—as the Putin era comes to a close—is focusing increasingly on the national interest. The Lukashenko system, whose economic and political stability was based on cheap oil supplies from Russia, has been plunged into a serious existential crisis. For the

EU and Germany this renewed disruption to energy relations reveals the fragility of the “strategic partnership” with Russia and the lack of an effective energy dialogue with the transit state of Belarus.

The conflict over Russian gas supplies to Belarus was resolved provisionally on December 31, 2006. This time, unlike in January 2004 when supplies were interrupted, the Kremlin avoided provoking a full-scale gas crisis. Although the agreed compromise price of \$100 per thousand cubic meters is still the lowest in the post-Soviet region, in the long run it is unlikely to be sustainable for the state-run Belarusian economy. According to Belarus Prime Minister Sergei Sidorsky, the gas price hike will mean closure of about a quarter of the country's businesses. The central motivation for Russia's Gazprom is control of the transit pipelines. Gazprom was willing to pay \$2.5 billion for half the shares in the Belarusian state-owned BelTransGas, whose total worth had been estimated a year earlier at about \$800 million.

Russia's new energy foreign policy is driven by a number of economic and political interests, including price increases for gas within Russia; Gazprom's difficulties in meeting its huge supply contracts as gas reserves gradually dwindle; the beginning of the campaign for the 2007/8 parliamentary and presidential elections; and not least the criteria for admission to the World Trade Organization in 2007 (which excludes a policy of favoring neighbors).

On December 8, 2006 the Russian government had already decided to introduce a duty of \$180 per ton on crude oil exports to Belarus, and Russian oil companies passed the increase directly onto their Belarusian customers. Late in the evening on January 7, 2007, the Russian state-owned Transneft stopped oil transport through the “Druzhba” (“Friendship”) pipeline to Belarus and the states of the EU on the grounds that Belarus had been taking oil illegally equivalent to the value of the transit duty that Minsk had imposed (backdated to January 1, 2007). This charge for allowing passage of crude oil to western Europe—\$45 per ton and 100 kilometers—was intended to fill the looming hole in the Belarusian budget. On the very same day Minsk offered a compromise: it would drop the transit levy if Russia withdrew its export duties on oil. The offer reveals the weakness of the Belarusian side, which had greater economic harm to fear than did Russia. On January 10 Belarus withdrew its demand for transit duty.

Vladimir Putin is determined to continue exert a strong leadership role in the phase leading up to the 2007/8 parliamentary and presidential elections. In a cabinet meeting on January 9, 2007, Putin asked responsible ministers to enumerate how oil export duties could reap additional revenues of \$3.5 billion for the state budget. Putin's message was straightforward: no more gifts of friendship to neighboring states, especially when recipients refuse to follow a course of integration on Russian terms. For the Russian electorate a decisive issue is the consolidation of Russia's own budget. In the Ukraine crisis of 2005 Putin was even willing to risk further damaging Russia's reputation in the West as a reliable energy supplier.⁴

Lukashenko, who had called the supply interruption in the gas conflict of 2004 an "act of terror of the highest order," said that the latest developments showed that Russia had now "not only violated the norms of international law, but also destroyed the economic ties that had developed and seriously harmed the prospects of the Belarusian oil refining industry."⁵

The Russian side is also demonstratively turning its back on Lukashenko. Whereas in 2000 Putin was still speaking of the "prime importance of strengthening the union" as the "highest form of integration of two states," this time Russian formulations of "trade war" and "war in the name of 'friendship'" demonstrate the fragility of the idea of a "United State of Russia and Belarus." The delegation from Minsk that traveled to Moscow on January 9, 2007, was not even granted a reception. Until recently gestures of such demonstrative contempt would have been as unthinkable as Putin's distant references to "Belarusian colleagues."

By raising gas prices and imposing duties on oil exports to and goods imported from Belarus, Russia has ended the privileged relationship. A further indication that Moscow no longer seeks deeper integration is that this time the most important institution of the "Union State of Russia and Belarus," the "Parliamentary Assembly of the Union of Belarus and Russia," was not involved in resolving the conflict. Instead, the Ministry of Economic Development and Foreign

⁴ See Rainer Lindner: "Friendship" Blockaded: The Russia/Belarus Conflict Is a Post-Soviet Turning Point, SWP Comments 2007/C 02, January 2007.

⁵ *Ibid.*

Trade of the Russian Federation dealt with the matter. Belarus has become a foreign country. As a measure against vehicle smuggling, the Belarusian side is beginning to control Russian citizens crossing the shared border. Temporarily imported vehicles now have to be registered and taxed, although the "Union" rhetoric of 2006 promised to prevent precisely that. The border regime is thus entering a phase of "normalization," the symbolic ramifications of which, however, are generating additional alienation. Although the provisional compromise has brought temporary calm, the economic and political conflict can erupt again at any time.

Toward a Belarus Policy of the European Union

For a long time the unwieldiness of EU foreign policy has generated dissatisfaction with Brussels among the governments of Belarus' European Union neighbors. Things changed significantly during, and certainly after, the "reelection" of President Lukashenko on March 19, 2006, when Belarus appeared on EU, Russian, and bilateral foreign policy agendas.

There is certainly a foreign dimension to the lack of prerequisites for a Ukraine-like scenario in Belarus. The most significant factor, as David Marples⁶ has pointed out, is Russia. Ukrainian developments have dramatically shown the limited possibilities of a joint policy of Russia and the West (European Union and/or United States) toward the countries "adjacent to Russia and the EU." Russia and the West do not follow the same track. Russia doesn't even call them "neighbors." Ukraine was and Belarus still is an object of a *competition of influence within the post-Soviet space*.

The U.S. administration supports the consolidation of democracy in Belarus within the framework of the Belarus Democracy Act. After a considerable period of time, Congress concluded that democracy in Belarus was essential for the Euro-Atlantic system, and President Bush personally signed the Belarus Democracy Act. Belarus became a high priority issue in U.S. foreign policy toward Europe. Belarus was labeled by the U.S. Administration as an "outpost of tyranny" and the "last dictatorship" in Europe. Around \$40 million will be transferred

⁶ David Marples, *Color Revolutions: The Belarus Case*, *Communist and Post-Communist Studies* 39 (2006), pp. 351–364.

to Belarus in the next few years to support the development of civil society. That is the same as Germany has been doing since 1991 — transferring about €1.5 billion of state and private help to Belarus (including the Transform program and support for military forces, after they left East Germany in the early 1990s). Germany will spend another €3 million for the NGO sector in the next three years in the framework of the Supporting Program for Belarus. Moreover, bilateral support is accompanied by growing support from multilateral players such as the European Union.

Financial support, however, needs to follow a political vision and strategy. So far, the European Union unfortunately does not have a Belarus Democracy Act that would support Belarusian democratic forces, opposition parties, NGOs and youth organizations. The leaders of the democratic opposition youth organization declared on the eve of the election campaign of 2006 “that the Belarusian youth will be very active in Belarus’ presidential elections. It will be just as passionate as the youth in Georgia and Ukraine were and other countries of the former Soviet bloc. Yet the issue is not just enthusiasm, but also communication, mass media support, broadcasting projects, and a variety of other elements.”⁷

At the moment a “micro-project program Belarus” is being launched by the European Commission. But this can only be the beginning of a longer story of European involvement. EU policy toward Belarus should be coordinated with U.S. policy toward Minsk, as both actors seek the democratization of Belarus as their ultimate goal. The European Union’s Belarus policy will show the special expertise of Poland and the Baltic states through the Eastern dimension of the European Union’s foreign policy. It was the wrong strategy to expect any political changes within Belarus from Russian political influence. Russia is not interested in such a turn, as we have shown.

The European Union should launch a value-driven, offer-oriented policy. Sixty euros for a single entry visa is certainly the wrong signal to Belarusian citizens. The EU’s neighborhood policy was launched to encourage democratization processes. Yet EU procedures that make it

⁷ Rainer Lindner: “*Präsidentchaftswahl*” in *Belarus. Autoritäres Regime, abhängige Staatswirtschaft, internationale Isolation*, SWP-Studie, Berlin 2006. [http://www.swp-berlin.org/de/common/get_document.php?asset_id=2910].

harder for Belarusians to enter the European Union, to travel, to meet people, to receive information on the ground, or to participate in conferences can only comfort Lukashenko's regime of isolation and repression. The easier it is for the people of Belarus to get in touch with the European Union and its people, and the more communication is realized between societies within and beyond the European Union, the sooner the legitimacy of the current regime in Belarus will fade away in the eyes of normal Belarusians. The statement of Alexander Milinkevich in the *Süddeutsche Zeitung* (December 13, 2006) was a strong signal to the European Union to readjust visa facilitation for its neighbor.⁸ Moreover, since Ukrainians and Russians will pay €35 for a single entry visa as before, it would be better to encourage as many Belarusians to visit EU countries and to come back to their country with new perspectives and questions. It was not the European Union but the regime itself which put Belarus on the European Union's agenda by consistently violating human rights, manipulating elections, and beating peaceful demonstrators on the squares of Minsk.

For a long time measures taken by the European Commission were rather symbolic, spontaneous—and non-strategic. The visa ban for 31 Belarusian officials on April 10, 2006 was an appropriate decision, but it was primarily symbolic.⁹ On the other hand, the May 18, 2006 decision to impose other restrictive measures—freezing all funds and economic resources of persons who were responsible for violations of international electoral standards and the crackdown on civil society and democratic opposition in the context of the presidential elections on March 19, 2006¹⁰—was inappropriate. As long as the personal funds of such despots as Turkmenistan dictator Turkmenbashi (who passed away in late December 2006) can be deposited at the Deutsche Bank in Frankfurt, Western policy apparently is not as consistent as it should be. Moreover, in the case of Belarus, there are no significant funds and personal resources of Belarusian officials outside the coun-

⁸ Alexander Milinkevitsch: *Der Eiserne Vorhang des Westens. Ein Geschenk der EU an Weißrusslands Diktator Lukaschenko: Die Visagebühren werden zum 1. Januar drastisch erhöht*, in: *Süddeutsche Zeitung*, 13.12.2006, p. 2.

⁹ Moreover, some of the names on the list were not among the president's praetorians. Alexander Kolyada, the head of the State Committee for Humanitarian Relationship, was the partner in the negotiating process for Germany's humanitarian supporting program (*Förderprogramm Belarus*). Some names on the list were even misspelled. See: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/89219.pdf.

¹⁰ See: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/misc/89641.pdf.

try; it is part of Lukashenko's privatization of power not to allow the existence of Belarusian oligarchs.

So far, the most important elements of the EU's Belarus policy and of recent EU assistance are pragmatic, well-targeted instruments geared to maximizing flexibility—the European Initiative for Democracy and Human Rights, Decentralized Cooperation, and TACIS. The European Union's TACIS program in Belarus (€10 million in 2005/06) focuses primarily on addressing the needs of the population. The TEMPUS program is to be continued to finance exchanges of young Belarusian university students abroad, curriculum development on European studies, and capacity-building in local universities. The latter is even harder since the European Humanities University was closed by the regime in 2004. Belarus is eligible under the new Neighborhood Programs for cross-border cooperation (with Latvia, Lithuania, Ukraine, and Poland, as well as within the Baltic Sea Program) and it will benefit from the European Neighborhood Policy Instrument (as of 2007).

The European Initiative for Democracy and Human Rights (EIDHR) will allocate micro-projects as it did in 2005, when a total €450,000 was made available through several calls for proposals. In 2005/06, Belarusian applicants were able to apply for support under two campaigns, notably “Fostering a culture of human rights” and “Promoting democratic processes.” Belarus is also eligible under the Decentralized Cooperation budget line that envisages projects regarding the role of NGOs in assistance to vulnerable groups, social and cultural development, and community mobilization.

In 2006, especially after the presidential elections—which failed to meet OSCE standards—the European Commission launched three key projects. In January 2006 the Commission granted €2.2 million to help set up the European Humanities University international (EHU) in Vilnius. The founding conference in 2005 was rather disappointing for EHU concerning centralized European aid. Essentially, American foundations such as the McArthur Foundation, the Heritage Foundation and the Open Society Foundation were among the donors while the European Union had first to start a negotiating process. In February, the European Union started to finance television and radio broadcasting programs for Belarus organized by *Deutsche Welle* Bonn and *Media Consulta* Berlin. They are part of a wider €2 million project that

will cover the internet, give support to the Belarusian press and train journalists as well as radio and TV broadcasters. In October the Commission launched a €4.5 million program to support scholarships for Belarusian students wanting to study abroad. Under this project, which will be implemented by the Nordic Council of Ministers, scholarships will be made available to Belarusian students from the start of this academic year. Other media projects like *European Radio for Belarus* Warsaw are financed basically by U.S. foundations and governmental support.

Scholarships will be granted to students who have been penalized by the regime and who have been denied access to Belarusian universities because of their political activities during and after the presidential elections of March 19, 2006. Belarusian students will be able to pursue their studies in neighboring countries, in particular at the European Humanities University (EHU) international in Vilnius and in Ukraine. The program consists of scholarships for 170 Masters and 35 Bachelor programs for new students at the EHU; living expenses for Belarusian students currently enrolled at the EHU; and scholarships for 100 students for higher education in Ukraine and other neighboring countries. The EU program is the first of its kind and the resources are impressive, but there are not enough students known to Brussels or even to Vilnius who were expelled from Belarusian universities after the elections.

Since November 2006 the European Union has been preparing to abandon its “learned helplessness”¹¹ with regard to Belarus. In its November 21, 2006 non-paper “What the European Union could bring to Belarus,” the European Commission outlined a way for Belarus to join the European Neighborhood Policy (ENP) process. The paper is addressed both to the Belarusian government and to the country. The major objective of the paper—which follows the idea of a “Shadow Action Plan for Belarus,” outlined in a paper from 2006 of the High Representative of the European Union for Foreign and Security Policy and other statements of the EU on Belarus¹²—is to

¹¹ See Dov Lynch: *Time for New Thinking on Belarus*, October 26, 2005, in: <http://www.iss-eu.org/new/analysis/analy127.pdf>

¹² Statement of The European Commission's Delegation to Belarus at the Minsk Forum IX “Belarus—Neighbourhood and Transit in Europe: Foreign Policy, Economy and Society”, November 9–11, 2006, <http://minsk-forum.dbg-online.org/>.

give the Belarusian side an idea how the country could profit from the ENP and to “help (Belarus) to improve the quality of life of the Belarusian people.”

The non-paper was an important step, both symbolically and politically. Its symbolic value lay in the fact that, after a long period of silence and non-strategic approaches, Belarus appeared to be back on the European Union’s foreign policy agenda. Especially from the perspective of the democratic opposition, it is of great importance that the European Union acts as a supporter for the democratic forces in Belarus and, at the same time, presses the regime to move on key economic, political and human rights issues. Since the European Union’s new approach reaches out to Belarusian society as well, the National Committee of the United Democratic Forces sought contact with the Belarusian government and the presidential administration to negotiate a common reaction to the paper. The government refused, thus missing an opportunity to develop a dialogue with the democratic opposition.

The European Union should not launch economic sanctions but rather should pressure the regime to reform the economy and to improve working conditions and labor rights. That is why the European Commission on December 21, 2006 announced that it would withdraw tariff preferences granted to Belarus under the Generalized System of Preferences (GSP) if the country failed to improve its poor labor standards within the following six months. Currently, 177 countries are benefiting from the GSP—only Burma has been expelled. Belarus would be the second case. Especially the freedom of association and the right to collective bargaining are key issues for the improvement of workers’ rights in Belarus. Currently, some 12 percent of Belarus’ exports to the European Union are shipped under reduced GSP tariffs. According to estimates, the withdrawal of GSP benefits for Belarusian exports of wood, chemicals, and textiles could result in annual losses to Minsk of some €300 million (\$400 million) in trade with the European Union. Since the European Union is becoming even more important for Belarusian trade than Russia, the withdrawal would have a harsh effect on the Belarusian economy.

The Belarusian government announced that it is ready to take measures to improve the freedom of association in Belarus. In October 2006, the president issued a decree¹³ that a newly edited trade unions

¹³ See: <http://www.president.gov.by/press31607.html#doc>.

law should ease the registration process for new trade unions. Since Belarus has a vital interest in profiting from the GSP, the European Union has done well to set up a time limit to which improvements within the legislation are to be implemented. The European Union should put other issues in the relationship on the agenda, like the opening of the EU delegation in Minsk.¹⁴ Lukashenko is likely to agree to the opening only in the context of a GSP “horse trading” process.

Other actions of the Belarusian government to improve the relationship with the West are on the way. The December 14, 2006 appointment of Sergey Gaydukevich as Special Representative of the Minister of Foreign Affairs for cooperation with European parliamentary institutions will do little to boost Belarusian-European relations. Gaydukevich, chairman of the Liberal-Democratic Party of Belarus—a so-called candidate for the presidency in the 2006 campaign—does not meet the expectations of European institutions for cooperation with Belarus. Creating the job of a special representative is a right step for the Belarusian government to improve communication with the EU, but Gaydukevich is the wrong person to do it. There are other parliamentarians in the Chamber of Representatives who would have been far better as ambassador of the Belarusian Parliament to European institutions.

On November 21, 2006 Benita Ferrero-Waldner, the European Commissioner for External Relations and European Neighborhood Policy, launched a document setting out “What the EU could bring to Belarus,” if Belarus were to engage in democratization and respect for human rights and rule of law. The document was transmitted to the Belarus authorities, but not effectively to the Belarusian people so far. It contains a strategy of how the people of Belarus could gain from a rapprochement between the EU and Belarus within the framework of the European Neighborhood Policy.¹⁵ The main instruments for further cooperation with the Belarusian regime should include strong support for democratic society and its institutions (democratic parties, NGOs, National Committee of United Democratic Forces, Congress of Democratic Forces); a critical dialogue; and selective partnership with different departments of the Belarusian government (energy, transport, transit, trade, textile, agriculture, but also culture, education, and tourism). It is important to follow the path of a coherent conditionality. Conditionality, as Thomas Ambrosio put it, is an active

¹⁴ Lindner: “Präsidentenschaftswahl”, op. cit.

¹⁵ *What can the European Union bring to Belarus?* (Non Paper, EU Commission, November 23, 2006), http://ec.europa.eu/comm/external_relations/belarus/intro/non_paper_1106.pdf.

policy that influences the cost-benefit analysis of an authoritarian regime, with the purpose of promoting democracy.¹⁶ External states and organizations (the European Union and Russia for different reasons) can alter the cost-benefit calculations of the Lukashenko regime and help bring about marketization and democratization.

Finally, here are some recommendations for action during the German EU/G8-presidencies and beyond.

In the energy field, the EU should raise the pressure on Belarus to modernize, by (a) establishing a permanent EU presence in Minsk; (b) setting up an “Energy Transit” working party (EU, Belarus, Ukraine, Russia); (c) targeting support to small and medium-sized businesses, alternative energy concepts, and civil society organizations (the German government’s “Belarus support program” could act as a pilot project for a wider EU program); and (d) demanding that Belarus sign the Energy Charter Treaty.

Institutionalizing energy relations between the EU and the supplier and transit states is a central task. The EU-Russia energy dialogue and the German-Russian energy dialogue must be conducted more efficiently. Both formats failed in the current transit crisis. The conflict offers another occasion to call for the German-Russian energy dialogue to be opened up to transit countries such as Poland, Ukraine, and Belarus. Anyone who is serious about German-Russian “strategic partnership” should be urging that energy relations with Moscow and the transit countries be put on a more solid legal footing.

After the breakup of the Belarusian-Russian relationship it is important to coordinate between the European Union and Russia on neighborhood policy toward Belarus. Further involvement of Belarus in European communication processes by means of media support and efforts to support the civil society should be continued. Critical dialogue should continue to be sought with those elements of the Belarusian elites who are open to it. It is of foremost importance to install a “special representative” for Belarus; a *Strategy Team Belarus* (STB) guided by High Representative Javier Solana; and to open an EU mission to Belarus in Minsk.

¹⁶ Thomas Ambrosio: *The Political Success of the Russia-Belarus-Relationship. Insulating Minsk from a “Color” revolution*, in: http://www6.miami.edu/maia/ISAS05/papers/Russia-Belarus_Thomas_Ambrosio.pdf.

Moldova's Uncertain Future

International Crisis Group

Executive Summary And Recommendations

With Romania's January 2007 entry into the European Union, the EU now shares a border with Moldova, a weak state divided by conflict and plagued by corruption and organised crime. Moldova's leadership has declared its desire to join the EU, but its commitment to European values is suspect, and efforts to resolve its dispute with the breakaway region of Transdniestria have failed to end a damaging stalemate that has persisted for fifteen years. Young people have little confidence in the country's future and are leaving at an alarming rate. If Moldova is to become a stable part of the EU's neighbourhood, there will need to be much greater international engagement, not only in conflict resolution but in spurring domestic reforms to help make the country more attractive to its citizens.

Two recent initiatives by the EU and Ukraine gave rise to hopes that the balance of forces in the separatist dispute had changed significantly. An EU Border Assistance Mission (EUBAM) launched in late 2005 has helped curb smuggling along the Transdniestrian segment of the Moldova-Ukraine frontier, a key source of revenue for the authorities in Tiraspol, the Transdniestrian capital. At the same time, Kyiv's implementation in early 2006 of a landmark customs regime to assist Moldova in regulating Transdniestrian exports has reduced the ability of businesses in the breakaway region to operate without Moldovan oversight, striking a major psychological blow.

But optimism that these measures would ultimately force Transdniestria to make diplomatic concessions has proved false. Although EUBAM has had significant success, particularly given its small size and budget, widespread smuggling continues. Nor has the Ukrainian customs regime had a decisive effect on Transdniestrian businesses, which remain capable of profitable legal trade as they were in the past.

Moreover, domestic political uncertainty in Ukraine has raised questions about whether Kyiv will continue to enforce the new regulations.

Russia has increased its support for Transdniestria, sending economic aid and taking punitive measures against Moldova, including a crippling ban on wine exports, one of its main revenue sources. Moscow refuses to withdraw troops based in Transdniestria since Soviet times whose presence serves to preserve the status quo. With Russian support, the Transdniestrian leader, Igor Smirnov—fresh from victory in flawed December 2006 elections—has little incentive to compromise in his drive toward independence. The internationally-mediated negotiations between the two parties are going nowhere, despite the presence since 2005 of the EU and U.S. as observers. Although some understanding had been reached about the level of autonomy in a settlement, Moldova has hardened its position to match Transdniestria's intransigence.

Barring a softening of Russia's stance, the best chance for moving toward a sustainable settlement is to convince the Transdniestrian business community that cooperating with Moldova is in its own interests. There is evidence that some business leaders are growing frustrated with Smirnov and may be willing to work with Chisinau.

For this to happen, however, both Transdniestrians and Moldovans will have to believe in the country's economic future. Its business environment is poor, foreign investment is low, and GDP per capita is on a par with Sudan's. The Communist Party government, headed by Vladimir Voronin, has shown little will to root out corruption and improve the business climate, and its Transdniestria policy seems based more on easy rhetoric than engagement. Moldova's relatively new commitment to a Western-oriented policy is opportunistic rather than deep-rooted.

The EU has the leverage to play a greater role in pressuring Moldova to carry out reforms; it can also help by lifting tariffs on agricultural products, including wine, that Moldova could potentially sell in its market, as well as on products from Transdniestrian factories such as steel and textiles. Transdniestria's smuggling revenue must be further restricted, through long-term assistance to the Ukrainian and Moldovan border and customs services and a multi-year extension of EUBAM's mandate. The Transdniestrian business community needs

confidence it can make money in a united Moldova but it is equally important to limit the economic benefits of the status quo.

Even if efforts to alter the economic calculus are successful, however, the absence of mutual trust will remain debilitating. Addressing this will likely require years of confidence-building, through political dialogue, transparent customs rules and trade relations, and measures to increase democratisation and freedom of the media on both sides. It may also require international guarantees to convince Transnistrian businesses that they will not be stripped of their assets by the Moldovan government following a settlement.

Moldova is increasingly reliant on the EU and so is vulnerable to pressure from Brussels for reforms that would increase its economic and political attractiveness to its own citizens, including Transnistrians. These reforms will have to have a central place if the groundwork for a settlement is to be prepared. The U.S. has been content to let the EU lead on Moldova, and the EU has done so—to a degree. But it must do far more with both incentives and pressures if it is to secure peace and prosperity in its neighbourhood and strengthen the weak roots of Moldova's European policy.

Recommendations

Moldova must show real political commitment in implementing the EU–Moldova Action Plan, particularly in the areas of media freedom, anti-corruption, judicial reform and the business environment. Until the government tackles the domestic situation, there is little prospect for a resolution of the Transnistria conflict or progress toward EU integration.

To help kickstart the peace process with Transnistria, Moldova must stop conditioning negotiations on up-front progress in democratisation and demilitarisation of the breakway region. Instead, it should show willingness to cooperate, particularly on customs and trade issues, even in the absence of movement on those longer-term goals.

Reforming the customs service and border guards in line with EU Border Assistance Mission (EUBAM) recommendations will help diminish the economic benefits of the status quo for both sides. Criti-

cal steps include granting investigatory powers to the border guards, phasing out use of conscripts, developing risk analysis capabilities and putting serious effort into tackling corruption. To ensure that the fledgling progress on the border continues, Moldova, together with Ukraine, should request a multi-year extension of EUBAM's mandate.

If Moldova does demonstrate genuine willingness to reform, the EU and its member states should provide more technical aid and expand anti-smuggling assistance by offering greater financial support to the customs and border authorities of both Ukraine and Moldova and an extension of EUBAM's mandate.

The EU should also grant Autonomous Trade Preferences to key Moldovan agricultural products, including wine, as well as goods produced by Transdniestrian factories, such as steel products and textiles.

Brussels should offer the Transdniestrian business community incentives to work constructively with Chisinau, such as Autonomous Trade Preferences for Transdniestrian exports, technical help in overcoming non-tariff barriers, and seminars, business clinics and trade missions, but it should show parallel willingness to impose targeted financial sanctions against the Transdniestrian leadership, including members of the business community, if cooperation is not forthcoming after a reasonable period of time. Punitive measures could also include a trade embargo on Transdniestrian exports to the EU.

The EU's leverage in Moldova is limited partly by its low visibility there and poor knowledge among Moldovans of what Europe stands for. The EU should increase its profile by relocating the EU Special Representative (EUSR) to Moldova to Chisinau, with a view to double-hatting the same individual as both EUSR and head of the European Commission delegation; granting the European Commission a mandate to negotiate a visa-facilitation agreement with Moldova; increasing funding for exchange programs involving officials, students, and civil society; and doing more public diplomacy in Transnistria, targeting the business community and students.

Ukraine, meanwhile, must continue to enforce the new customs regime along its frontier with Moldova and reform its customs and border services in line with EUBAM recommendations. It should also agree to establish joint customs posts with Moldova, both on

Moldovan territory in areas controlled by Moldova and on Ukrainian territory between Ukraine and Transdniestria.

Getting Russia to agree with Moldova, the EU, U.S., OSCE and other parties on the deployment of a modest international peacekeeping and/or policing operation with participation from the EU, Russia, and other interested states, and to withdraw all remaining troops accordingly, would be a major step forward for peace efforts.

Given its extensive political and economic influence on the Transdniestrian leadership, Moscow should also push Tiraspol to negotiate with Moldova in good faith and accept a reasonable political settlement; and it should revoke the ban on Moldovan wine and other agricultural products.

The U.S., together with the EU, can help Ukraine and Moldova to develop effective anti-corruption programs, particularly within the customs service and border guards; and should urge Ukraine and Moldova to come to an agreement on joint customs posts on Ukrainian and Moldovan territory if Transdniestria continues to refuse to allow Moldovan customs officers to operate on its territory.

They should also continue to condition ratification of the adapted Conventional Armed Forces in Europe (CFE) Treaty on withdrawal of Russian troops, including peacekeepers, from Moldova, unless they are re-hatted as members of a new international peacekeeping force. The EU and U.S. should ensure that preparations for such a force, which would include troops and civilian police from the EU, Russia, and other interested states, are at an advanced stage.

The EU, U.S., OSCE and other donors need to devote energy and financial resources toward strengthening cooperation between Transdniestria and Moldova at non-official levels. This can be done by organising and supporting educational exchanges, NGO workshops, cultural events and business clinics with participation from both sides, and by providing greater funding to Transdniestrian civil society and independent media.

Finally, all five of the parties formally involved in mediation efforts to date—Russia, Ukraine, the OSCE, the EU and U.S.—should explore the possibilities for providing international guarantees on property rights in a settlement between Moldova and Transdniestria.

I. Introduction

Romania's accession to the European Union in January 2007 has brought the EU frontier to the border of Moldova, Europe's poorest economy and a country that remains divided and plagued by corruption. The state is weak, its borders are porous, and organised crime, particularly in the self-declared republic of Transnistria, continues to thrive. While there has not been serious fighting between Moldova and Transnistria since 1992, a resumption of hostilities is not unthinkable.¹

But despite the urgent need to address the situation in the interests of both ordinary Moldovans and an EU seeking stability in its new neighbourhood, reforms are moving slowly, and there has been little progress toward a settlement with Transnistria, a sliver of land between Ukraine and the Dniester River, formally part of Moldova but controlled by a separatist government with no international recognition.

The standoff between Moldova and Transnistria is often included with the other "frozen conflicts" of the former Soviet Union—Abkhazia, South Ossetia and Nagorno-Karabakh in the South Caucasus. But history and demography suggest it should be comparatively easier to resolve.² The brief war that flared shortly after the break-up of the Soviet Union caused less bloodshed than those in Abkhazia and Nagorno-Karabakh³ and left relatively few psychological scars. There was no widespread ethnic cleansing or massive violation of human rights, and the displaced persons issue is not as politically charged as in the South Caucasus. The two sides are ethnically and linguistically heterogeneous (each with significant proportions of Romanians, Russians and Ukrainians),⁴ and relations between the people are reason-

¹ The region is called Transnistria in Romanian/Moldovan and Pridnestrovia in Russian. Crisis Group uses Transnistria because that term has been commonly employed by the international community, including the Organisation for Security and Cooperation (OSCE) in Europe, since the beginning of the crisis.

² For a concise history of the conflict, see Crisis Group Europe Report Number 147, *Moldova: No Quick Fix*, August 12, 2003.

³ Casualties in South Ossetia, about 1,000, were on a similar level to those in Moldova. Those in Abkhazia and Nagorno-Karabakh, according to the International Institute for Strategic Studies (IISS), were approximately 6,000 and 22,000 respectively.

⁴ According to a 2004 census, Moldova (excluding Transnistria) has 3.4 million inhabitants, of whom 78 percent are Moldovan/Romanian, 8 percent Ukrainian and 6 percent Russian. Moldova also has significant populations of Gagauz, a Christian community which speaks a Turkic language, and ethnic Bulgarians. A 2004 Transnistrian census reported a population of 555,000, including 32 percent Moldovan/Romanian, 30 percent Russian, and 29 percent Ukrainian.

ably warm. Moldova and Transnistria were together for half a century within the Moldovan Soviet Socialist Republic (MSSR), a shared history longer than that of many states in existence today.⁵

The conflict has proved anything but transient, however. Since the 14th Army intervened to stop the fighting in 1992, Russian troops, now labelled peacekeepers, have stood guard as Transnistria has steadily consolidated its de facto independence, thanks to an economy based on Soviet-era industry, smuggling, and the support—political, economic, and military—of Moscow. It now has all the institutions of a sovereign state, including a functioning government, a strong internal security service, police, border guards, a customs service and a currency (the Transnistrian rouble).

The Organisation for Security and Cooperation in Europe (OSCE) has led efforts to resolve the dispute but has made little headway. A 1997 “Moscow Memorandum” between Moldova and Transnistria, with Russia and Ukraine participating as guarantors, stipulated that any settlement would be based on the principle of Moldova’s territorial integrity but the division of competencies was never agreed. In February 2003, the EU and U.S. imposed travel sanctions on the Transnistrian leadership for “obstructionism and unwillingness to change the status quo.” In November 2003, a last-minute rejection by Moldovan President Vladimir Voronin of a plan put forward by Russia known as the Kozak Memorandum marked a major turning point, after which Voronin’s relations with Moscow deteriorated, and Moldovan foreign policy swung toward the West. Although the likely shape of an eventual settlement involving Transnistrian autonomy within Moldova is relatively well understood—and has been outlined in OSCE documents (and Crisis Group reporting)⁶—the negotiations have achieved little since the failure of the Kozak Memorandum.

The five-sided negotiations format (with Russia, Ukraine and the OSCE as mediators) was widened in 2005 to include the EU and the U.S. as observers, but the talks remain stalled; more energy is being devoted to trying to get the parties to negotiate in good faith than to the substantive issues. If anything, the positions have hardened, with

⁵ See “Thawing a Frozen Conflict: Legal Aspects of the Separatist Crisis in Moldova,” The Association of the Bar of the City of New York, 2006, p. 51.

⁶ See Crisis Group Report, *No Quick Fix*, op. cit.

Chisinau insisting it will not discuss final status issues until Transdnistria is democratized and the Russian troops are withdrawn, and Tiraspol having held an independence referendum in September 2006 (which unsurprisingly saw some 97 percent of residents vote for independence). Mutual trust is near an all-time low.

There have, however, been significant changes in dynamics since Crisis Group last reported on Moldova, in June 2004.⁷ In particular, the EU has become more actively engaged, while the policies of Ukraine and Russia have shifted sharply—the former, at least until the August 2006 appointment of Party of Regions leader Viktor Yanukovich as Prime Minister, becoming more pro-Western, the latter increasingly hardline in support of Transdnistria.

This chapter examines the prospects for ending the stalemate. It looks at the extent to which recent initiatives by the EU and Ukraine have changed the equation and what further actions may be necessary to bring about a settlement. It concludes that while a constitutional agreement that reunites the breakaway republic with Chisinau remains a realistic long-term goal, the immediate priorities should be to increase Moldova's political and economic attractiveness to Transdnistrians and to build confidence between the two sides.

II. A Changed International Landscape

External actors have been heavily involved in the conflict from the outset—especially Russia, but also to varying degrees Ukraine, Romania, the U.S., the EU and its member states and the OSCE.⁸ Over the past three years, the roles of Ukraine, the EU and Russia have evolved considerably, with major implications for settlement prospects.

Ukraine's shift is the result of the Orange Revolution, which brought to power a Western-leaning administration that has shown far more willingness than its predecessor to resolve the conflict. A co-mediator since 1995, it has always been somewhat equivocal, seeking to balance its relations with Russia and the West and rarely exercising a decisive influence one way or the other. In part, this is calculated:

⁷ See Crisis Group Europe Report Number 157, *Moldova: Regional Tensions over Transdnistria*, June 17, 2004.

⁸ For more on the role of Russia and Ukraine, see *ibid.*

Ukrainian elites have significant business interests in Transdnistria, and continue to profit from its unresolved legal status.

However, the new president, Viktor Yushchenko, has made resolution of the conflict a foreign policy priority. In April 2005, he presented a peace plan that had unrealistic elements but signalled increased engagement. Two months later, he made a joint request with Moldovan President Voronin to the EU for help in monitoring the porous Moldova-Ukraine border, across which the majority of Transdnistria's smuggling activities take place. This led to an EU Border Assistance Mission (EUBAM) in November 2005, which has had a number of successes.

Most significant was Ukraine's agreement with Moldova in December 2005 on new customs procedures for trade with Transdnistria. The region's businessmen had been able to export to Ukraine without reference to Chisinau. But as part of the new agreement, Ukrainian authorities pledged to stop accepting Transdnistrian goods that were not accompanied by Moldovan customs documents, which meant that Transdnistrian companies would have to register in Chisinau. Although Ukraine delayed implementation, the agreement was put into operation in March 2006, following strong EU pressure.

The revised customs regime was a serious political blow to the breakaway regime and has had economic consequences for Transdnistrian businesses. Kiev has pledged to continue to uphold the agreement, but there are concerns that the increasing power of Prime Minister Viktor Yanukovich could bring weaker Ukrainian resolve along the border.⁹

The EU has likewise become more heavily engaged in Moldova. As part of its Neighbourhood Policy, political dialogue has intensified considerably, and Moldova has been granted preferential tariff rates on a wide spectrum of products for export to the EU market. In February 2005, Brussels signed a three-year Action Plan with Moldova, setting priorities for settlement of the conflict and reform on a range of primarily domestic issues. It also opened a European Commission delegation office in Chisinau, appointed a Special Representative to Moldova, and, as mentioned above, joined the negotiation process

⁹ Yanukovich, the leader of the Party of Regions, was Yushchenko's rival for the presidency in 2004-2005 and is generally considered to be more pro-Russian.

between Moldova and Transdniestria as an observer and launched a Border Assistance Mission.

Possibly in reaction to these developments, but also perhaps symptomatic of its assertive posture toward all the former Soviet republics, Russia has become much more openly supportive of Transdniestria. In 2005, it banned the import of Moldovan meat, vegetables and fruit on questionable grounds. This was followed in 2006 by a crippling ban on wine, the country's largest export, which was widely seen as a political move to punish Moldova for its more Western alignment. In January 2006, it cut Moldova's gas supply for sixteen days and then negotiated a 100 percent price increase for future supplies.¹⁰

Following implementation of the new Ukraine-Moldova customs regime, Russia increased its economic aid to Transdniestria and signed a cooperation protocol with the separatist leader, Igor Smirnov, which for the first time recognised him as "President of Transdniestria."¹¹ Smirnov's announcement in May 2006 that Transdniestria would vote on independence before the end of the year was greeted with approval by Russia's special envoy to the negotiations process, Valeriy Nesterushkin.¹² Following the referendum, Russia's Duma called for the international community to recognise the result.¹³ Russia has also continued to resist calls to withdraw its troops in line with past commitments. Defence Minister Sergei Ivanov said they would remain until a "political settlement of the Dniester problem is attained."¹⁴ Moscow is also believed to have increased support to pro-Russian organisations in Transdniestria that propagate anti-Moldovan and anti-Western views, such as the youth movement Proriv ("Breakthrough"). With Moldova and Ukraine declaring their desire to join the EU, there

¹⁰ The price until December 31, 2005 was \$80 per 1,000 cubic meters. Russia and Moldova agreed on January 16, 2006 to raise this by 38 percent to \$110; in July 2006, it was further raised to \$160. The sides reached a long-term agreement in December 2006 that will see Moldova pay \$170 per 1,000 cubic meters for 2007, with the price set to rise to international levels over five years. Figures denoted in dollars (\$) in this report refer to U.S. dollars.

¹¹ In the past, agreements had been signed, "For Transdniestria, I. N. Smirnov". This protocol was signed "President of Transdniestria, I. N. Smirnov."

¹² "Russian envoy talks up importance of Dniester referendum outcome," Interfax, Moscow, May 31, 2006.

¹³ "Russian Duma backs independence for Transdniestria," RFE/RL, October 6, 2006.

¹⁴ "Russia says troops to remain in Moldova's Dniester region till conflict settled," ITAR-TASS, Moscow, May 31, 2006.

are fears the Kremlin intends to use Transdniestria to maintain its influence in a region it is not prepared to concede to the West.

All indications are that the Kremlin has no intention of relaxing its position on Transdniestria in the foreseeable future. There is certainly no reason to anticipate any softening of its hard line after the 2008 Russian presidential elections. This means that progress in talks on Transdniestria's constitutional status is unlikely, as is a withdrawal of troops, two issues at the heart of the conflict. However, progress is possible in a number of areas regardless of Russia's level of cooperation. These include trade relations, customs procedures and democratisation and media freedom, as well as confidence-building.

III. New Pressure on Transdniestria

The most promising area in which to focus efforts on breaking the stalemate is the economy. Although Moscow and Tiraspol have political interests in the status quo, their strongest bond is economic. For fifteen years, the Transdniestrian economy has survived through a combination of licit trade, smuggling and large subsidies from Russia. The concentration of industry left over from the Soviet Union and the region's position at the centre of large smuggling rings connecting the Ukrainian ports of Odessa and Illichivsk with markets in Ukraine, Moldova and beyond have made elites in Tiraspol, Moscow, Kiev and even Chisinau extremely wealthy. Changing the logic of this system and the incentives that result from it is critical.

Some believe a transformation is already under way as a result of the EU monitors on the Transdniestrian border with Ukraine and the new customs procedures Ukraine and Moldova are implementing to control Transdniestrian exports. A senior Western diplomat told Crisis Group: "With the customs regime in place, it's the end of the game for Tiraspol."¹⁵ Another said: "EUBAM's presence on the border means the game is up for Transdniestria."¹⁶ But such optimism is premature. Although EUBAM and the customs procedures are having an effect on the Smirnov regime, they have important limitations.

¹⁵ Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

¹⁶ Crisis Group interview, EU official, Brussels, June 2006.

A. How the Transdnistrian Economy Works

To understand the effects of those developments, it is important to appreciate how the Transdnistrian economy operates. Above all else, it relies on trade.¹⁷ Much of this is legal and consists of the output of a handful of large factories left over from Soviet times. The largest, the Ribnitsa steelworks,¹⁸ accounts for roughly 60 percent of legal exports and somewhere around half the tax revenues.¹⁹ Other major firms include Sheriff, an increasingly dominant chain of supermarkets and petrol stations that has built a state of the art football stadium in Tiraspol, Tirotext (textiles), Electromash (machine-building) and Kvint (cognac and wine, recently purchased by Sheriff). These companies send the bulk of their products to the CIS, primarily Russia, Ukraine and Moldova, but they also export to the world market, including Western Europe and the U.S. According to one study, a third of Transdnistrian exports in 2004 went to the EU, primarily Italy and Germany.²⁰

Russian subsidies, direct and indirect, are crucial. Transdnistria is given a preferential rate for its natural gas imports and is rarely asked to pay even that: it has run up a billion dollar debt to the Russian gas company Gazprom, which neither side seems particularly intent on settling. In the first three months following the implementation of the Ukraine-Moldova customs procedures, Russia gave over \$50 million in direct aid and another \$150 million in credits.²¹ In return, it is reportedly accumulating stakes in Transdnistrian businesses.²²

A third major source of income is smuggling, typically in the form of re-export schemes. In the most common, goods arrive at the nearby Ukrainian ports of Odessa and Illichivsk marked with Transdnistria

¹⁷ Reliable statistics on the Transdnistrian economy are difficult to come by. Statistics from the Transdnistrian authorities must be treated with caution and do not take into account the significant shadow economy. Information in this section is derived, unless otherwise indicated, from interviews with local experts and a range of published material, including from the Centre for Strategic Studies and Reforms (CISR). See in particular "Transdnistrian Market and Its Impact on Policy and Economy of the Republic of Moldova," CISR, July 2005, at www.cisr-md.org.

¹⁸ Known officially as the Moldovan Metallurgical Plant (MMZ).

¹⁹ "Thawing a Frozen Conflict," *op. cit.*, p. 87.

²⁰ "Transdnistrian Market," *op. cit.* These were mostly textiles, but Transdnistria also exports significant steel to the EU.

²¹ Crisis Group interview, Brussels, May 2006.

²² Crisis Group interview, Chisinau, May 2006.

as their final destination, thereby avoiding Ukrainian customs duties. They are shipped to Transdnistria by road or rail but soon after arrival are re-exported to Ukraine or across the internal border to Moldova. Because the re-export is done illicitly, across fields and rivers or by bribing border guards, the importers avoid paying Ukrainian or Moldovan import duties and value added tax (VAT), thus generating large profits.²³ EU border monitors estimate that the smuggling of frozen chicken alone could potentially have cost Ukraine's budget €35 million in just seven months.²⁴

But there are numerous schemes. For example, though a Ukrainian law bans import of cars older than eight years, a loophole allows individuals who have been registered as living abroad for over a year to bring in a vehicle of any age for personal use before taking up or resuming residency in Ukraine. This is exploited by Ukrainians, who import hundreds of older cars and then bribe Transdnistrian authorities to issue documents stating they have lived in Transdnistria for the past year.²⁵

Transdnistria has often been described as an arms trafficking hub, but there is little evidence of this. The weapons factories left over from the Soviet Union that continue to operate are believed to produce mostly steel, pumps and spare parts for Russian and Ukrainian arms factories.²⁶ Although illegal trafficking of arms, as discussed below, cannot be ruled out, it is unlikely to account for a significant proportion of GDP.

In recent years, the Transdnistrian government has also earned considerable revenue from the privatisation of formerly state-owned companies. However, the last major holding, the cognac company Kvint, was sold to Sheriff in July 2006 for a reported \$21 million.²⁷

²³ Transdnistrian taxes on imports, if charged, are generally much lower than Moldova's or Ukraine's, and there is no VAT.

²⁴ Crisis Group interview, EUBAM, Odessa, May 2006.

²⁵ Crisis Group interview, Kuchurgan, May 2006.

²⁶ Crisis Group interview, May 2006. According to Moldova's state news agency, Transdnistrian Defence Minister Stanislav Khazheyev recently told the Russian newspaper *Krasnaya Zvezda* that the region has manufactured rocket launchers, 82-mm and 120-mm mortars and RPG-7 grenade launchers. However, he denied it had sold these. "Moldova's Dniester region makes arms, official tells Russian paper," Moldova 1 television, 1900 GMT, June 30, 2006.

²⁷ As reported on the "Den" news broadcast, Tiraspol Dniester Moldovan Republic TV, 1740 GMT, July 12, 2006.

With only smaller companies left to privatise, there are concerns in Transdnistria that the region may run short of cash in 2007.²⁸

B. The EU's Engagement

In 2004, the European Commission included Moldova among the sixteen states in its new European Neighbourhood Policy (ENP), designed to enhance relations with countries on the EU periphery.²⁹ Shortly after the EU and Moldova signed their Action Plan (discussed below) in February 2005, the European Council appointed as Special Representative (EUSR) to Moldova Dutch diplomat Adriaan Jacobovits de Szeged, who had previously served as the special envoy on Transdnistria of the 2003 OSCE Dutch Chairman-in-Office.

Designed to raise the EU's profile in the region and give greater coherence to its policy, the appointment of the EUSR has been well received by all sides. Jacobovits was directly involved in the negotiations process as well as in bilateral talks with the key players. In February 2007, he was succeeded by Hungarian diplomat Kalman Mizsei. The creation of the EUSR position has been a positive step, but to improve the EU's visibility and political credibility on the ground, it would be best to locate the EUSR in Chisinau as opposed to Brussels, with a view to unifying his position and that of the head of the Commission delegation.³⁰

There have long been proposals for the EU to get physically involved with the Transdnistrian dispute by providing peacekeepers in the context of an overall settlement or, as Crisis Group has proposed, internationalising the existing force. Such a contingent would likely have to be led jointly by the EU and Russia, possibly under an OSCE mandate. The EU is divided over whether it would like such a

²⁸ Crisis Group interview, economic adviser to the Transdnistrian government, Tiraspol, May 2006.

²⁹ The other fifteen are: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia and Ukraine. The ENP is the EU's response to countries with membership aspirations but no prospect of early accession talks, a means "to offer more than partnership and less than membership without precluding the latter." Romano Prodi, "A Wider Europe: a proximity policy as the key to stability," speech to the Sixth ECSA-World Conference, Brussels, 5-6 December 2002.

³⁰ Crisis Group recommended such a "double-hatting" arrangement as general practice in Europe Report Number 160, *EU Crisis Response Capability Revisited*, January 17, 2005, p. 43. It was adopted by the EU for Macedonia in October 2005.

mission.³¹ As noted above, however, it is already on the ground in a somewhat different context from standard peacekeeping. The launch of EUBAM on November 30, 2005 was hailed by Moldovan authorities as a major step toward resolving the conflict with Transdnistria.³²

That mission's official purpose is to boost the capacities of the Moldovan and Ukrainian border guard and customs services to combat "criminal activities such as trafficking in persons, smuggling, proliferation of weapons and customs fraud," as well as to "play an important role in building preconditions for seeking a peaceful settlement of the Transnistrian conflict."³³ Its 101 staff members, led by Hungarian Brigadier General Ferenc Banfi, are divided between Odessa headquarters, five field offices along the border (three along the Transdnistrian segment³⁴), a field office in Odessa covering the Ukrainian Black Sea ports of Odessa and Illichivsk, and a Chisinau field office that monitors the internal border between Transdnistria and the rest of Moldova.³⁵

Rather than patrol the border themselves, EUBAM experts monitor how the Moldovan and Ukrainian border guards and customs services do document checks and vehicle inspections, accompany border guards on occasional patrols, observe customs clearance procedures and foster cooperation and information-sharing between the two sets of authorities. Although EUBAM has no executive powers and cannot itself inspect or investigate suspected traffickers, it can

³¹ EUSR Jacobovits was apparently in favour of proposing such a force to help settle the separatist dispute, but member states such as Germany and France, as well as High Representative Javier Solana, are against a mission until after a settlement has been reached. The U.S. is reportedly closer to the former EUSR's view but unwilling to commit its troops or police. Romania is said to be keen on participating but this would not be viewed favourably by the EU or Russia. Crisis Group interviews, May–July 2006.

³² The management structure was debated in Brussels for weeks, with many member states hoping it could be run by the EU Council as a formal European Security and Defence Policy (ESDP) mission and suspicious of the Commission's ambitions. However, even those who were most reluctant to see the Commission take charge now praise the mission's successes. Crisis Group interviews, EU member state diplomats, Brussels, September/October 2005 and March/April 2006.

³³ European Commission press release, November 29, 2005.

³⁴ The Transdnistrian segment of the 1,200 km Moldova-Ukraine border is approximately 470 km.

³⁵ In its first phase, to May 20, 2006, the mission had 70 staff from EU member states, approximately 50 of whom were deployed along the border. For phase two, it was strengthened by a further 31 border experts, an analytical headquarters cell and field offices in Odessa and Chisinau. The mission has 57 national staff in support roles.

observe and advise local authorities and request that individuals or cargo be re-inspected in its presence. An analytical cell in Odessa helps process and evaluate the information compiled by field offices.

EUBAM's findings suggest that Transnistria is not the arms and drugs trafficking black hole critics have long contended. It has found no evidence of organised arms smuggling and only minor drug trafficking.³⁶ What it has discovered is organised smuggling on a massive scale of basic consumer goods and foodstuffs, in particular frozen chicken: it calculated that Transnistrian companies imported 42,000 tons of chicken across the Ukrainian border from October 2005 to April 2006, the equivalent of 70 kg of meat for each Transnistrian. By comparison, the average German ate 11 kg of chicken in all 2004. The implication is that most of the chicken imported to Transnistria was illegally re-exported.³⁷ Profits run in the tens of millions of euros per year. Other foods are also regularly smuggled out. In the winter of 2005-2006, authorities apprehended a man dragging a sled packed with thousands of dollars worth of frozen squid across a lake straddling the Transnistrian border.³⁸

EUBAM has found serious management deficiencies on both sides of the border and has made a number of recommendations to the Moldovan and Ukrainian governments with a view to bringing standards up to those in the rest of Europe. These include upgrading information technology and communications equipment, giving all border agencies investigatory powers, improving daily information exchange, developing risk analysis capabilities and decentralising authority.

The reaction to EUBAM and assessment of its performance have been almost universally positive. Moldovan, Ukrainian, EU and U.S. officials have praised the speed with which it was deployed, its impact on the ground in countering smuggling and improving cross-border cooperation and its political impact.³⁹ "It's not waterproof, but it's cer-

³⁶ EUBAM identified three cases of marijuana smuggling on a rail route originating in Chisinau and transiting Ukraine to Moscow when it conducted a cross-border operation in the spring of 2006. A total of 3.9 kg were seized. Crisis Group interview, EUBAM, Odessa, May 2006.

³⁷ Crisis Group interview, EUBAM, Odessa, May 2006.

³⁸ Crisis Group interview, Kuchurgan, May 2006.

³⁹ Russian and Transnistrian officials, who reacted angrily to the new customs regime (see below), have been less positive, but notably restrained in public criticism.

tainly having an effect by shining a light on what goes on at the border,” said a Western diplomat in Chisinau.⁴⁰ Moscow has not criticised it publicly, though in private Russian officials are not enthusiastic.⁴¹

The mission is widely credited with having created the conditions for the implementation by Ukraine of its new joint customs procedures with Moldova, long a goal of Moldova as well as the U.S. and EU so as to force Transdnistrian businesses to cooperate with Chisinau. According to an EU official in Brussels, “In the past, the Ukrainians made excuses that they couldn’t implement the customs regime for technical reasons, but now EUBAM is there to give technical responses, and this has made the customs regime possible.”⁴² EUBAM also played a crucial role immediately after the new procedures were implemented in countering the Transdnistrians’ assertions that the Ukrainian action amounted to an economic blockade and had created a “humanitarian catastrophe” (see below).

The political impact was thus felt almost immediately. The success of the counter-smuggling and training aspects of its mandate, however, is less clear-cut. There is some evidence that pressure on smuggling operations has increased, but there should be no illusions that the mission has ended the activity. The Moldova-Ukraine border is 1,200 km and topographically a smuggler’s paradise. The terrain is flat, with houses and farms straddling a frontier which in some areas is not signposted and has numerous lakes and rivers with large reed beds that provide cover for smugglers. EUBAM has less than 100 experts on the border, and these are concentrated in a few teams that spend most of their time at checkpoints. According to an expert with knowledge of the area, “The border is basically wide open it’s so porous. No one bothers trying to smuggle through the checkpoints because it’s so easy to evade [Ukrainian] border guards.”⁴³

Also worrying is that 95 percent of goods that enter and exit Transdnistrian border checkpoints do so by train.⁴⁴ EUBAM is at two of these transit points, but only Kuchurgan has equipment and facilities

⁴⁰ Crisis Group interview, Chisinau, May 2006.

⁴¹ Crisis Group interview, senior Russian official, Moscow, June 2006.

⁴² Crisis Group interview, Brussels, May 2006.

⁴³ Crisis Group interview, Kuchurgan, May 2006.

⁴⁴ Crisis Group interview, EUBAM, Odessa, May 2006.

to inspect train cargo, and this is rarely done. “You could smuggle anything in those trains,” commented a border expert, a point EU officials have acknowledged privately to Crisis Group.⁴⁵ Although EUBAM has not found evidence of arms trafficking, it cannot assert with confidence that it is not taking place.

EUBAM does not claim to be a physical deterrent to smugglers. Rather it works to improve the capacities of Moldova and Ukraine to police the border themselves, including through risk analysis:

You can’t control the border physically unless you build a Berlin Wall along it, so you need risk analysis to be able to predict suspicious movements [of goods]. For this risk analysis to work, you need effective information exchange between the Moldovans and Ukrainians.⁴⁶

By all accounts, information exchange has improved markedly since EUBAM’s arrival but has a considerable distance to go.⁴⁷ If cooperation between agencies within Moldova and Ukraine is anything to go by, this will remain a challenge long after EUBAM has departed. Relations between the Ukrainian border guards and police, for example, are atrocious. According to EUBAM’s Banfi, the lack of interagency cooperation is a legacy of the Soviet Union, whose decision-making was centralised and agencies were kept in the dark about the activities of others so that only the very top was fully informed. This attitude is unlikely to change overnight.⁴⁸

The border agencies’ lack of investigatory powers is another serious obstacle to effective risk analysis. Of the four services (Moldovan and

⁴⁵ Crisis Group interviews, Kuchurgan, Odessa and Brussels, May–June 2006. The trains tend to carry steel wire, scrap metal, coal and other cargoes well-suited to concealing illicit goods.

⁴⁶ Crisis Group interview, European official, June 2006.

⁴⁷ Crisis Group interview, Anatolie Barbarosie, vice-director general, and Simion Hadirca, head of customs law and international relations division, Moldovan customs service, Chisinau, May 2006.

⁴⁸ Crisis Group interview, Ferenc Banfi, Odessa, May 2006. In a telling incident, a car attempted to cross into Ukraine from Transdnistria with a piece of rubber flapping from a tyre, a safety hazard. On seeing that the border agents were going to let the car in, EUBAM asked the agents if it was legal. The agents replied that road safety was a police matter and waved the car through. EUBAM then asked if the agents would notify the police to stop the vehicle. The response was that the police were not authorised to operate within five km of the border so would not be called.

Ukrainian border and customs services respectively), only the Moldovan customs service has the power to investigate serious criminal violations. Such crimes are generally handled by the interior and state security ministries. The other services are authorised to deal only with low-level administrative violations. Personnel have little incentive to pursue organised crime, as cases are likely to be forwarded to another agency.

The problem is also one of attitude:

There appears to be a reluctance to get at the roots of the problem. It's easier to just do the basics and ignore the wider picture. Under the present system, border guards stop smugglers on a minor illegal crossing charge that guarantees one or two days in prison instead of following them and trying to learn more about and possibly bust a smuggling operation.⁴⁹

Changing this attitude in both Moldova and Ukraine is a major challenge. According to Iurie Pinteau, a security sector expert with the UN Development Programme (UNDP), "You cannot change the [Moldovan] border guards without changing the entire security sector. What ails the border guards is deeply entrenched in their mentality."⁵⁰

An issue EUBAM has raised with Kyiv is that of smugglers obtaining advance knowledge of Ukrainian border patrols. Each border unit submits a weekly report to headquarters with a patrol plan for the next week from which it does not deviate. "Kyiv knows where every border patrol is in the country at any one time," says a border expert interviewed by Crisis Group.⁵¹ This is information smugglers would gladly pay for. EUBAM has recommended delegating more power to field personnel to patrol based on daily intelligence rather than a pre-set schedule. But the problem of corruption goes far beyond patrol schedules; it pervades the border agencies of both countries. One reason frontline agents lack initiative is that they often do not know how high up in their own agency the corruption goes. "They don't necessarily want to know who is doing what because it may be their boss or his buddy."⁵²

⁴⁹ Crisis Group interview, Kuchurgan, May 2006.

⁵⁰ Crisis Group interview, Iurie Pinteau, UNDP, Chisinau, May 2006.

⁵¹ Crisis Group interview, Kuchurgan, May 2006.

⁵² *Ibid.*

EUBAM is working hard to overcome these obstacles but its resources are limited. Initially its training activities were limited to ad hoc, on-the-job advice in such areas as vehicle inspection and spotting false identification, but it EUBAM now says the classroom component of its programs is growing. There have been concerns that much of this training would be quickly lost because of the widespread use of military conscripts in the border agencies of both Moldova and Ukraine, but the sides—and particularly Ukraine—have reportedly made progress in professionalizing their agencies. EUBAM has been a catalyst for this process.

Still, there are serious concerns about what will happen if and when EUBAM leaves after its two-year mandate expires at the end of 2007. Changing the mentality of the border guards and customs services may require decades as well as increased training, financial aid and external pressure. As a first step, the EU should seek a request from Moldova and Ukraine and begin planning for a multi-year extension of EUBAM's mandate. Only with a long-term commitment will it be possible to crack down on the array of smuggling schemes that the Transdnistrians (and their business partners elsewhere) have perfected over the past decade and a half.

C. The Customs Regime

Moldova and Ukraine had made similar agreements pursuant to which the latter was not to accept Transdnistriean products that were not accompanied by export documents obtained by registering with the Moldovan government. Until the December 30, 2005 agreement, which came into force in March 2006, however, these had never been strictly enforced; business circles in Ukraine, as well as in Chisinau and Moscow, with interests in Transdnistria had too much to lose. Even after the latest agreement was signed, the Ukrainians delayed implementation and went along only when the EU threatened to speak publicly about lack of cooperation—at a time when President Yushchenko's Our Ukraine party was fighting a parliamentary election on a platform of EU integration.⁵³ The Transdnistriean leadership

⁵³ Crisis Group interview, May 2006.

⁵⁴ See, for example, "Leader says Dniester region under economic attack by Moldova, Ukraine," ITAR-TASS, Moscow, March 5, 2006, and "Russia considering Dniester region's appeal over new customs rules," Interfax, Moscow, March 9, 2006.

immediately complained vigorously,⁵⁴ as did the Russian Duma,⁵⁵ while Moscow began sending “humanitarian aid.”

The reality on the ground was quite different. An alarmed Transdnistrian leader, Igor Smirnov, ordered local businesses to respond to the procedures by ceasing to export.⁵⁶ The only blockade was thus self-imposed.⁵⁷ Smirnov seemed to be playing for time: with Ukraine embroiled in negotiations over the formation of a new coalition government, his hope was that the next administration in Kyiv might not enforce the customs rules.⁵⁸

Under the new regulations, Transdnistrian companies that wish to export can register either permanently or temporarily in Chisinau. The process is swift and inexpensive. Permanent registration grants the company the status of a regular Moldovan economic agent, with access to EU trade preferences⁵⁹ but also obligations to the state budget such as VAT and income tax. Temporary registration does not provide access to EU trade preferences, but neither does it require any payments to the state budget. Chisinau has promised to reimburse import duties paid by registered Transdnistrian companies when they bring goods into Moldova. Some 287 of an estimated 300 companies had registered in Chisinau by February 2007,⁶⁰ about half permanently.

The customs regime has clearly worried the Transdnistrian leadership, as well as Russia. Its message that legitimate business activity can only be done via Chisinau has struck a major psychological blow: “If Kiev continues to do what they say they’ll do on the border, then Russia is powerless.... The bottom line is that if the border regime sticks, Transdnistria has to deal with Chisinau.”⁶¹

⁵⁵ “Russian State Duma condemns Moldova’s and Ukraine’s actions on the border,” Infotag, Chisinau, March 10, 2006.

⁵⁶ Crisis Group interviews, Brussels, Kiev, and Chisinau, May–June 2006.

⁵⁷ Initial confusion was exacerbated by poor communication. Neither Moldova nor Ukraine explained procedures so media with no one at the border re-broadcast the humanitarian catastrophe line. Only after the EU’s Javier Solana issued a strong statement on March 6 did Ukraine start to defend its policy. The Moldovan government’s first public diplomacy effort was a March 6 press conference by Prime Minister Vasile Tarlev and March 7 statements by Minister for Reintegration Vasillii Sova.

⁵⁸ Crisis Group interviews with several officials and analysts in Brussels, May 2006.

⁵⁹ These are discussed in detail in Section IV below.

⁶⁰ According to the “Summary of the Reports to the 5th EUBAM Advisory Board Meeting,” EUBAM, www.eubam.org.

⁶¹ Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

There remain serious concerns about the extent to which Ukraine will continue to enforce the customs procedures. The growing influence of the more Russia-oriented Party of Regions and its leader, Viktor Yanukovich, could well foreshadow a change in policy toward Transdnistria.⁶² The EU will need to maintain pressure on Kiev to enforce the customs procedures. “The big question is whether Ukraine will continue to play the game,” says an EU official. “If they pull out, they will have to pay for it.” But it will be equally important for the EU to stand up to Moscow. According to Ukrainian political analyst Olexander Sushko:

Brussels needs to send a clear message to Moscow that its support for the status quo in Transdnistria is not consistent with its role as a reliable international partner on the world stage. When [Commission President] Barroso visited Moscow recently, he talked only about pipelines. The EU needs to be clearer in its message about Moldova and its support of the customs regime; otherwise Kiev is left alone to face Russian pressure.⁶³

But the customs regime is probably not sufficient to change the Moldova-Transdnistria relationship. Although Transdnistrian businesses have an incentive to register, they can then return to business as usual, without paying tax to Moldova. The companies that pay tax—those that wish to benefit from Moldovan trade preferences for exporting to the EU—do so because they believe the benefits outweigh the costs. But this option is not new; Transdnistrian companies have long been able to register in Chisinau and obtain Moldovan customs documents. Moreover, companies that register temporarily (and so do not pay Moldovan tax) may still export to the EU under the Most Favoured Nation (MFN) tariff rate, which for many products is not significantly worse than the “GSP+” rate applied to Moldovan entities.⁶⁴ Also, the economic cooperation protocol Russia and Transd-

⁶² It is interesting that Moldova is not mentioned in the Ukrainian government agreement of August 3, 2006.

⁶³ Crisis Group interview, Olexander Sushko, Kiev, June 2006.

⁶⁴ The GSP+ is a system of EU trade benefits which entered into force in Moldova on 1 January 2006. Previously, Moldova traded under the GSP system. (GSP stands for Generalised System of Preferences.) According to the European Commission’s Directorate-General for Trade, “The EU’s GSP grants products imported from GSP beneficiary countries either duty-free access or a tariff reduction, depending on which of the GSP arrangements a country enjoys.... The special incentive arrangement for sustainable development and

niestria signed in May 2006 gives Transdniestrian businesses preferential tariffs for exporting to Russia; by registering in Chisinau temporarily, they can ship their goods through Ukraine to the Russian market without difficulty.

The new customs regime is a bitter political pill for the Transdniestrian regime but only that; it does little economic damage.⁶⁵ Only if it is used as a means for imposing new conditions—for example, if Transdniestrian companies were asked to allow Moldovan inspectors into their factories on threat of having their registration revoked—would it cause the businesses much distress. As Moldova analyst Nicu Popescu puts it, “the new customs regime is in many ways a tool that can only bring about a change in the status quo if it is used as a stick to force concessions from the Transdniestrians. But pressure should be coupled with greater incentives for compliance. If it remains as it is now, it will be only a minor step forward.”⁶⁶

A further weakness in the customs regime is the lack of control over Transdniestrian imports. Goods from Ukraine continue to enter Transdniestria directly, at checkpoints on the Transdniestrian segment of the Moldova-Ukraine border. Since Moldovan customs officers are not permitted to operate there, they have no way of knowing what is being imported unless Transdniestrian companies declare their imports at an inland Moldovan customs office. This means the Transdniestrians can still run their illegal re-export schemes. Controlling imports would require Moldovan customs officials at these border points, or an unprecedented level of information exchange between Ukrainian and Moldovan customs officials, neither of which appears likely in the near future.⁶⁷

good governance (the “GSP+”) provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance.” GSP+ applies to eleven Latin American countries, as well as Georgia, Moldova, Mongolia and Sri Lanka.

⁶⁵ The economic impact on the Ribnitsa steelworks is said to be more significant. It must now divert its shipments through Moldova to have them verified (as opposed to shipping directly to Ukraine). This is said to have raised the price of a ton of its steel exports by \$15—several million dollars for total production. Information provided to Crisis Group by CISR, Chisinau, based on data from Transdniestrian sources.

⁶⁶ Crisis Group interview, Nicu Popescu, CEPS, Brussels, June 2006.

⁶⁷ Since Transdniestrian authorities would be unlikely to allow Moldovan officials at their checkpoints, they would have to work from the Ukrainian side, jointly with Ukrainian officers. Kiev has not allowed this, despite repeated Moldovan requests.

Allowing Moldovan customs officials to operate on Transnistrian territory would be central to making the customs procedures more effective, but it looks a long way off. The EU, U.S. and Ukraine should support Moldova's attempts to secure this right from the Transnistrians, using not only pressure but also incentives and confidence-building measures, as discussed below.

IV. Making the Case for a United Moldova

As long as Russian support for Transnistria continues, the recent measures aimed at squeezing the Transnistrian economy will not be enough to break the stalemate and compel the breakaway region to normalise relations with Chisinau. The Transnistrian elite will need to decide that a future within Moldova has more to offer than one apart from it.

A. *A Split in the Transnistrian Elite?*

Until recently, such a decision seemed impossible, as real cooperation between Tiraspol and Chisinau would remove Transnistria's *raison d'être*. But a constituency in Transnistria may be ready to take a more conciliatory line.

In December 2005, a group of business leaders headed by the then deputy speaker of the Supreme Soviet (the Transnistrian parliament), Evgeny Shevchuk,⁶⁸ won an unexpected victory in legislative elections. The movement, *Obnovlenye* ("Renewal"), which formally registered as a political party in June 2006, gained 23 of 43 seats, defeating the pro-Smirnov Republica party. The Supreme Soviet has traditionally had little power but many analysts believe *Obnovlenye*'s victory signifies the growing influence of the business community. Subsequently, Shevchuk was elected speaker of parliament, a highly visible position.

Shevchuk is closely linked to a number of Transnistrian companies, including the dominant supermarket chain, Sheriff. He portrays

⁶⁸ Shevchuk, born in Ribnitsa (Transnistria) in 1968, graduated from law school in Tiraspol in 1996 and has been head of the Tiraspol tax administration, manager of Sheriff's Ribnitsa branch and branch manager of Agro-Industrial Bank. Elected to the Supreme Soviet in 2000, he is ethnic Ukrainian, with a Russian passport, and attended the Kyiv Diplomatic Academy, 2002–2003. According to a Western official with knowledge of the region, "Ukrainians in Kyiv see him as their guy in Tiraspol." Crisis Group interview, May 2006.

himself as a young reformer, “a social democratic technocrat with a European outlook.”⁶⁹ His party calls itself “pro-business and pro-Western” and says that, though it supports Transnistrian independence like Smirnov, it differs on economic issues. Transnistria has “an incomplete market economy,” party member Mikhail Burla says, and Obnovlenye’s goal is to make it “more European.”⁷⁰

Shevchuk certainly speaks the language of the Western-minded businessman. According to him:

Transnistria can survive under the current conditions but it can’t develop. Investors are frightened away: one day we’re under a customs regime, the next day we’re not. European companies look a year ahead in determining their contracts and strategy, so with the volatility here, we have no chance of attracting investment. Given that we haven’t invested much in infrastructure, this is not a good situation... if things continue, employees of small and medium business will leave for countries with more stability, and only pensioners and radicals will remain.⁷¹

In the spring of 2005, Obnovlenye tried to initiate constitutional reforms that would have weakened Smirnov’s powers and strengthened parliament. Although the motion failed, many saw it as a sign of division within the regime. Friction between Smirnov and the local business community grew after Ukraine began to enforce the new customs regime in March 2006 and Smirnov ordered Transnistrian businesses to stop trading so as to create the impression of an externally-imposed blockade and enlist Ukrainian and Russian business leaders to press Kiev to back down. But on the insistence of Sheriff, Smirnov relented, at first allowing imports of foodstuffs, and later, with inventories piling up, including at the Ribnitsa steel factory, allowing exports which required registration in Chisinau. “What investor would invest in a Transnistrian enterprise when they see that inventory can sit in the warehouse for three months,” asks Shevchuk.⁷²

⁶⁹ According to his official biography on the government’s website, http://pridnestrovie.net/evgeny_shevchuk_bioprofile.html.

⁷⁰ See <http://pridnestrovie.net/renewal.html>.

⁷¹ Crisis Group interview, Evgeny Shevchuk, speaker of Transnistrian Supreme Soviet, Tiraspol, May 2006.

⁷² *Ibid.*

Other incidents suggest that the split between Smirnov and Obnovlenye is real. On July 5, 2006, members of Proriv, the government-sponsored political party and youth movement with links to the security services, demonstrated outside parliament against plans by Obnovlenye to introduce legislation that would have distributed land on long-term lease to large producers to individuals who used to belong to collective farms.⁷³ Proriv is thought to get its orders directly from the regime, so the protest is significant.

In Chisinau, Shevchuk is widely seen as a possible successor to Smirnov, but his reformist credentials are viewed with scepticism. His position on Transdnestrian independence is widely considered ambiguous. His public statements suggest he strongly supports it, and in May 2006, he proposed a UN-monitored referendum.⁷⁴ But some analysts see him as a pragmatist whose position is dictated more by internal politics than conviction. Moldovan commentator Andrei Popov notes his rhetoric has grown tougher since March 2006 to keep pace with Smirnov, who has used the customs "crisis" to radicalise debate and sideline moderates. Popov cites an earlier Shevchuk comment that "any Transdnestrian politician who would say that he is for a unitary Moldova automatically becomes a cadaver in Transdnestrian politics."⁷⁵ A senior EU official told Crisis Group he believes Shevchuk would be willing to allow a special OSCE assessment mission to visit the region to evaluate democratic conditions, something Smirnov has opposed since it was proposed in September 2005 by Moldova and Ukraine.⁷⁶

Speaking with Crisis Group, Shevchuk appeared generally open to approaches aimed at improving confidence between the two sides but noted that in the current climate, "Transdnestria would unite with any side but Moldova."⁷⁷ His primary goal appears to be a more stable business environment. After much speculation that he might run

⁷³ "Progovernment group opposes land reform favoured by Moldova's Dniester MPs," *Olvia Press*, July 5, 2006.

⁷⁴ See "Dniester speaker comments on relations with Moldova, referendum," *Argumenty I Fakty* (Moldova), May 31, 2006, and "Moldova's rebel region speaker proposes UN-monitored referendum," *Infotag*, Chisinau, May 26, 2006.

⁷⁵ Andrei Popov, "Tiraspol softens its stance on new customs regulations: a first or a pyrrhic victory?" *Eurojournal.org*, June 2006.

⁷⁶ Crisis Group interview, Brussels, June 2006.

⁷⁷ Crisis Group interview, Shevchuk, Tiraspol, May 2006.

against Smirnov in the December 2006 “presidential” election, he did not, saying stability for Transnistria mattered more than his personal ambitions.⁷⁸ What seems clear, however, is that the Transnistrian business elite is gaining influence, and its interests are diverging from Smirnov’s. “The consensus is that a substantial proportion of the Transnistrian business community is ready to sign up to Chisinau’s rules,” says a senior Western diplomat. “These guys know that there is money to be made in legal business.”⁷⁹ The challenge for Moldova, as well as the EU, U.S. and Ukraine, is to exploit the divisions in the Transnistrian regime so as to bring into power those with an incentive to work with Chisinau.

B. Moldova’s Flawed Approach

The stalemate in negotiations has hardened in recent months because of the increasing intransigence of both sides. Many Moldovan officials and political analysts now demand that Transnistria meet three major conditions before its constitutional status can be resolved. These “3Ds”⁸⁰ are democratisation (free elections, but also lifting restrictions on civil society, the press and political opposition); demilitarisation (starting with withdrawal of Russian troops and arms); and decriminalisation (essentially a crackdown on illegal economic activities).⁸¹

This approach was the thrust of a proposal for solving the conflict put forward by Moldovan think tanks in late 2004 and subsequently formed the basis of a controversial law passed by parliament in July 2005 that set out principles for resolving the dispute.⁸² Similarly, the key tenet of the April 2005 peace plan of Ukraine’s Yushchenko was that constitutional negotiations should only begin following interna-

⁷⁸ See “For opposition leader, the survival of Pridnestrovie is more important than who has the top job,” *Tiraspol Times & Weekly Review*, 9 December 2006.

⁷⁹ Crisis Group interview, senior Western diplomat, Chisinau, May 2006. There are signs this view is gaining currency at the highest levels of the Moldovan government. At an July 11, 2006 press conference, President Voronin called for the Transnistrian leadership to be excluded from the negotiations and replaced by Supreme Soviet representatives. “Moldovan president upbeat on Dniester conflict settlement,” Infotag, Chisinau, July 11, 2006.

⁸⁰ The 3D approach was launched by Moldovan political analyst Oazu Nantoi and others at the Institute for Public Policy (IPP) in 2003. See Oazu Nantoi, “‘3D’ strategy—from ‘extremism’ to consensus?” November 3, 2004, www.e-democracy.md.

⁸¹ Though some interpretations extend “decriminalisation” to purging the entire Transnistrian political leadership.

tionally-monitored free and fair elections in Transdnistria.⁸³ Reflecting this line, talks are focused on issues relating to democratisation and demilitarisation, or as Moldovan Minister for Reintegration Vasiliï Sova puts it, “preconditions before moving on to the final goal.”⁸⁴

There is little question that Transdnistria’s lack of democracy is an obstacle to a settlement. The region is essentially a dictatorship run by Smirnov and his security chief, Vladimir Antyufeyev, neither of whom has any interest in normalising relations with Chisinau. There is virtually no press freedom. Political opposition is almost non-existent, notwithstanding *Obnovlenye*, which has survived and grown because of its economic clout rather than by questioning political fundamentals. The only civil society organisations are those deemed non-political or, like *Proriv*, that have an anti-Moldovan agenda and are sponsored by the regime.⁸⁵ The absence of democratic institutions restricts public debate, gives Transdnistrians a distorted view of Moldova and allows the regime to pursue its narrow interests without accountability.

The Russian troops are a major obstacle for peace efforts and a prop for the Smirnov regime. So, too, is the widespread smuggling organised and encouraged by the regime to keep itself solvent. It would be premature to negotiate Transdnistria’s constitutional status in the absence of trust between the two sides and with Moldova unat-

⁸² The law, passed on July 22, 2005, defines the future status of Transdnistria as “a special autonomous and territorial entity which is an integral part of Moldova,” and stipulates that talks on legislation for its status should only proceed after democratisation and demilitarisation. In its attempt to predetermine negotiations, the law was seen in Tiraspol and Moscow—and by many Western officials—as evidence of bad faith. The Russian foreign ministry responded: “As a guarantor country and mediator in the Dniester settlement, Russia believes that the unilateral act of the Moldovan parliament is counterproductive. It makes more difficult the prospect for a return to the negotiating table and hampers the efforts by mediators from Russia, Ukraine and the OSCE in their assistance to the sides in drawing up a viable and firmly guaranteed status of the Dniester region within one Moldova.” See “Russian foreign ministry criticizes Moldovan law on Dniester region,” *Interfax*, Moscow, July 30, 2005.

⁸³ Officially known as the Yushchenko plan but often referred to as the Poroshenko plan because it was largely drawn up by the former head of the Ukrainian National Security and Defence Council, Petro Poroshenko, it was controversial because it had an electoral schedule far too short for a fair vote. There was wide concern that holding elections in December 2005 would legitimise the existing Transdnistrian authorities, whose control over the media and suppression of debate would ensure an easy victory.

⁸⁴ Crisis Group interview, Minister for Reintegration Vasiliï Sova, Chisinau, May 2006.

⁸⁵ In March 2006, Igor Smirnov issued a decree banning foreign funding of NGOs; the Supreme Soviet amended this to a ban on foreign funding of NGOs engaged in political activity, though in practice such NGOs have long been unable to operate freely.

tractive to the majority of Transdnistrians, including the business community. This is the superficial attraction of prioritising the 3Ds.

The problem, however, is that only Russia has the leverage to produce major concessions. "I do not see any instruments that can put in force democratisation," says Sergiu Stati, chairman of Moldova's Parliamentary Committee on Foreign Policy and European Integration.⁸⁶ The same can be said for demilitarisation, which Tiraspol and Moscow have resisted despite Russian commitments.⁸⁷ The 3Ds are plainly against the interests of the Smirnov regime, which has the capacity to survive as long as it retains Russian support and thus has no reason to compromise. Even if economic pressure is increased through stricter border controls, new sanctions or less favourable customs procedures, the regime is likely to resist democratisation and demilitarisation, because both threaten its existence. The current Moldovan strategy, which focuses primarily on extracting concessions in these areas, therefore, stands little chance of success.

Chisinau would be better advised to concentrate on the Transdnestrian business community. This is the constituency that is most interested in normalising the region's status and at the same time most sensitive to economic incentives and pressures. Brussels and Chisinau should recognise that the best chance of moving forward with democratisation, demilitarisation and ultimately, good faith negotiations is

⁸⁶ Crisis Group interview, Stati, chairman, Parliamentary Committee on Foreign Policy and European Integration, Chisinau, May 2006.

⁸⁷ Russia committed itself at the Conference on Security and Cooperation in Europe's 1992 Stockholm ministerial to withdraw its troops from Moldova. At the 1999 OSCE Istanbul summit, it agreed to complete this withdrawal by the end of 2002. The deadline was extended to end-2003 at the December 2002 OSCE Porto ministerial, but the ministerial council's final statement welcomed Russia's intention to withdraw "provided necessary conditions are in place"—a qualification Russia has since used repeatedly to delay. Russian officials now say they will only withdraw the troops when a settlement is reached. See Defence Minister Sergei Ivanov's comments at the May 2006 Council of CIS Defence Ministers. "Russia says troops to remain in Moldova's Dniester region till conflict settled," ITAR-TASS, Moscow, May 31, 2006. The U.S. and other OSCE states have publicly linked Russia's withdrawal to ratification of the adapted Conventional Armed Forces in Europe (CFE) treaty, most recently in a statement by U.S. Assistant Secretary of State Paula DeSutter in Chisinau, May 26, 2006. In December 2005, Undersecretary of State for Political Affairs Nicholas Burns said: "A basic principle of the CFE treaty is the right of sovereign states to decide whether to allow the stationing of foreign forces on their territory.... Moldova and Georgia have made their choice. The forces should depart and all OSCE member-states should respect that choice." "U.S. refuses arms treaty while Russian troops in Moldova, Georgia," RFE/RL, December 6, 2005. Russia asserts that it has fulfilled all its CFE commitments.

not by coercing Smirnov, but by strengthening the business community's incentives to turn their backs on him. This is essentially a strategy of regime change but one that requires pressure on Moldova from the EU and U.S. to conduct economic relations with Transdniestria fairly and transparently. It also requires the EU to offer greater trade and other benefits to Transdniestrian businesses for cooperation with Chisinau (as discussed below). And it may require an EU threat of further sanctions if cooperation is not forthcoming, including a ban on Transdniestrian exports.

C. *Making Moldova More Attractive*

If Transdniestria is to agree to reunite with Moldova under some form of autonomy or federation, Moldova must become a much more attractive partner.⁸⁸ Although it is freer than Transdniestria, it is still plagued by pervasive corruption, a fragile economy and a mainstream media that is largely controlled by the Communist-led government. Reforms are proceeding only very slowly.

An important obstacle to building support for reunification is that Transdniestrians almost uniformly believe Moldovans are significantly worse off economically than they are. Standards of living are about equal⁸⁹ but the belief is largely the product of fifteen years of propaganda by the Smirnov regime, and even well-educated and well-travelled Transdniestrians in the private and non-governmental sectors often share it. In part, this is because outside Chisinau, the Moldovan economy is stagnating. The country is by far Europe's poorest, with per capita GDP on the same level as Sudan's.⁹⁰ As many as one million Moldovans have left to work abroad.⁹¹

⁸⁸ Making Moldova more attractive has been a common refrain among analysts for years. See Crisis Group Report, *No Quick Fix*, op. cit. and Nicu Popescu, "The EU in Moldova—Settling Conflicts in the Neighbourhood," ISS Occasional Paper No. 60, October 2005.

⁸⁹ In 2004, GDP per capita (official exchange rate) was \$720 in Moldova, \$748 in Transdniestria, "Transnistrian market," op. cit.

⁹⁰ According to International Monetary Fund 2005 data, Moldova's GDP per capita (at purchasing power parity) was \$2,374, Sudan's \$2,396.

⁹¹ The International Organization for Migration says that, "according to official government estimates, more than 600,000 Moldovans are living and working abroad, although the actual figure differs according to different sources and likely tops one million," <http://www.iom.md/resettlement.html>. Sixty percent of these are believed to be in Russia. "Moldova Country Report," Economist Intelligence Unit, June 2006. Human traffickers prey on those looking to go abroad. The U.S. State Department's 2006 "Trafficking in

Oleg Serebrian, leader of the Social-Liberals, an opposition party in the Moldovan parliament, believes Transdnistrians' pro-independence sentiment is only partly a product of the regime's control:

Yes, [they are for independence] because they have been manipulated by the regime, but it's also because Moldova is a failed state; it's not attractive. You have workers leaving for Russia and Europe in droves, so how are you going to attract 700,000 Transdnistrians?⁹²

According to the World Bank, GDP has grown at an average rate of around 7 percent in recent years but this has been fuelled largely by remittances from those who have gone abroad.⁹³ There is concern their remittances are used for short-term consumption rather than much-needed investment in infrastructure and business development.

Apart from the construction industry and the burgeoning Chisinau real estate market, there is little to keep the economy afloat. Growth in remittances is slowing, energy prices are rising, and Russia's recent ban on agricultural products, including wine, has been particularly damaging. Industrial output already shows negative growth as a direct result. In 2006, GDP growth was estimated to have decelerated to 4 percent.⁹⁴ If Moscow were to take further punitive measures, such as imposing visa restrictions on citizens working in Russia, the economy could fall into recession.

There have been some fears that the wine ban could lead to a meltdown in the banking sector, as firms involved in the wine industry

Persons" report calls Moldova a major source of women trafficked for sexual exploitation. The key destination countries are Turkey, Israel, the United Arab Emirates and Russia. According to the International Centre "La Strada," a Moldovan anti-trafficking NGO, the Moldovan government has taken several major steps recently—enactment of progressive anti-trafficking legislation and ratification of international conventions—but on the whole the authorities continue to delay implementation of laws including in the area of prevention, assistance and protection of trafficked persons and prefer to leave the job to NGOs, most of whom rely on Western funding. Crisis Group interview, Ana Revenco, La Strada, Chisinau, May 2006.

⁹² Crisis Group interview, Oleg Serebrian, parliamentarian, Chisinau, May 2006.

⁹³ In 2004, remittances were 27 percent of Moldova's GDP, making it the world's second most reliant country on remittances, after Tonga. "Global Economic Prospects: Economic Implications of Remittances and Migration," World Bank, 2006.

⁹⁴ Crisis Group interview, Iaroslav Baclajanschi, economist, and Valeriu Cosuleanu, junior professional associate, World Bank Moldova, Chisinau, May 2006.

become unable to pay back loans. As of July 2006, the World Bank was confident that most banks would survive but this may change the longer the ban is in place.⁹⁵ Moreover, there have been alarming reports that Proriv has been trying to precipitate a crisis by distributing leaflets along the internal border encouraging Moldovans to withdraw their savings.⁹⁶

One of the biggest causes for concern is the business climate. Corruption is still rampant, there is no independent judiciary and the regulatory framework is outdated and unwieldy. Political prosecutions are not unusual. The trial of former Defence Minister Valeriu Pasat for alleged fraud in connection with the sale in 1997 of 21 MiG-29 jet fighters to the U.S. is an example. In another recent case, Victor Turcanu, the director of Victoriabank, one of the country's largest, was investigated. The group that subsequently took over the bank is linked to President Voronin's son.⁹⁷ Not surprisingly, foreign investment is the lowest in South Eastern Europe.⁹⁸

Neither are domestic politics particularly attractive, especially from a Transnistrian perspective. President Voronin's Communist Party has a solid majority in parliament following its victory in March 2005 elections but has entered into an informal alliance with its traditional nemesis, the nationalist Christian Democratic Popular Party (CDPP). Led by the deputy speaker of parliament, Iurie Rosca, the CDPP is known for its anti-Russia views and hawkish rhetoric toward Transnistria. The other opposition parties are weak and ineffective, meaning that the Communists will likely continue to dominate the political scene for some time.

1. The EU-Moldova Action Plan

The three-year Action Plan the EU and Moldova signed in February 2005 as part of the European Neighbourhood Policy to "support Moldova's objective of further integration into European economic and social structures"⁹⁹ lays out ambitious targets across virtually all areas of government competence. These include democracy and the

⁹⁵ Crisis Group email correspondence, World Bank, July 2006.

⁹⁶ *Timput*, June 15, 2006, pp. 1-2.

⁹⁷ Crisis Group interviews, Chisinau, May 2006.

⁹⁸ As a percentage of GDP. See "Southeast Europe Investment Guide 2006," www.seeeurope.net.

⁹⁹ EU/Moldova Action Plan, http://www.mfa.md/En/Action_Plan_EU-Moldova.pdf.

rule of law, settling the Transdnestrian conflict, economic and social issues, trade, justice and home affairs, transport, energy and education. But there has been little progress. According to EU officials and Moldovan experts interviewed by Crisis Group, the authorities have submitted impressive progress reports about seminars held and laws passed but implementation has lagged badly, particularly in key areas such as combating corruption, freedom of the media, judicial reform and decentralisation.¹⁰⁰

One of the most pressing issues is transformation of Teleradio Moldova, the major broadcaster, into an independent public entity. This was ostensibly done in 2004, but the station has continued to give preferential coverage to government institutions, and the oversight body, the Audiovisual Coordinating Council (CCA), remains staffed with political appointees. The vast majority of Moldovans get their domestic news from it, so it is one of the most powerful political tools in the country.¹⁰¹ In the hands of a government not trusted by Transdnestrians, it is a further obstacle to making Moldova attractive.¹⁰²

The extent of political interference in Teleradio Moldova was demonstrated during a project run by the U.S. embassy. Two experts provided to work for several months with middle management on production of news and current affairs programs were frustrated by persistent government meddling. “What would happen is that 30 minutes before the broadcast, the show would get a phone call from parliament or the president’s office saying ‘so and so wants this topic covered’, and then they would send over edited clips done by their own production teams.”¹⁰³

“Every broadcast of Moldova 1 [the national television station run by Teleradio Moldova] is the same,” says Dmitry Ciubashenko, an opposition journalist. “You start with the president, then comes the prime minister, then the speaker of parliament, then sports and weather.”¹⁰⁴

¹⁰⁰ See also Expert-Grup and Adept, “European Union–Republic of Moldova Action Plan: Assessment of Progress in 1st Quarter of 2006,” Euromonitor, April 2006.

¹⁰¹ The March–April 2006 Institute for Public Policy (IPP) “Barometer of Public Opinion” found that television and radio—the media in which Teleradio Moldova is dominant—are the most important sources of information for 88 percent of the population; newspapers are most important for 4 percent, www.ipp.md.

¹⁰² Parliament adopted on 27 July 2006 a new broadcasting code which, if implemented, could improve the situation but many doubt the government’s commitment to it.

¹⁰³ Crisis Group interview, former Moldovan journalist, Chisinau, May 2006.

¹⁰⁴ Crisis Group interview, Dmitry Ciubashenko, Chisinau, May 2006.

Progress has been equally slow in other areas. One of the most important issues for Moldova is increasing its EU trade. A list is being negotiated of products for which the EU will consider granting special preferences (Autonomous Trade Preferences, ATPs) for export to the European market. But despite the obvious benefits, Moldova took over a year to respond to the European Commission's request to identify what it wanted covered. Chisinau is also moving at a leisurely pace on EU requirements regarding certification of the origin of exports, a critical concern for Brussels on which progress is needed if ATPs are to be granted.¹⁰⁵

There have been some steps, notably the approval in May 2006 by the International Monetary Fund (IMF) of a three-year, \$118 million poverty reduction and growth facility (PRGF), to help stabilise finances and provide impetus for further reform of public administration. The deal paved the way for an agreement between Moldova and the Paris Club of creditors to reschedule \$150 million of debt, and the World Bank is negotiating budgetary support for fiscal year 2007, after having suspended it in 2002.¹⁰⁶ According to some civil society members, there is also increased government willingness to engage with NGOs, at least rhetorically.¹⁰⁷

But by and large, reforms are not moving at anywhere near the pace necessary if the country is to be attractive to Moldovans and Transdnistrians in the foreseeable future, not to mention foreign investors. While the government has taken a political decision to seek EU integration,¹⁰⁸ there are serious questions as to whether it has the will not just to pass reform-minded legislation, but also to implement it. "What we need from the Moldovans is fewer toasts and more action," says a senior EU official who monitors Action Plan implementation.¹⁰⁹

The government complains it lacks administrative capacity to reform at the pace the EU demands and says the EU and other donors should offer more technical assistance. In December 2006, the EU

¹⁰⁵ Crisis Group interviews, June 2006.

¹⁰⁶ Crisis Group interview, Iaroslav Baclajanschi, economist, and Valeriu Cosuleanu, junior professional associate, World Bank, Chisinau, May 2006.

¹⁰⁷ Crisis Group interviews, Ana Revenco, La Strada, and Timur Onica, IDIS-Viitorul, Chisinau, May 2006.

¹⁰⁸ Symbolically, the foreign ministry has been renamed the Ministry of Foreign Affairs and European Integration.

¹⁰⁹ Crisis Group interview, Brussels, May 2006.

announced it would double aid to Moldova over the next four years, providing some €254 million through 2010, with additional funding given bilaterally by member states.¹¹⁰ The U.S. has granted Moldova “threshold status” in its Millennium Challenge Account, which makes it eligible to receive some financial aid and eventually qualify for full funding.¹¹¹ More assistance should be offered by donors, but it should be tied to evidence of greater willingness to use it. “Unfortunately not much has changed in Moldova,” says an EU official. “In Ukraine, you had a revolution, and new people have taken over power. In Moldova, you have the same president you have always had, but he has simply made a strategic decision to turn to the EU over Russia.”¹¹²

Moldova has indeed adopted a more pro-European foreign policy. Having alienated Moscow in late 2003 after the Kozak Memorandum affair, it is now dependent politically on the EU. Brussels should use this leverage to increase pressure for reform.

2. *Trading with the European Union*

Increasing exports to the EU is important not only because more exports mean more jobs and growth, but also because Moldova needs to diversify its trade. Russia still accounts for one third of all exports, by far the largest recipient.¹¹³ This gives the Kremlin enormous influence that the Putin administration is willing to use for political purposes. With Moldova increasingly moving into the EU’s orbit, few doubt the March 2006 wine ban, ostensibly a health measure, and the 2005 restrictions on agricultural products are politically motivated.

The wine ban has had a serious effect on the economy. Wine is the country’s most important industry, with almost 80 percent going to Russia.¹¹⁴ Only a small proportion can be redirected to other markets. Losses for 2006 were estimated at roughly \$150 million—4 percent of

¹¹⁰ “EU to double aid to Moldova over next 4 years,” *International Herald Tribune*, 12 December 2006.

¹¹¹ The Millennium Challenge Account is a funding mechanism through which the U.S. delivers development assistance to countries which it deems “rule justly, invest in their people, and encourage economic freedom.” Congress provided nearly \$1 billion in initial funding for FY04 and \$1.5 billion for FY05. President Bush requested \$3 billion for FY06 and pledged to increase annual funding to \$5 billion in the future. <http://www.mca.gov>.

¹¹² Crisis Group interview, May 2006.

¹¹³ Other important export destinations are Italy, Romania, Ukraine, Belarus and Germany.

¹¹⁴ “Moldova Country Report,” op. cit.

GDP.¹¹⁵ There have also been large indirect losses in the many other sectors of the economy that depend on wine, such as glass, packaging, banking and transport. Russia has received little criticism for the ban. “We have felt abandoned by the international community,” says Foreign Minister Andrei Stratan.¹¹⁶ Given the additional economic weapons in Moscow’s arsenal, including a monopoly over Moldova’s gas supply and the power to toughen visa restrictions on the thousands of migrant workers, the need to develop stronger economic ties with other European neighbours is apparent.

However, significant challenges must be overcome before trade with the EU can increase substantially. The wine and food products Moldova would like to export are considered sensitive by member states which produce the same goods. They are, therefore, excluded from the Generalised System of Preferences (GSP+), the low tariffs granted to Moldova at the beginning of 2006. Moreover, even if these products were to become eligible for duty-free export to the EU, many would be blocked by non-tariff barriers such as the need for compliance with EU sanitation standards.¹¹⁷ Officials in Brussels have been attempting to convince the Moldovans that the scope for selling their wine is also minimal because it is mostly of relatively low quality, and the EU market is saturated.¹¹⁸

Moldovan officials have, nonetheless, pushed hard for wine to be covered by EU Autonomous Trade Preferences (ATPs), the system under negotiation to replace the GSP+ tariffs for selected products. At about €0.15 per litre,¹¹⁹ the current tariff is not negligible. President Voronin made the request in person in Brussels on June 21, 2006 to the EU commissioner for agriculture, Mariann Fischer Boel.¹²⁰ “Our exports are not so big as to endanger the EU economy,” says Foreign Minister Stratan, who argues that if ATPs are not granted for wine, the EU should at least offer an export quota as it does for the coun-

¹¹⁵ *Ibid.*

¹¹⁶ Crisis Group interview, Andrei Stratan, minister for foreign affairs and European integration, Chisinau, May 2006.

¹¹⁷ See “Moldova Trade Diagnostic Study: Wine Sub-Sector Case Study,” World Bank, September 2003.

¹¹⁸ Crisis Group interview, Brussels, June 2006.

¹¹⁹ Communication to Crisis Group from European Commission, August 2006.

¹²⁰ “Moldovan president asks EU to cut tariffs for Moldovan wines,” ITAR-TASS, June 21, 2006.

tries of the Western Balkans.¹²¹ Total Moldovan wine exports were around 2 million hectolitres in 2003, compared with consumption in the EU-15 of 130 million hectolitres.¹²²

Selling wine to the EU would not resolve all Moldova's economic troubles but it is hard to believe there would be no benefit to including wine in the ATPs. Moldova has extensive experience in the industry and a population willing to work for lower wages than EU counterparts. With investment—which should increase as the business climate improves and with the possibility of tariff-free trading with the EU—it ought to be feasible to raise quality and sanitation standards of a portion of output. Redirecting all the wine traditionally sold to Russia is unrealistic but Moldova's economic future depends heavily on the product. If the EU is serious about helping Moldova develop its economy, it should remove tariffs on its wine so that consumers can decide if there is a market for it.

One issue holding up negotiations on ATPs is EU concern about Moldova's certification of origin of its exports. That Moldova does not control its entire territory gives rise to two major problems. First is the lack of control of imports from Ukraine that reach Moldova through Transdnistria. Although the fraud potential is presently minimal because Ukraine's system of EU preferences (GSP) is only slightly less generous than Moldova's (GSP+), it will grow if Moldova is granted ATPs. Secondly, Moldovan officials do not have access to Transdnestrian factories, so cannot verify production procedures. This means Moldova cannot ensure, for example, that garments ostensibly produced in Transdnistria are not Chinese. Still, EU officials say, "the EU won't ask for more from Moldova than was asked of Albania, and there's no reason Moldova can't reach those standards."¹²³

¹²¹ Crisis Group interview, Stratan, May 2006. In 2005, the EU offered duty exemptions for 543,500 hl of wine to Macedonia; 225,000 hl to Croatia; and 152,000 hl each to Albania, Bosnia and Herzegovina, and Serbia and Montenegro.

¹²² "Wine: Economy of the Sector," European Commission working paper, February 2006, http://ec.europa.eu/comm/agriculture/markets/wine/studies/rep_econ2006_en.pdf.

¹²³ Crisis Group interview, EU official, Brussels, June 2006.

3. *Attracting (and pressuring) Transdniestrian businesses*

EU ATPs also have the potential to entice Transdniestrian businesses into greater cooperation with Moldova. At present, much of Transdniestria's legal trade consists of exports of raw metals and textiles that can be shipped directly to the world market from Ukraine's Black Sea ports without branding or marketing but with low profit margins.¹²⁴ Extending ATPs to steel, textiles, machinery and other products that Transdniestria produces while fostering cooperation between Moldova and Transdniestria in overcoming non-tariff barriers would offer these businesses the possibility of moving beyond crude production to more profitable, value-added exports for the EU market. It would also solidify links between the two sides, as the trade benefits would only apply to exports certified by Chisinau.

But the biggest incentive that can be offered to Transdniestria is stability. Part of the reason Transdniestrian businesses concentrate on exports with low value-added is that the present climate affords few other opportunities. Shifting to more profitable goods requires investment, branding and the ability to predict business conditions several years into the future, which is impossible with the prevailing uncertainty.

There is little understanding in Transdniestria of the benefits of—and obstacles to—trading with the EU, as with most topics involving Brussels. The EU recognises this but is limited in its public diplomacy by the region's political status. Nevertheless, it plans to increase its efforts to explain the basics of EU trade regulations to Transdniestrian and Moldovan firms. This is a good initiative and should be expanded by information sessions targeting businesses on both sides of the Dniester.

As it reaches out to the business community, the EU also needs to make clear that continued obstructionism by the Transdnistriens would have economic consequences. EUBAM's presence is a good first step in making the status quo less comfortable, but further measures may be necessary, including financial sanctions targeting leading businessmen and their assets and, potentially, trade sanctions. As noted above, roughly one third of Transdnistriens exports go the EU, principally Italy and Germany, but also to many others. Brussels should

¹²⁴ Crisis Group interview, June 2006.

explain that the Smirnov regime's refusal to work constructively toward a settlement will jeopardise access to EU markets.

4. *Visa facilitation*

The EU's visa policies are effectively undermining Moldovan statehood. The European Council has concluded a visa facilitation agreement with Russia and begun negotiations with Ukraine and Macedonia¹²⁵ but it has not yet given the Commission a negotiating mandate for such an agreement with Moldova. This is reportedly due to resistance from the interior ministries of key member states.¹²⁶ The Commission is trying to placate the Moldovans by opening a joint application centre in Chisinau in April 2007.¹²⁷ Selective liberalisation for identified groups and visa facilitation for all applicants—involving a simplified, speedier, less painful process—should be a higher priority.

As it is, a growing number of Moldovans from both sides of the Dniester are acquiring Russian, Romanian and Ukrainian passports. The youth group Proriv says one of its main activities is to obtain Russian and Ukrainian passports for young Transdnistrians.¹²⁸ “The Russians are giving out passports to anyone who asks, using an LDPR [Liberal Democratic Party of Russia] office in Tiraspol as a de facto consulate,” says a senior Western diplomat.¹²⁹ The lack of a visa facilitation agreement is thus unlikely to stop Moldovans from entering the EU but will further weaken the attractiveness of Moldovan citizenship.

D. *Building Mutual Confidence*

Regardless of how attractive Moldova becomes economically, there is little chance for a settlement without at least a basic level of trust between the parties. This is sorely lacking. Not only are relations poor, but each accuses the other of negotiating in bad faith and having

¹²⁵ For more information on visa facilitation with the Balkan countries, see Crisis Group Europe Report Number 168, *EU Visas and the Western Balkans*, November 29, 2005.

¹²⁶ Crisis Group interview, July 2006.

¹²⁷ To apply for most EU visas, Moldovans have had to go to Bucharest, where many member states have their nearest embassies. “Visa Policies of European Union Member States,” Stefan Batory Foundation, Warsaw, June 2006, p. 19.

¹²⁸ Crisis Group interview, Dmitri Soin, director, Proriv, Tiraspol, May 2006.

¹²⁹ Communication to Crisis Group from senior Western diplomat, August 2006.

broken its word countless times. Moldovan officials say an agreement is impossible as long as Igor Smirnov is in power; Transdnistrians say the same about Vladimir Voronin.¹³⁰

Both may be right. Negotiations in the 5+2 format¹³¹ are going nowhere. There was some hope inclusion of the U.S. and EU as observers in 2005 would unblock the stalemate but it has not happened. “Chisinau and Tiraspol can’t achieve anything in relations with each other,” says one analyst. “The room for manoeuvre is solely with the international community.”¹³²

But even external influence is limited by the lack of confidence between the parties. Were an acceptable constitutional settlement found on paper, it would break down as soon as either side was required to put faith in the other’s goodwill. Even the hawkish Moldovan analyst Oazu Nantoi says: “It would be best to decide the constitutional questions after the fear is gone, the stereotypes have been broken down and the media opens up.”¹³³ It would be more realistic to focus political energy in the short term—and perhaps until leaders change on one or both sides—on creating dialogue and trust rather than searching for the ideal constitutional arrangement, the outlines of which are in any case already known.¹³⁴

A good place to start would be in economic relations. Moldova and Ukraine did an appalling job at explaining the new customs procedures to Transdnistriean businesses before they were applied in March 2006. Seminars were scheduled at the last minute, and the basics of the new system were not communicated to the public. Such oversights perpetuate Transdnistriean suspicions that the Moldovan authorities will make sudden, unexpected changes to the rules in the future. The customs regime is said to be operating more or less smoothly and transparently at present, though officials in Chisinau, Kyiv and Brus-

¹³⁰ Crisis Group interviews, Chisinau and Tiraspol, May 2006.

¹³¹ “5+2” is the term given to the five-sided negotiations process, with the “5” referring to the two parties and three official mediators (Russia, Ukraine and the OSCE), and the “2” referring to the EU and U.S. in their capacity as observers.

¹³² Crisis Group interview, Sushko, Kyiv, June 2006.

¹³³ Crisis Group interview, Oazu Nantoi, program director, Institute for Public Policy, Chisinau, May 2006.

¹³⁴ These have been described in OSCE documents and in Crisis Group Report, *No Quick Fix*, op. cit.

sels interviewed by Crisis Group gave widely differing interpretations. “If it’s a mess for us,” commented an EU official who works closely on Moldova, “it must be a mess for the Transdnistrians.”¹³⁵

Building local trust through transparency of the customs service, the judiciary and other agencies involved in economic relations is critical. As an international official in Chisinau observes, “even Moldovan businesses will say to you that the government uses unfair means to put people out of business when it suits them. There is no trust in Chisinau for the Moldovan leadership. How can you expect trust in Tiraspol?”¹³⁶ Improving the Transdnistriian business community’s confidence that it can prosper under Chisinau’s authority should be a priority for all who want a settlement. “The key is to inform the left bank of how they will live in a reunified Moldova. This can’t be done through a government declaration,” says Nantoi.¹³⁷

There is no reason why mutual confidence cannot be improved. Relations between the populations are reasonably warm. The ethnolinguistic dimension of the dispute—often framed simplistically as Romanian-speaking Moldova versus Russian-speaking Transdnistria—is exaggerated. Transdnistria has an approximately equal mix of ethnic Romanians, Ukrainians and Russians; more Russians live in Moldova than in Transdnistria.¹³⁸ Most Transdnistriians have family or friends in Moldova and vice versa, and there is considerable freedom of movement between the areas. The extent to which hostility between the governments reaches the average citizen is limited.

But time is running out: having been separated from Moldova for fifteen years, Transdnistriians, particularly those under 30, are losing any allegiance they may have held to a Moldovan state. The fact that the two sides of the Dniester were united for 50 years under the Soviet Union as the Moldovan SSR has not left much of a mark,

¹³⁵ Crisis Group interview, EU official, Brussels, June 2006.

¹³⁶ Crisis Group interview, Chisinau, May 2006.

¹³⁷ Crisis Group interview, Nantoi, Chisinau, May 2006.

¹³⁸ One important qualification is that Transdnistria’s Russians and Ukrainians are concentrated in Tiraspol, while the Romanian/ Moldovan population is mainly in rural areas. There is, therefore, a heavily Slavic tint to the Transdnistriian regime and business community, which plays a part in shaping the region’s identity. However, urban centres in Moldova also tend to be much more Slavophone. This goes for the elite as well; Prime Minister Tarlev is a member of the small ethnic Bulgarian minority.

which is perhaps not surprising given that the average Soviet citizen's allegiance tended to be directed toward the state and Party rather than the autonomous republic. "It is not that Transdnistrian separatism is so strong," says Nantoi, "but that Moldovan statehood is so weak."¹³⁹

Moldova needs to improve its public diplomacy in Transdnistria. Moldovan television does not reach Transdnistrians, but even if it did, few would watch because of its poor quality and the availability of more professional and entertaining Russian channels. Bolstering media independence and professionalism on both sides of the Dniester should be a donor priority. Donors can also help build trust by funding more projects that bring Transdnistrians and Moldovans together, such as educational exchanges, business clinics, cultural events, and civil society workshops.

An experienced international observer says of civil society on both sides of the river:

The Moldovan policy and negotiating strategy under the Voronin administration have actually discouraged independent contacts and dialogue between groups from the right and left banks, and the Transdnistrian regime—especially the security forces—has enthusiastically embraced and supported this policy. In 1999 there were many local and foreign NGOs sponsoring human contacts, exchanges, travel, etc. between the two sides. Through lack of support and active discouragement from both Chisinau and Tiraspol during the current decade, many of these NGOs have gone out of business, or have greatly reduced their activities. This desperately needs to be reversed.¹⁴⁰

E. Dubious Precedents

Although ordinary citizens display little strident Transdnistrian nationalism, the region's leadership has long sought to translate its de facto statehood into formal independence. This effort has gained new confidence as a result of developments in the Balkans, where Kosovo is embarked on the final leg of its journey toward independence, and Montenegro has been recognised following its May 2006 referendum. Ten

¹³⁹ Crisis Group interview, Nantoi, Chisinau, May 2006.

¹⁴⁰ Communication to Crisis Group from senior Western diplomat, August 2006.

days after Montenegro's vote, Igor Smirnov declared that Transdniestria would hold its own referendum on September 17, 2006, which resulted in 97 percent of the population reportedly backing independence.

The decision to hold a referendum did not come out of the blue. Local and Russian politicians have in recent months mused publicly about the relevance of the Kosovo precedent for Transdniestria. Appearing on television in January ahead of a meeting of the six-nation Kosovo Contact Group, President Putin argued that the Kosovo solution should also apply to separatist disputes in the former Soviet Union.¹⁴¹ This is now a common refrain of Russian diplomats and officials. Montenegro's successful independence bid has likewise been pointed to as a precedent for Transdniestria. On the day after the Montenegrin vote, Transdniestrian Foreign Minister Valery Litzkai said: "This is a little bit like our holiday, as Montenegrins have voted for independence."¹⁴²

There are, of course, substantial differences between the situations. Montenegro's referendum was carried out by a government internationally recognised as legitimate in a part of a state in whose institutions it participated. Transdniestria is not recognised officially even by Russia. Montenegro and Serbia, in the 2002 Belgrade Agreement, had recognised the right of either to secede from the state union by referendum after three years; Chisinau and Tiraspol have no such agreement; the furthest Chisinau has gone is to accept that Transdniestria might have the right of secession in the unlikely event Moldova unified with Romania.¹⁴³ The conditions of the Montenegrin vote, including freedom to campaign for both sides, were agreed by all sides

¹⁴¹ "Decision on Kosovo status should be applicable to other areas," Interfax, January 30, 2006. Russian officials have repeatedly linked Kosovo to the separatist disputes in Abkhazia and South Ossetia, both in Georgia. Meeting in Sukhumi, Abkhazia, in June, the leaders of Transdniestria, Abkhazia and South Ossetia issued a joint declaration against "double standards in relation to states and peoples seeking self-determination." "Georgian, Moldovan self-proclaimed republics to press for independence polls," ITAR-TASS, Moscow, June 14, 2006.

¹⁴² "Moldova's breakaway Dniester region welcomes Montenegro referendum," Interfax, Moscow, May 22, 2006.

¹⁴³ On July 1, 2006, Romanian President Traian Basescu caused a political storm when he said he had offered Moldova the option of joining the EU with Romania. President Voronin quickly ruled this out but the Transdniestrian security chief, Vladimir Antyufeyev, seized on the comment as evidence of continued Romanian claims on Moldova and called for a larger Russian military presence in Transdniestria.

in Montenegro after EU mediation, whereas the recent Transdnies-trian referendum was a unilateral step by Tiraspol.¹⁴⁴

The parallels with Kosovo are also not especially encouraging for the Transdnies-trians. The final status process for Kosovo is directly and explicitly mandated by UN Security Council Resolution 1244 (1999), and it is not at all clear a referendum will be a part.¹⁴⁵ There is no similar UN resolution on Moldova. And, as with Montenegro but unlike Transdnies-tria, the UN administration in Kosovo is recognised as fully legitimate internationally. Only Russia argues that the Kosovo process should be a precedent for other conflict resolution situations; even if such a precedent were to be established, it might not go far.¹⁴⁶

The Transdnies-trians have complained of hypocrisy in the West's attitude. "We are against the international community's policy of double standards on independence and the international bureaucracy that bestows the 'right' to independence selectively, as in Kosovo and Montenegro," says Dmitri Soin, the director of Proriv.¹⁴⁷ They claim a right to self-determination under international law but the self-determination principle is not a general right to secession.¹⁴⁸ Only in very exceptional cases, when a people proves unable to protect its political, economic and cultural rights within a state by constitutional, legal or political means, is unilateral secession likely to be recognised by the wider international community. Given the shared history and ethno-linguistic makeup of the two sides, and the possibility of autonomy for Transdnies-tria within a unitary Moldovan state, the claim of a right to secede from Moldova is not persuasive.

Following the Transdnies-trian referendum, there were encouraging noises from Russian politicians. The Russian Duma called for international recognition of the result,¹⁴⁹ despite clear signals by the U.S., EU

¹⁴⁴ For more on Montenegro, see Crisis Group Europe Briefing Number 42, *Montenegro's Referendum*, May 30, 2006, and Crisis Group Europe Report Number 169, *Montenegro's Independence Drive*, December 7, 2005.

¹⁴⁵ Crisis Group has recommended it should; Crisis Group Europe Report Number 161, *Kosovo: Toward Final Status*, January 24, 2005.

¹⁴⁶ China is apparently eager that the Kosovo resolution explicitly not be considered a precedent for other situations. Crisis Group interview, Balkan foreign minister, March 2006. Other UN Security Council members have similar concerns.

¹⁴⁷ Crisis Group interview, Dmitri Soin, Tiraspol, May 2006.

¹⁴⁸ See on this point "Thawing a Frozen Conflict," *op. cit.*

¹⁴⁹ "Russian Duma backs independence for Transdnies-trian," RFE/RL, October 6, 2006.

and others that recognition would not be forthcoming. However, Russia has maintained its long-standing policy of always stopping short of formally recognising Transdniestria, while supporting its de facto independence politically, militarily and economically. Meanwhile, it continues to pay lip service to Moldova's territorial integrity.

F. The Need for International Guarantees

A chief concern of Transdniestrian business is that a deal with Moldova would put its assets at risk. Most business leaders, like many of the new elite in the former USSR, earned their fortunes through shady privatisations of Soviet factories. They fear that once a settlement brings Transdniestria under Chisinau's control, the Moldovan authorities would seek to reverse the most profitable of those privatisations.

Moldova does not recognise the Smirnov regime's privatisations. In October 2004, a law stipulated that privatisations without its consent were illegal. Although this has been contradicted by later government statements guaranteeing Transdniestrian property rights, the oligarchs are understandably sceptical. According to Shevchuk:

The Moldovan government is loudly speaking about guarantees of the inviolability of Dniester companies' property on condition that they register in Chisinau. At the same time, there are other Moldovan laws, including the law on privatisation of companies in the Dniester region, which contradict these statements. Moldovan courts are also equivocal about the temporary registration. So, is this economic integration according to Moldova?¹⁵⁰

Considering the blatant misconduct that characterised many privatisations, the desire to review them is reasonable. But if the goal is a settlement, the business community will have to be courted, and this likely means broadly accepting the present distribution of property, even if it legitimises the economic power of unsavoury oligarchs.¹⁵¹

¹⁵⁰ "Dniester speaker comments on relations with Moldova, referendum," *Argumenty I Fakty* (Moldova), May 31, 2006.

¹⁵¹ The Moldovan government may be able to extract some payments from the Transdnistrians for specific properties as part of any settlement but the greater these demands are, the less likely a settlement will be reached.

Were the Moldovan government to agree to recognise the privatisations, its word alone would not convince the Transdnistrians. Parliament, controlled by President Voronin's Communist Party, has often reversed itself. What, ask many Transdnistrian business leaders, would prevent it from doing so after ratifying a peace agreement? "They are asking, 'How do we know that if Smirnov provokes a new crisis, the Moldovan reaction won't be to seize Transdnistrian businesses?'"¹⁵² Moreover, the Communists' main ally, the far-right Christian Democrats, are considerably more hawkish and would likely do all they could to strip the assets.

To overcome the lack of trust, it may be necessary to provide an international guarantee of any agreement. At a minimum, this would entail having Russia, Ukraine, the EU, U.S. and OSCE co-sign it, as Russia and Ukraine did for the 1997 Moscow Memorandum. These parties would then have an obligation to act if the agreement was not respected. At a maximum, an international guarantee could involve creation of an independent body to adjudicate complaints from businesses.¹⁵³

Creation of an international body to guarantee a sovereign state's laws would have to be handled with sensitivity if it were not to be taken as a humiliation in Chisinau. Moldovan officials interviewed by Crisis Group appeared generally receptive if it could help bring a settlement. "A guarantee in this respect would be very much supported in Moldova, and we would not see this as a threat to our sovereignty," said Sergiu Stati, chairman of the Parliamentary Committee on Foreign Policy and European Integration.¹⁵⁴ According to Minister for Reintegration Vasiliu Sova, "there should be an appeal mechanism for businesses, first to the Moldovan government and then to the international community, but this mechanism should be the same for Transdnistrian and Moldovan businesses. We would not object to an international mechanism as long as it is homogenous for the whole coun-

¹⁵² Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

¹⁵³ Life could be made difficult for Transdnistrian businesses in many ways other than outright seizure—for example, a demand for payments to "certify" past privatisations, closure of certain export routes, subsidies for competitors, and politicised audits and fire safety inspections. Such a body would thus need to be empowered to hear a broad range of complaints. There are also options between these examples, including creation of an independent body staffed with a mix of local and international officials, such as has been done in Bosnia and Herzegovina's Commission for Real Property Claims of Displaced Persons and Refugees.

¹⁵⁴ Crisis Group interview, Stati, Chisinau, May 2006.

try.”¹⁵⁵ Transdnistrians, including Shevchuk, also appeared receptive, though Proriv’s Soin argued trust would have to be built up before Transdnistrians would believe in international guarantees “on property or anything else.”¹⁵⁶

A key consideration for Chisinau, however, is not to entrench Russian influence. Many Transdnistriian businesses are owned in whole or part by Russians, and Moldovan officials worry that by guaranteeing Transdnistriian property rights, they would effectively create a permanent Russian economic stranglehold. Sova said:

We feel that some actors are not interested in a settlement but in maintaining their levers of power. We are ready to talk about guarantees but we should be careful about what we are talking about. It is a little offensive for a government to be forced to submit to international guarantees. We are not categorically against this but... we don’t want to have to go to Moscow to get permission to buy tractors.¹⁵⁷

V. Conclusion

Fifteen years after the *de facto* separation of Moldova and Transdnistria, there is little prospect for the foreseeable future of reaching a lasting settlement. Recent constructive EU and Ukrainian engagement has had a positive impact on the ground but, without Russian cooperation, will not be enough to break the stalemate. Assuming Russia’s policy does not change, there will be little progress on democratisation and demilitarisation of Transdnistria—the two issues the Moldovan authorities prioritise. Given the absence of mutual trust, it seems futile to expend further diplomatic energy in the short term on trying to negotiate Transdnistria’s constitutional status within a future united Moldova.

But there are two reasons for hope. First, there are signs that the Transdnistriian business community is gaining influence and beginning to recognise that the breakaway region’s unresolved status is bad for profit. If it can be engaged by Moldova and outside actors, particu-

¹⁵⁵ Crisis Group interview, Sova, May 2006.

¹⁵⁶ Crisis Group interviews, Tiraspol, May 2006.

¹⁵⁷ Crisis Group interview, Sova, May 2006.

larly the EU, progress may be possible. Secondly, having burned its bridges with Moscow, Moldova is increasingly reliant on the EU and so is vulnerable to EU pressure for reforms that would increase its economic and political attractiveness to its own citizens, including Transdnistrians. These reforms will have to have a central place if the groundwork for a settlement is to be prepared.

There are, of course, challenges that must be overcome if these seeds are to bear fruit. The Transdnistriean business community will not only have to decide that working with Moldova is in its interest; it will also have to win a political battle against the current leadership of Igor Smirnov and his security chief, Vladimir Antyufeyev, neither of whom will agree to a unified Moldova under any condition. Ukraine will have to navigate tumultuous domestic politics without weakening its resolve to enforce its customs regime with Moldova. The prospects of settling the conflict without Russia on-side are minimal, but without Ukraine as well, they are non-existent.

The U.S. has been content to let the EU lead on Moldova, and the EU has done so—to a degree. Its deepening involvement in the dispute with Transdnistria as part of its European Neighbourhood Policy is important and to be commended. But with Russia wielding its power through such blunt tools as export bans, energy cut-offs and the continued deployment of unwanted troops, the EU must do far more with both incentives and pressures if it is to secure peace and prosperity in its neighbourhood and strengthen the weak roots of Moldova's European policy.

Page 125 and 126
do not print
They are place holders,
type reflows if you delete
the blanks

Page 125 and 126

do not print

They are place holders,
type reflows if you delete
the blanks

Economic and Energy Perspectives

Belarus, Ukraine and Moldova: Economic Developments and Integration Prospects

Vasily Astrov and Peter Havlik

Introduction

This chapter provides a brief analysis of the current economic situation and recent developments in Belarus, Ukraine and Moldova (BUM), focusing on patterns and sources of economic growth, related structural changes, and foreign trade developments. Since some of these countries (Ukraine, Moldova) seek EU membership and all are included in the neighborhood policy of the European Union (EU), their problems, aspirations and prospects with regard to economic integration are also addressed, using the new EU member states from central and eastern Europe (NMS) as a benchmark for comparison. Neither political developments nor energy issues are addressed in detail since these are the subject of separate contributions to this volume.

The three westernmost former Soviet republics (Belarus, Ukraine and Moldova) do not have much in common—except perhaps for the joint legacy of communism. They have neither traditions of independent statehood nor any historical experience with democracy and market economy. In this respect, they differ from both the former Soviet satellites in Central and Eastern Europe and the three Baltic states who welcomed the dissolution of the Soviet bloc, used it as an opportunity for a ‘return to Europe,’ launched economic and political reforms, and integrated with the European Union (EU). Despite some important differences and occasional setbacks, all Central and East European countries embarked on the path of economic and political transition already at the beginning of the 1990s and became members of the EU one and a half decades later. In contrast, at first BUM only reluctantly accepted the dissolution of the Soviet Union. Moreover, their subsequent systemic changes, reform progress and economic

developments have been so far much less encouraging—if not outright disappointing.

In economic terms, BUM are both small and poor. Even in Ukraine—the largest European country in terms of territory with nearly 50 million inhabitants—the size of the economy amounts to a mere €300 billion (less than 3 percent of the enlarged EU).¹ Real GDP per capita in Belarus and Ukraine stands at half of the NMS and just one third of the EU level. Thus, the development level of both countries is comparable to that of new EU entrants Bulgaria and Romania (as well as Turkey); Moldova's level is even lower (Table 1). Neither Moldova nor Ukraine has reached its pre-transition GDP level yet, although Belarus has proven more successful on this account. However, the recent economic growth in BUM has been rather impressive: between 2000 and 2005, their GDP increased by more than 40 percent—twice as fast as in the NMS. The growth of industrial production has been even higher; yet again, only Belarus managed to exceed the pre-transition level. Incomes and wages are extremely low—particularly in Moldova, where gross monthly wages are below €100, and which is now the poorest country in Europe. At the same time, unemployment is moderately high, although Belarus is once again an exception.² All three countries are fairly open to trade, judging by the shares of exports and imports in GDP, but have attracted very little foreign direct investment (FDI) so far. With respect to the latter indicator, BUM fall far short not only of the NMS, but also of Bulgaria and Romania—suggesting that their investment climate remains generally poor and reform progress has been lagging.

Lacking their own traditions of economic policy-making and any realistic EU membership prospects, Ukraine and Moldova have been broadly following the Russian reform strategy, with all its delays and controversial outcomes. Similarly to Russia, it was not until the mid-1990s that they succeeded in taming inflation—largely by means of restrictive and over-restrictive monetary policy, and at the expense of

¹ At Purchasing Power Parity (PPP). Measured at exchange rate, Ukraine's GDP is even smaller—less than €70 billion—since the domestic price level is just one fifth of the EU average (Table 1).

² The official unemployment rate may not properly reflect the real situation, since, on one hand, the unemployment benefits may be too low to give enough incentive to register as unemployed, and on the other hand, much unemployment takes the form of unpaid leave and involuntary part-time employment.

Table 1. Overview of Economic Fundamentals, 2005

	Belarus	Moldova ¹	Ukraine	Bulgaria	Romania	Turkey	NMS-8 ²	EU-15	EU-25 ³
GDP at exchange rates, € billion	23.73	2.24	65.51	21.45	79.26	291.12	540.87	10263.59	10822.38
GDP at PPP, € billion	71.2	6.4	294.1	58.2	176.1	519.45	959.81	9842.87	10822.38
GDP at PPP, EU-25=100	0.7	0.1	2.7	0.5	1.6	4.8	8.9	90.9	100.0
GDP per capita at PPP, in €	7300	1900	6250	7530	8140	7210	13160	25277	23353
GDP per capita at PPP, EU-25=100	31	8	27	32	35	31	56	108	100
GDP at constant prices, 1990=100	128 ³	59 ³	69.0 ³	103.1	111.0	175.6	140.8	137.0	137.6
GDP at constant prices, 2000=100	143.0	140.0	145.0	127.3	131.9	123.6	120.4	108.2	109.2
Industrial production, real, 1990=100	153	57.4	94.2	80.7	76.7	192.6	157.7	121.6	124.7
Industrial production, real, 2000=100	152	168	164.0	152.3	125.2	125.6	131.5	102.3	104.9
Population — thousands, annual average	9750	3392	46930	7740	21624	72065	72922	389407	462017
Employed persons — LFS, thousands, annual average	4315 ⁴	1364	20750	2980	9160	22046	29064	173446	202006
Unemployment rate — LFS, in %	1.5 ⁴	8	7.0	10.1	7.0	10.3	13.6	7.9	8.7
Public sector expenditures, national definition, in % of GDP	49	26	34	40 ⁵	30 ⁵	30.7 ⁶	43.6 ⁶	47.6 ⁶	47.4 ⁶
Public sector revenues, national definition, in % of GDP	48	25	32	43 ⁵	29 ⁵	31.8 ⁶	40.8 ⁶	45.3 ⁶	45.1 ⁶
Price level, EU-25=100 (PPP/exch. rate)	33	35	22	37	45	56	56	104	100
Average gross monthly wages, € at exchange rate	175	84	126	163	264	649 ⁷	807 ⁷	3144 ⁷	2803 ⁷
Average gross monthly wages, EU-25=100	6.2	3.0	4.5	5.8	9.4	23.2 ⁷	28.8 ⁷	112.2 ⁷	100.0 ⁷
Exports of goods, in % of GDP	54	39	43.0	44.1	28.1	21.2	46.3 ⁸	27.7 ⁸	28.6 ⁸
Imports of goods, in % of GDP	56.3	82.6	44.3	64.5	37.9	30.3	48.4 ⁸	27.6 ⁸	28.7 ⁸
Exports of services, in % of GDP	6.9	—	11.5	16.1	5.0	7.1	8.3 ⁸	8.4 ⁸	8.5 ⁸
Imports of services, in % of GDP	4.2	—	9.2	13.0	5.5	3.3	7.2 ⁸	7.8 ⁸	7.8 ⁸
Current account, in % of GDP	1.6	-4.5	3.1	-11.8	-8.7	-6.4	-3.6 ⁸	-0.3 ⁸	-0.5 ⁸
FDI stock per capita, in €	206	266	310	1105	930	400	2895	—	—

NMS-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia. PPP: Purchasing power parity — wiiw estimates. 1. Without Transnistria; 2. wiiw estimate; 3. 1991 = 100; 4. Registration data; 5. Year 2004; 6. EU definition: expenditures and revenues according to ESA '95, excessive deficit procedure; 7. Gross wages plus indirect labor costs, whole economy, national accounts concept; 8. Including flows within the region. Source: wiiw, CISSTAT, AIMECO, Eurostat.

barter proliferation. Also, similarly to Russia, their progress in price deregulation and privatization has been impressive, and in a number of ways they even outperformed Russia in this respect (e.g. the structure of the Ukrainian banking sector compares favorably to that in Russia), but this was accompanied by a pronounced rise in income inequality and poverty levels. At the same time, the high levels of corruption, the inefficient court system, and the inadequate provision of public goods such as of basic infrastructure (especially in Moldova) made their economic environment risky for investors.

Belarus represents a special case in terms of economic policy. Under the authoritarian leadership of President Alexander Lukashenko, the economy remains largely unreformed with the key elements of central planning being maintained. To cope with high inflation, in the mid-1990s the country's authorities resorted to price controls (such as caps on profit margins and directives to public sector organizations to buy goods at prices not exceeding the 'officially accepted level') and multiple exchange rates (which were in place until 2000). At the same time, progress in structural reforms has been limited, and the economy is still being dominated by traditional state-owned industrial enterprises. In addition, the government can impose the so-called 'golden share' (the right to intervene) in an enterprise of any type of ownership.

Sources and Patterns of Economic Growth

Soviet disintegration represented a huge negative shock for the BUM economies.³ A number of factors played a role, yet the high interdependency with the inter-republican Soviet market was a prominent feature. At the end of the 1980s, between 80 percent (Ukraine) and 90 percent (Moldova) of exports and imports were traded within the Soviet Union, the bulk of it with Russia.⁴ Cumulative disruption of close, albeit less efficient and not always rational economic ties, the chaos resulting from the collapse of the coordinating center in Moscow (and of the common currency), price liberalizations and the subsequent monetary squeeze initiated by Russia in January 1992 took

³ Williamson, J. (ed.), *Economic Consequences of Soviet Disintegration* (Washington D.C.: Institute for International Finance, 1993), pp. 99–174.

⁴ A. Vavilov and O. Viugin, "Trade Patterns after Integration into the World Economy," in Williamson, *Ibid.*

Table 2. Long-term Productivity Catching-up of the NMS, BUM and Russia Vis-à-Vis the EU(15)

Country groups	1990-1995			1995-2005			1990-2005			2000-2005						
	GR%* C ¹	GDEU [†] A	GR% C	GDEU A	GR% C	GDEU A	GR% C	GDEU A	GR% C	GDEU A	GR% C	GDEU A				
NMS GDP	-4.6	-0.9	-12.4	-2.5	46.8	3.9	25.1	1.9	40.0	2.3	8.8	0.4	19.9	3.7	13.3	2.4
Employment	-13.2	-2.8	-11.2	-2.4	-1.7	-0.2	-12.7	-1.2	-14.7	-1.1	-23.4	-1.6	0.4	0.1	-3.1	-0.6
Macro-productivity	9.9	1.9	-0.2	0.0	49.3	4.1	39.7	3.2	64.1	3.4	43.4	2.1	19.4	3.6	16.5	3.0
Belarus GDP	-33.9 ²	-9.8 ²	-41.7	-11.4	92.5	6.8	70.8	4.8	27.2 ³	1.7 ³	-4.0	-0.1	41.5	7.2	35.0	5.9
Employment	-12.2 ²	-3.2 ²	-10.2	-2.8	-2.5	-0.3	-13.5	-1.3	-14.4 ³	-1.1 ³	-23.2	-1.7	-3.2	-0.6	-6.7	-1.3
Macro-productivity	-24.7 ²	-6.9 ²	-34.8	-8.8	97.4	7.0	87.8	6.1	48.6 ³	2.9 ³	28.0	1.6	46.2	7.9	43.2	7.3
Russia GDP	-34.7 ²	-10.1 ²	-42.5	-11.6	45.9	3.8	24.2	1.9	-4.7 ³	-0.3 ³	-35.9	-2.2	34.7	6.1	28.1	4.8
Employment	-13.1 ²	-3.5 ²	-11.1	-3.1	6.3	0.6	-4.7	-0.4	-7.6 ³	-0.6 ³	-16.4	-1.1	6.1	1.2	2.6	0.5
Macro-productivity	-24.8 ²	-6.9 ²	-34.9	-8.8	37.2	3.2	27.6	2.3	3.2 ³	0.2 ³	-17.4	-1.0	26.9	4.9	23.9	4.3
Ukraine GDP	-47.7 ²	-14.9 ²	-55.5	-16.5	30.9	2.7	9.2	0.7	-31.5 ³	-2.7 ³	-62.7	-4.5	44.5	7.6	37.9	6.4
Employment	-3.5 ²	-0.9 ²	-1.5	-0.5	-14.3	-1.5	-25.3	-2.6	-17.3 ³	-1.3 ³	-26.0	-1.9	2.5	0.5	-1.0	-0.2
Macro-productivity	-45.8 ²	-14.2 ²	-55.8	-16.1	52.7	4.3	43.1	3.4	-17.2 ³	-1.3 ³	-37.9	-2.6	41.0	7.1	38.0	6.5
Moldova GDP	-52.2 ²	-16.9 ²	-60.0	-18.4	23.5	2.1	1.8	0.2	-41.0 ³	-3.7 ³	-72.2	-5.5	40.1	7.0	33.5	5.7
Employment	-19.2 ²	-5.2 ²	-17.2	-4.8	-18.5	-2.0	-29.6	-3.1	-34.2 ³	-2.9 ³	-42.9	-3.5	-10.0	-2.1	-13.5	-2.8
Macro-productivity	-40.9 ²	-12.3 ²	-50.9	-14.2	51.6	4.3	42.0	3.3	-10.3 ³	-0.8 ³	-31.0	-2.0	55.7	9.3	52.8	8.7
EU(15) GDP	7.8	1.5	-	-	21.7	2.0	-	-	31.2	1.8	-	-	6.6	1.3	-	-
Employment	-2.0	-0.4	-	-	11.0	1.1	-	-	8.8	0.5	-	-	3.5	0.7	-	-
Macro-productivity	10.1	1.9	-	-	9.6	0.9	-	-	20.6	1.3	-	-	3.0	0.6	-	-

Notes: * Growth Rate in percent (%); † Growth Differential against EU in PP; ^x Cumulative; * Average; 1. Central and east European new EU member states, comprising the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia; 2 1991-1995; 3. 1991-2005. Sources: wiiw database incorporating national statistics, CISSTAT, wiiw calculations using AMECO.

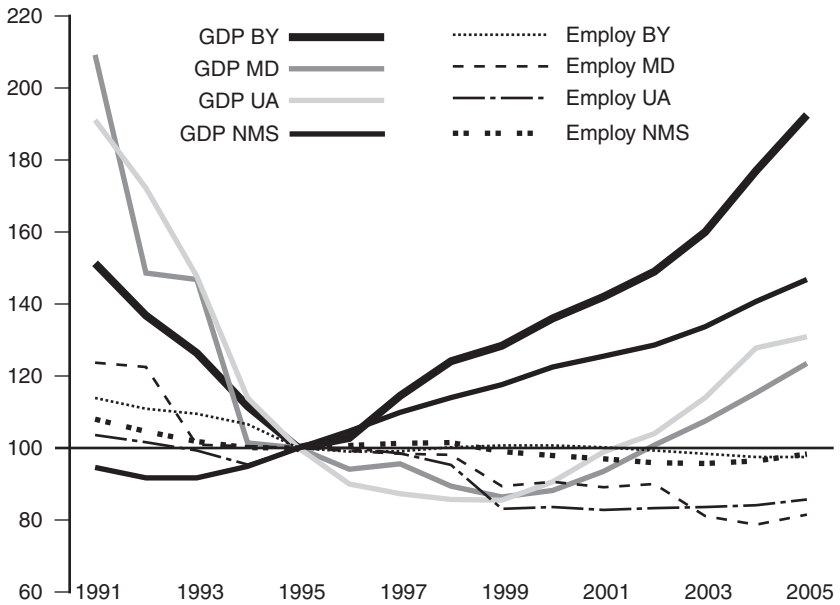
other Soviet republics largely by surprise and had grave economic consequences. In addition to this demand-side shock, the BUM countries were also facing a supply-side shock stemming from a rapid rise in the relative price of previously under-priced inputs, particularly energy carriers imported from Russia. As a result, GDP in Ukraine and Moldova declined by about half between 1991 and 1995, and in Belarus—as in Russia—by about one third. The depth of BUM's 'transitional recession' was of a comparable magnitude to that in the Baltic states, yet it lasted much longer. Only in Belarus did GDP start to recover by 1996; it has been growing rapidly afterwards. The economies of Moldova and Ukraine, on the other hand, continued to contract until 1999, though their subsequent recovery was also more pronounced than in the NMS (Figure 1, Table 2).

Swings in production growth have been accompanied by significant labor market adjustments. However, as shown in Figure 1, the trends in GDP and employment varied considerably during the whole period of 1990-2005; there have been also marked differences between BUM and the NMS, both with implications for the varying developments in macro productivity. Not surprisingly, the initial transformation crisis resulted in a drop of employment in the first half of the 1990s. However, in contrast to the NMS, employment in BUM (especially in Ukraine) declined much less than GDP, indicating delayed economic restructuring and implying huge reductions in macro productivity in the first half of the 1990s (Table 2). Interestingly, employment continued to decline (or stayed flat in Belarus) after 1995 despite a remarkable recovery of GDP, particularly in the early 2000s. The reduction of employment has been most pronounced in Ukraine and Moldova, in both countries associated with declining population and substantial outward migration.⁵

The combined effect of robust recent GDP growth and declining employment has resulted in significant improvements in labor productivity. Between 1995 and 2005, macro productivity (defined as GDP per employed person) in Belarus nearly doubled, in Ukraine and

⁵ Between 1991 and 2005, employment in Belarus dropped by 14 percent, in Ukraine by 17 percent, and in Moldova by 34 percent. Generally, population decline is a phenomenon seriously affecting all non-Muslim former Soviet republics. Between 1991 and 2005 the population of Belarus dropped by 4 percent, in Ukraine by 9 percent, and in Moldova by 18 percent (including some 600,000 living in Transnistria). There is no reliable data on migration (see below).

Figure 1. Development of GDP and Employment, 1991–2005
1995=100



Source: wiiw database incorporating national statistics and CISSTAT.

Moldova it increased by more than half. A major part of productivity improvements occurred after the year 2000 as GDP growth accelerated. Generally, the recent (labor) productivity growth at macro level in BUM has been much faster than in the NMS—not to mention the EU-15 (Table 2).

The recent GDP and productivity growth in BUM seem to be partly associated with rising investments, especially in Belarus and Ukraine. In both countries, gross fixed investments between 2000 and 2005 approximately doubled (Belarus: +85 percent, Ukraine: +125 percent) whereas in Moldova they grew by some 40 percent. Still, in all three countries investments presumably have not yet reached the levels of the early 1990s. Also, overall investment levels in BUM—and especially the stocks of foreign direct investment—remain far below those in the NMS (see Table 1). However, the investment ratios (defined as the share of gross fixed investments in GDP) in these countries are not particularly low by international standards: about 20 percent in Moldova and Ukraine, and as much as 30 percent in Belarus.

Apart from increased investment, the growth of GDP and labor productivity in BUM has been also a reflection of the recovery of previously lost output and improved capacity utilization. In fact, detailed analysis shows that a major part of the recent growth in the CIS can be attributed to the growth in total factor productivity (TFP), which means that it is not directly attributable to either labor or capital. Instead, a mix of factors, such as increasing capacity utilization, changes in the sectoral composition of output and terms of trade gains, explains a large part of recent productivity improvements. After these transitory factors are exhausted, rapid growth will not be sustained unless reforms are accelerated and investment spending goes up.⁶ Similar conclusions were reached by the World Bank for Belarus and Moldova.⁷

While there are broad similarities in the supply-side factors of the recent growth in BUM, the demand-side factors have been largely different. Thus, in Belarus, with its investment ratio of 30 percent, the issue of under-investment highlighted in the previous paragraph appears to be less of a problem. It is no wonder that the growth of GDP and labor productivity in Belarus since 1995 has been by far the highest among the countries in question. The successful performance of this largely unreformed economy is at odds with the standard transition paradigm and constitutes a “puzzle” for many analysts.⁸ Among contributing explanations to this puzzle is the ability of the authoritarian government to avoid chaos,⁹ as well as close and preferential relations with Russia, which means being able to secure relatively cheap energy supplies and market access for otherwise non-competitive exports. Probably even more importantly, the current growth appears to have been triggered by the specific policy mix pursued since the second half of the 1990s.¹⁰ On the one hand, this policy aimed at boosting aggregate demand by extending direct credits at strongly

⁶ G. Iradian, “Rapid Growth in the CIS: Is It Sustainable?,” wiiw Research Report, No. 336, Vienna, February 2007.

⁷ World Bank, “Country Economic Memorandum for the Republic of Belarus,” November 2005 (World Bank 2005a); World Bank, “Country Economic Memorandum for the Republic of Moldova,” September 2005 (World Bank 2005b).

⁸ World Bank 2005a, *Ibid.*

⁹ A limited number of large state-controlled enterprises produce more than 90 percent of GDP. See S. Vassilevsky, V. Medvedev, K. Kurilionak (2006), “Analysis of Structural Change, Trade Specialisation and Integration Experience of Belarus” (<http://www.wiiw.ac.at/INDEUNIS>).

¹⁰ V. Astrov, “Belarus: Sustainable Growth without Structural Reforms?” wiiw Monthly Report, No. 7, pp. 1-7 (2004).

negative real interest rates, particularly in the construction sector. On the other hand, the government has been actively promoting Belarusian goods in the new export markets outside the collapsing Russian market and especially in developing countries (such as China or Peru) that could “accept the medium quality of Belarusian goods.”¹¹ Finally, starting from 1999, growth was additionally fuelled by the economic recovery in Russia—by far Belarus’ most important trading partner. Nevertheless, during the past few years it has become apparent that some of the growth factors may not be sustainable: Russia is raising its energy export prices, and the competitiveness of Belarusian exports appears to be deteriorating (already in 2005, Belarusian exports to Russia dropped by more than 10 percent—see below). The dangers intrinsic to the country’s present development strategy, which is based largely on the administrative allocation of resources and cheap Russian energy, are increasingly recognized in Belarus.¹²

Unlike in Belarus, where growth was initially domestically engineered, the economic upswing in Ukraine has been largely due to external factors, particularly the contagion effect from the Russian financial crisis in 1998 (resulting in devaluation of the hryvnia), the subsequent economic recovery in Russia and, more recently, the soaring world prices of steel—the country’s most important export commodity. However, the last two years have demonstrated the vulnerability of the country’s growth path, which was adversely affected by a 30 percent drop in steel prices in the first half of 2005 and further aggravated by the political uncertainty following the “Orange Revolution.” The country’s economic growth plunged from 12.1 percent in 2004 to a mere 2.6 percent in 2005 (although it recovered to 7.1 percent in 2006). Part of the downturn could be attributed to temporary political factors such as the deterioration in investment climate as a result of

¹¹ V. Tarasov, “Ekonomicheskaya politika i effektivnost’ rynochnykh preobrazovaniy v Respublike Belarus (v kontekste ekonomicheskikh vzaimootnosheniy s Rossiyskoi Federatsiyey),” *Voprosy Ekonomiki*, No. 3, 1994, pp. 103–112.

¹² See Vassilevsky et al., op. cit. For details and the evolution of Russian-Belarus oil and gas conflict see “More than Neighbours”, Batory Foundation Policy Brief, Warsaw, January 2007. The energy price hikes imposed by Russia on Belarus as of January 2007 corresponded to some 6 percent of Belarusian GDP. However, according to our estimates, the higher transit fees for gas and the proceeds from the sale of 50% of Beltransgas to Gazprom would mitigate the shock to around 4 percent of GDP. Besides, the bulk of these losses essentially represent squeezing profits of the two oil refineries owned by Russians. This implies, in turn, that—unlike the impact on Gross *Domestic* Product—the impact on Gross *National* Product of Belarus is likely to be negligible, if any.

the pre-announced re-privatization campaign, abolition of Special Economic Zones, and administrative price interventions. While the new government seems to ensure a continuity of economic reforms, the country's excessive dependence on the steel exports and the still very high energy intensity of its economy remain the two most important risk factors.¹³ (The large part of the recent economic upturn is due to a recovery of steel prices, while the price of imported natural gas is still very low by international standards). Both the diversification of the economic structure and the reduction of excessive energy dependence would require substantial investments, including foreign direct investments.

After one of the deepest post-Soviet recessions, Moldova's economic recovery has been associated with shrinking employment and the export of labor. The World Bank estimates that 25 percent of Moldova's economically active population is working abroad, and that workers' remittances are close to 30 percent of the country's GDP.¹⁴ According to the IMF, remittances equalled 60 percent of exports and about four times the amount of FDI in 2005.¹⁵ While remittances help to support household incomes of otherwise impoverished families, they also pose numerous economic policy challenges, such as the upward pressure on the exchange rate and inflation. Also, the major part of money inflows related to remittances is used to finance consumption (and imports) and very little for financing business investments (less than 7 percent, according to the World Bank). Another challenge for economic development in Moldova is posed by the conflict in Transnistria, where the major industrial potential of the republic (especially in machine building, light industry, metals and power utilities) is concentrated.¹⁶ With the overwhelming majority of Transnistrian voters apparently supporting independence from Moldova in the September 2006 referendum (not internationally recognized), the chances of resolving the conflict soon are slim.

¹³ Unlike e.g. Russia, Ukraine does not have any stabilization fund which could smooth the impact of the world steel price volatility on the domestic economy.

¹⁴ World Bank, 2005b, *op. cit.*

¹⁵ Iradian, *op. cit.*

¹⁶ A. Libman, (2006), "Moldova: Structural Changes, Trade Specialization and International Integration Experience," Moscow, IE RAS (<http://www.wiwi.ac.at/INDEUNIS>).

Structural Changes

The BUM's output structures are characterized by high (yet declining) shares of agriculture, the relatively high (in Belarus even increasing) importance of industry and construction, as well as by a poorly developed services sector. In this respect, BUM are similar to Bulgaria and Romania, and differ from both the EU-15 and the other NMS (Figure 2a). Since neither Ukraine nor Moldova have reached their pre-transformation output levels yet, their restructuring has been largely of a 'passive' nature, reflecting the different rates of contraction (and subsequent recovery) of individual economic sectors. Even in Belarus, which thanks to industrial expansion had by 2005 surpassed its pre-transition GDP level by more than 20 percent, hardly any active restructuring has taken place.¹⁷ Nevertheless, the direction of BUM's structural change is "right," although each of these economies still has a long road to travel before it has created an economic structure resembling that of a developed market economy.

The evolution of employment structures leads to similar conclusions: the high employment shares in agriculture (especially in Moldova), the declining importance of industry and the rising shares of services employment (Figure 2b). Moldova's and Ukraine's employment structures are similar to those of Romania and Bulgaria; that of Belarus is closer to the NMS structure.¹⁸ The high shares of agricultural employment and the low shares of services are again an indication of structural weaknesses and underdevelopment—especially compared to the EU-15. However, even in this respect BUM do not differ too much from Bulgaria and Romania.

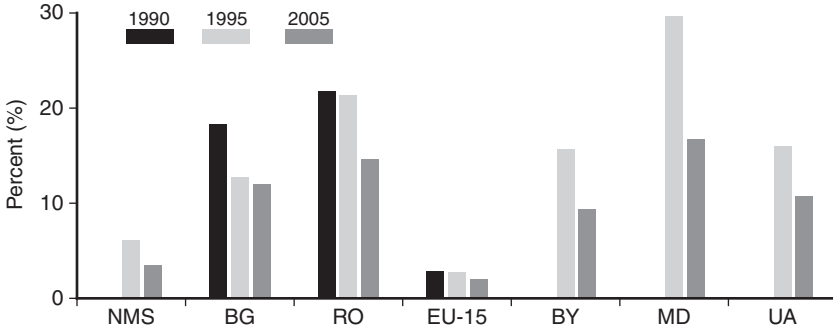
Within industry, the importance of fuels and energy has been on the rise (largely due to the price effects) while that of machine building has been declining—a sign of increasing specialization of BUM in manufactured products with relatively low value-added. Energy, fuels and metallurgy are the biggest industrial branches in terms of output shares in Belarus and Ukraine, whereas Moldova's industry is dominated by food, beverages and tobacco processing. These industries

¹⁷ Most industrial growth in Belarus can be attributed to a limited number of enterprises that had already been established during Soviet times (partly with technology imported from the West)—see Vassilevsky et al., *op. cit.*

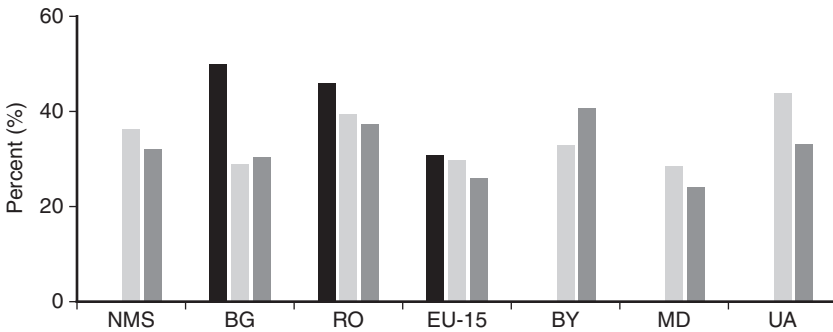
¹⁸ It should be recalled that these structural shifts occurred against the background of declining overall employment.

Figure 2a. Comparison of Production Structures in 1990, 1995 and 2005 (percentage of total gross value added)

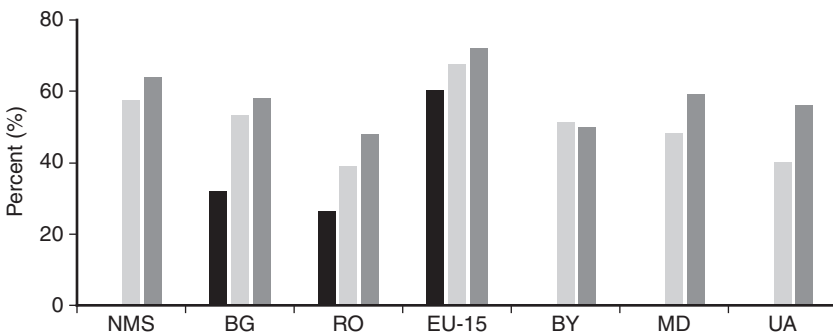
Agriculture and Fishing



Industry and Construction



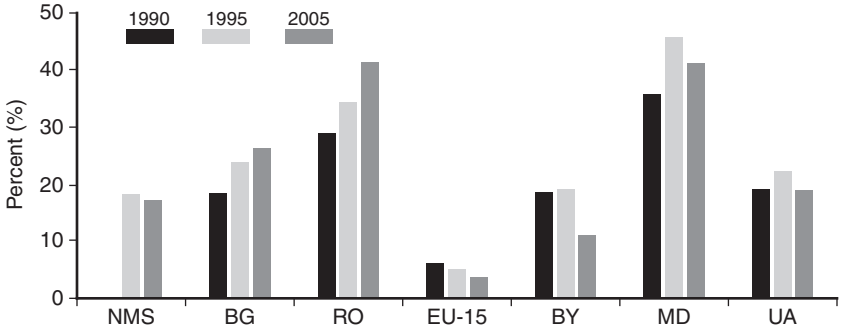
Services



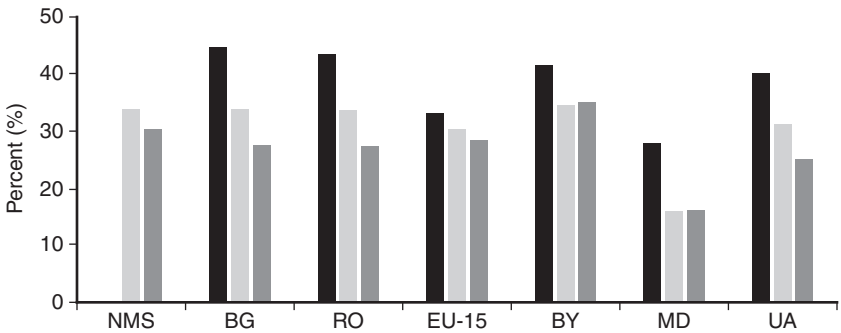
Sources: wiiw Database incorporating national statistics and CISSTAT; wiiw calculations using AMECO.

Figure 2b. Comparison of Employment Structures in 1990, 1995 and 2005 (percentage of total)

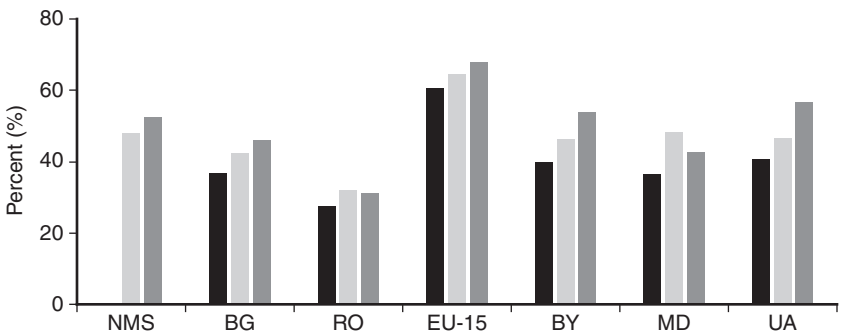
Agriculture and Fishing



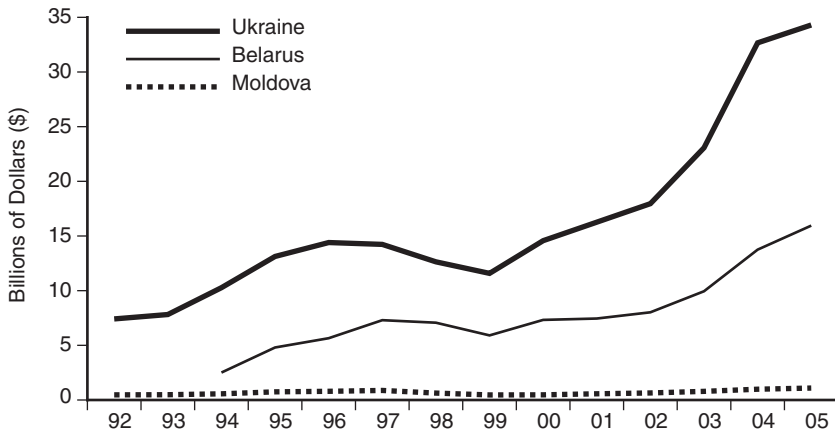
Industry and Construction



Services



Sources: wiiw Database incorporating national statistics and CISSTAT; wiiw calculations using AMECO.

Figure 3a. Development of Commodity Exports, 1992–2005

Source: own calculations based on wiiw and CISSTAT databases.

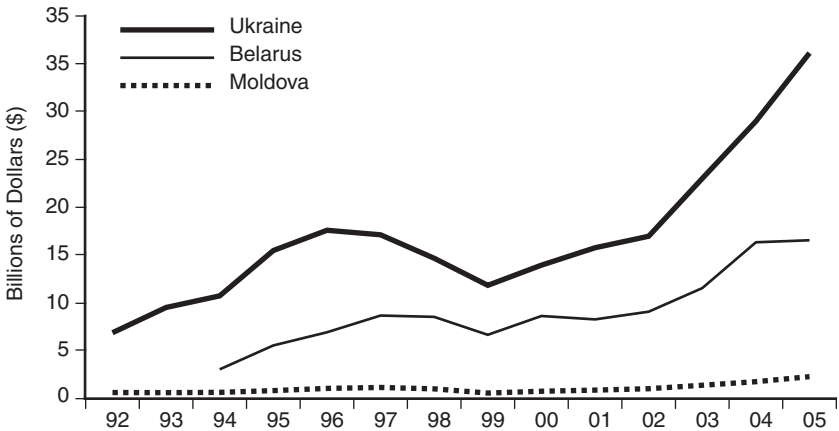
account for more than 50 percent of industrial output in BUM.¹⁹ In this respect, BUM differ again from the NMS, since in the latter group machinery and equipment account for a growing share of industrial output (and of exports—see below). Successful industrial restructuring in the NMS has been the result of a virtuous circle of reforms and FDI inflows (as well as integration with the EU—see below)—both areas where BUM are substantially lagging behind.

Foreign Trade Patterns and Integration Prospects

Starting with the early 1990s, a rapid trade expansion occurred in both NMS and the CIS.²⁰ However, against the background of the overall trade growth, two new distinct trading blocs have emerged. According to the World Bank, the first—and bigger one—is “Euro-centric” and comprises the NMS, the “old” EU and Southeast Europe, while the second is “Russia-centric” and encompasses the 12 CIS countries.²¹ Our estimates show that between 1993 and 2005, NMS exports increased by

¹⁹ CISSTAT, “Commonwealth of Independent States in 2005,” Moscow, 2006.

²⁰ The recent World Bank study estimates that NMS exports and imports volumes between 1993 and 2003 increased by factors of 3.6 and 4.1, respectively. Notably, CIS trade was much less dynamic (exports: 2.1, imports: 1.5). See H.G. Broadman, “From Disintegration to Reintegration. Eastern Europe and the Former Soviet Union in International Trade” (Washington D.C.: The World Bank, 2005), p. 7.

Figure 3b. Development of Commodity Imports, 1992–2005

Source: own calculations based on wiiw and CISSTAT databases.

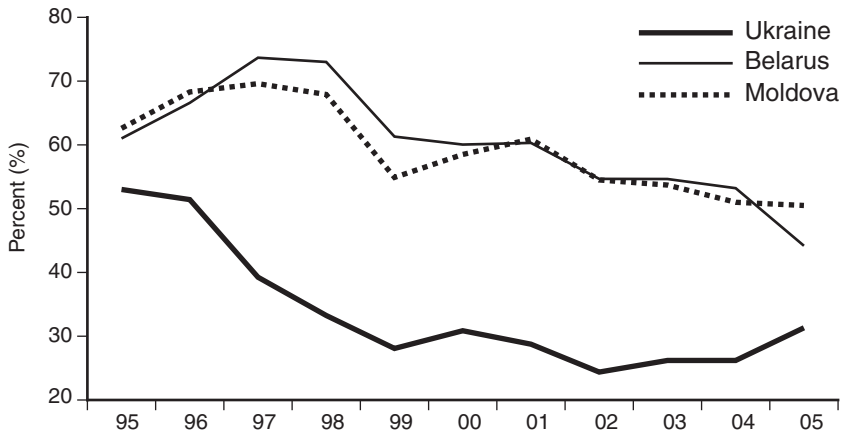
a factor of 5.4 and imports by a factor of 4.9 in euro terms.²² Contrary to that, the dynamics of Ukrainian, Belarusian and especially Moldova's foreign trade has been much lower (Figures 3a and 3b).

However, in both the NMS and BUM, the trade developments during the last 15 years have been accompanied by a regional shift in favor of the EU, although to a much greater extent in the case of the NMS. In 2004—after their EU accession—70–80 percent of NMS trade represented intra-EU exchanges. Thus, the degree of EU trade integration, especially regarding NMS exports, is extremely high.²³ In the case of BUM (and, for that matter, the CIS countries in general), there has been a rising importance of the EU as an export market as well, especially after EU enlargement in May 2004. The major driving factor has been the vast impoverishment and the low purchasing power of the former Soviet markets and the undervaluation of their

²¹ Broadman, *Ibid.* There are other differences between the performances of the NMS and the CIS. According to Joseph Stiglitz, transition in the CIS essentially failed (mainly because of the botched privatization and the resulting asset stripping) whereas the NMS accomplished successful institutional transformation related to the EU accession process. See his 2006 speech at the EBRD Annual Meeting, <http://www.ebrd.org/new/stories/2006/060522a.htm>.

²² P. Havlik, "Structural Change and Trade Integration on EU-NIS Borders," Vienna: wiiw, 2006. (<http://www.wiiw.ac.at/INDEUNIS>).

²³ The EU share of NMS imports is usually smaller since a bulk of inputs—especially energy—is imported from the CIS (see below).

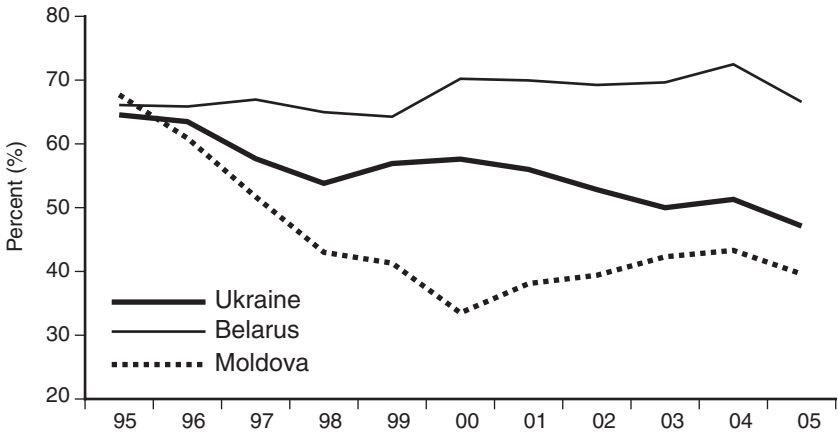
Figure 4a. Source of CIS Total Exports, 1995–2005

Source: CISSTAT.

currencies, prompting CIS producers to look for the new export markets. It is interesting to note that within the CIS, the importance of the EU as an export market is the highest for Russia (44 percent of exports in 2004) and the lowest for Ukraine (26.4 percent).²⁴ Simultaneously, the role of the CIS as export destination for BUM has been gradually declining, particularly in Ukraine—though the CIS still accounts for more than 30 percent of total Ukraine’s exports (in Moldova even for 50 percent—Figure 4a). The importance of the CIS as a source of imports is much bigger, not least because of the already highlighted importance of the energy trade, as well as the fact that the decline in the CIS’ share of BUM’s imports has been less pronounced. Even Ukraine still receives nearly 50 percent of its imports from the CIS (and Belarus as much as 66 percent—Figure 4b). Clearly, the importance of the CIS and especially the Russian market is rather substantial for the “smaller” CIS republics, particularly Belarus.²⁵ Within

²⁴ See Havlik, 2006b. Given Ukraine’s geographical proximity to the EU, the latter might seem surprising. This is largely due to the high protection of the EU markets against some of Ukraine’s major export commodities—particularly steel, which is considered a ‘sensitive’ sector in the EU and for which an import quota is applied. In contrast, the bulk of Russia’s exports such as oil and natural gas face no barriers in entering the EU market, which partly explains the high EU share for Russia.

²⁵ The above is valid also for some other CIS republics (Georgia, Kyrgyzstan, Moldova and Turkmenistan, as well as for Tajikistan as regards imports). See CISSTAT, *op. cit.*, pp. 120–121.

Figure 4b. Source of CIS Total Imports, 1995–2005

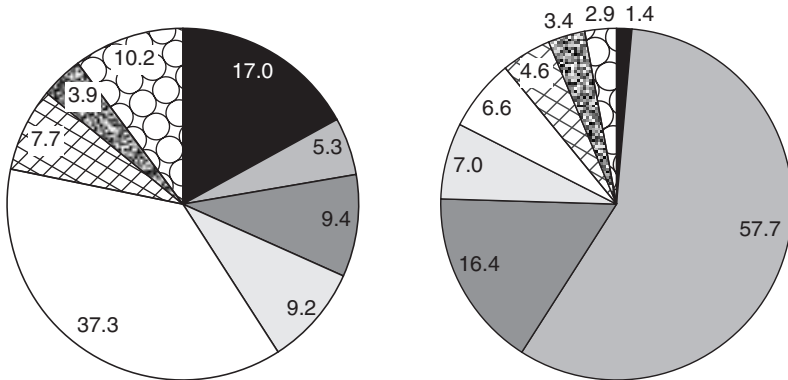
Source: CISSTAT.

the CIS, Russia and Kazakhstan as resource-rich countries enjoy large (and growing) foreign trade surpluses, whereas Belarus, Moldova and, since 2005, also Ukraine run trade deficits—another manifestation of the role of energy trade.

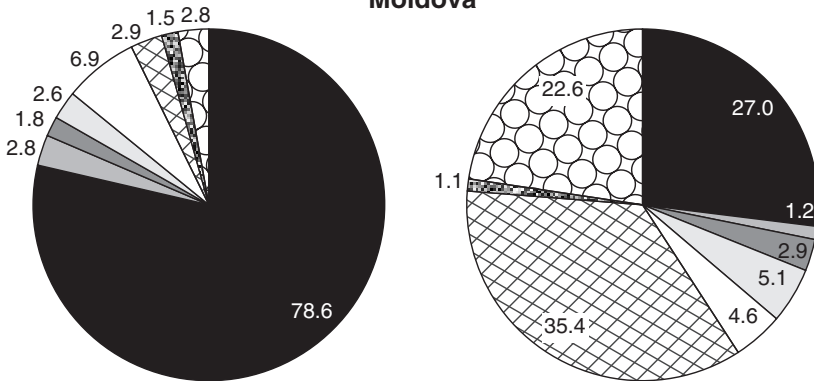
Needless to say, CIS regional trade patterns depend very much on their commodity composition. Their export structures are typically characterized by high concentration of a few commodities and a persistent and marked dichotomy between the trade structure with the CIS and the rest of the world. This is illustrated in Figure 5, which highlights exports from Belarus and Moldova. In exports to the CIS, the Belarusian export structure is fairly diversified, with machinery and transport equipment accounting for nearly 40 percent of the total. However, in exports to the rest of the world, machinery and equipment are nearly absent, and the overwhelming portion consists of mineral products, notably refined petroleum products based on crude oil imported from Russia. In Moldova, there is a similar dichotomy, though with different specialization patterns: nearly 80 percent of exports to the CIS represent agricultural products, whereas the latter account for less than 27 percent of exports to non-CIS countries, the main export commodity to these countries being textiles.

Figure 5. Commodity Composition of Exports in 2005 (in percent)

Belarus



Moldova



- | | |
|--|---|
| <ul style="list-style-type: none"> Mineral products and fuels Chemical products, plastics and rubber Base metals and products Animal and vegetable products, foodstuffs, liquor and tobacco products | <ul style="list-style-type: none"> Machinery, transport equipment, etc. Textile, leather, clothing, furniture Wood, paper and glass products Other non-mentioned groups |
|--|---|

Source: wiiw based on CISSTAT.

Comparable data for CIS and non-CIS trade are not available for Ukraine, but there is evidence of similar dichotomy. Mirror statistics from Eurostat show that exports to the EU -25 are dominated by basic metals (more than 40 percent, including the mining of metal ores), refined petroleum products (8 percent) and chemicals (7 percent), while machinery accounts for less than 5 percent of exports.²⁶ In contrast, Ukraine's exports to Russia have a significant machinery component.²⁷ Overall, in trade with the CIS, both Belarus and Ukraine tend to specialize on products with a higher value-added than in trade with the rest of the world. (The latter does not apply to Moldova, which is specializing on lower value-added products in trade with *both* regions).

The relatively limited role of the EU and the low-profile pattern of BUM's specialization in trade with the EU are both indicative of the meager foreign direct investment inflows from the EU into these countries (see Table 1). In addition, certain products which could be potentially competitive in the EU market face considerable trade barriers (e.g. agricultural products, especially in the case of Ukraine and Moldova). None of the BUM countries has a free trade agreement with the European Union, including Moldova, which is the only WTO member among BUM. In the case of Ukraine, free trade negotiations with the EU will not start until the country's WTO accession, while any serious cooperation between Belarus and the EU has been blocked for political reasons. Thus, the degree of integration between BUM and the EU remains very low—unlike the case of the NMS or even of Southeast Europe. Last but not least, the mutually restrictive visa regime adds to the complexity of relations.²⁸

The sluggishness of EU-BUM trade integration is due in part to the still extensive economic links between these countries and Russia. For instance, a free trade area between any of the BUM countries and the EU (let alone a customs union) that did not include Russia would result in painful trade diversion effects. In particular, some of the more sophisticated manufactured items produced in Ukraine and Belarus

²⁶ Havlik, *op.cit.*

²⁷ V. Astrov, et al., "The Ukrainian Economy between Russia and the Enlarged EU: Consequences for Trade and Investment," *wiiw Current Analyses and Country Profiles*, No. 23, Vienna, March 2006.

²⁸ The only exception is visa-free entry for EU citizens into Ukraine, which has been in place since mid-2005.

(such as machinery and equipment, but also military production) would lose their principal export market. At the same time—and despite the formal existence of Four Common Spaces between the EU and Russia—it is questionable to what extent the EU will want to form a truly functioning free trade area with Russia, not least for political reasons and the widely debated divergence of “values” (a free trade area with the EU appears to be less of a problem for the Russian side).

Meanwhile, BUM’s closer economic (re-)integration with Russia itself is almost equally problematic (with a possible exception of Belarus), largely for political reasons, and reflecting the legacy of the common past. While there is a CIS-wide free trade agreement, a number of important commodities are exempted, and there are occasional bans on imports into Russia of selected (primarily agricultural) products from BUM, such as those for dairy and meat products from Ukraine and for wines from Moldova. Within BUM, Moldova is contractually least integrated with Russia, whereas both Ukraine and Belarus participate in the Common Economic Space agreed upon in 2003 (the other two participants being Russia and Kazakhstan) and whose implementation is currently in progress. In many ways, Belarus is most integrated with Russia, as it participates in the Russia-Belarus Union State with a largely unified customs regime and a common labor market. However, just as in the case of other BUM and other CIS countries, the issues of energy trade and energy transit appear to be an ever growing stumbling block for further integration. Given Russia’s recent strategy of raising the previously beneficial prices for energy deliveries to BUM, the latter may lose an important incentive for closer trade integration with Russia.

Conclusions

As demonstrated by our analysis, the recent economic developments of Belarus, Ukraine and Moldova (BUM) show a number of common features, but also some important differences. All three countries have been growing fast in the last few years, although the growth factors have been largely different: demand stimulation, public investments and preferential trade relations with Russia in the largely unreformed economy of Belarus; booming world steel markets in the case of Ukraine; and huge private remittances in Moldova. Despite these

differences, external factors in general and high economic growth in Russia in particular have played a crucial role everywhere.

Growth patterns may not be sustainable in the medium and long run in any of the three countries, however, given risks emanating from the sub-optimal state-dominated allocation of resources in Belarus, the excessive dependence on steel exports in Ukraine, and the political risks in Moldova, which faces the problem of Transnistria. Moreover, growth so far has not been accompanied by structural changes of the scope observed in the NMS. The share of industry in Belarus has actually risen, Moldova's economic structure with its huge share of agriculture is that of a developing state, and in all three countries services are still grossly underdeveloped.

Nevertheless, rapid economic growth against the background of falling employment is an encouraging sign which offers evidence of impressive labour productivity gains reaching beyond mere improvements in capacity utilization. Despite some re-orientation of BUM's trade from the CIS towards the EU (particularly on the export side), the level of integration between BUM and the EU remains low. This is partly due to the small volume of foreign direct investment, partly due to existing trade barriers, and partly due to political factors. In addition, the patterns of Belarusian and Ukrainian trade specialization *vis-à-vis* the CIS are more favourable than those with the EU, although the reverse side of this is a pronounced energy dependence on Russia, based on still-beneficial energy delivery terms. Although economic (re-)integration prospects with Russia may be problematic, at least in the short and medium run, the role of Russia will be nevertheless crucial for any future integration between BUM and the EU, since those relations could be determined to a significant degree by steps toward integration taken by the EU and Russia itself.

Ukraine and Belarus: Their Energy Dependence on Russia and their Roles as Transit Countries

Roland Götz

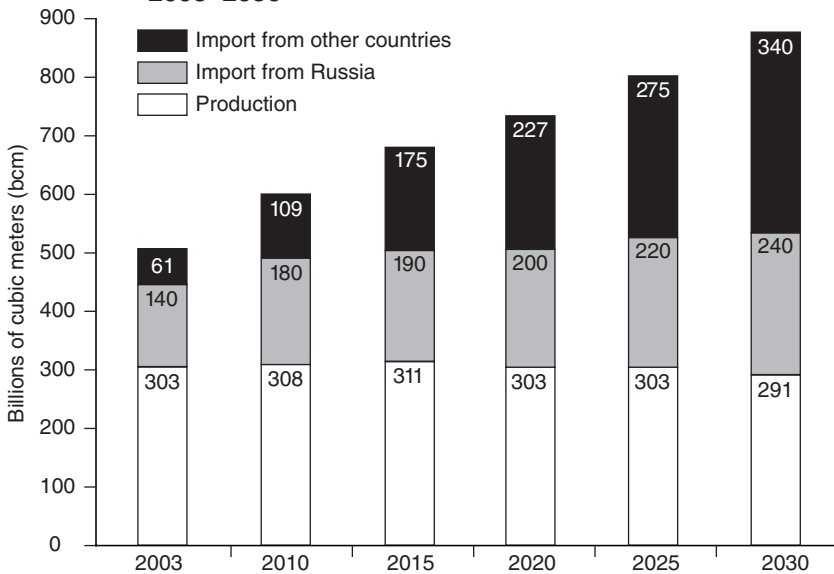
Russia's importance for Europe's energy supply has geographic and historic reasons. Its transport infrastructure is oriented to Europe. Nearly all export pipelines for oil and gas run in a westerly direction—the most important harbors and oil terminals are situated on the European coasts of Russia.

Conversely, Europe's energy supply is not exclusively dependent upon Russia, because in its geographical neighborhood there are three other important resource regions—Northern Africa, the Caspian region/Central Asia, and the Near East. Therefore, energy relations between Europe and Russia are balanced, and neither partner can enforce its will on the other. How will this potentially fruitful relationship develop in the coming decades and where can disturbances be expected?

To clarify which quantitative developments are foreseeable, it is important to forecast Europe's energy import demand and Russia's export potential. Such forecasts, of course, can only take recognizable developments into account, and cannot anticipate future changes in trend.

The forecasts of the various international energy institutions differ not so much in methodology but in assumptions regarding such parameters as global economic growth, the degree of the increase of energy efficiency, or the speed of development of oil and gas fields. In the main, however, most official forecasts are in agreement.

The growing gas demand of Europe has been caused by its economic growth, by the continuing gasification of border regions, and above all by the substitution of coal and oil for electricity production with environmentally-friendly natural gas.

Figure 1. Gas consumption and gas imports of OECD-Europe 2003–2030

Source: Energy Information Administration, *International Energy Outlook 2006*, [<http://www.eia.doe.gov/oiaf/ieo/index.html>]. See also Gazprom, [<http://www.gazpromquestions.ru/news/news19.html>] and table 1.

Under a scenario of medium economic growth (3 percent per annum), gas consumption of OECD-Europe will increase between 2003 and 2030 to nearly 900 billion cubic meters (bcm).¹ In the same period, European gas production will decrease slightly from 300 bcm to 290 bcm. Consequently, European import demand will increase by 400 bcm to nearly 600 bcm (see figure 1). Russia intends to serve this demand as far as possible. It could double its gas deliveries to Europe by 2030, provided that the giant gas deposits on the Yamal peninsula and the Barents Sea will be tapped in time. In this case, Russia's share in European gas consumption will stay at nearly 30 percent and the

¹ Energy Information Administration, *International Energy Outlook 2006*. [<http://www.eia.doe.gov/oiaf/ieo/index.html>]. OECD-Europe includes the following states: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey, United Kingdom. Not included are the Baltic countries, the Balkans, the CIS states, Romania, and Bulgaria.

Table 1. Gas Balance of Russia 2005–2030 (billion cubic meters)

	Bcm				Change per annum percent (%)	
	2005	2010	2020	2030	'05–'20	'05–'30
Production of Gazprom	547	560	590	630	0.5	0.6
Production of oil companies and independent gas producers	93	120	230	250	6.2	4.0
Total production	640	680	820	880	1.7	1.3
Imports	10	60	90	110	15.8	10.1
Total supply	650	740	910	990	2.3	1.7
Exports to Europe	147	180	200	240	2.1	2.0
Exports to CIS	55	50	50	40	-0.6	-1.3
Exports to Asia/USA	0	30	120	140	120.0	140.0
Total exports	202	260	370	420	4.1	3.0
Domestic consumption*	448	480	540	570	1.3	1.0

* including own consumption by gas companies.

Sources: Gazprom, [<http://www.gazpromquestions.ru/news/news19.html>], own estimates.

Russian share in European gas imports will decrease from two-thirds to less than 50 percent.

Because Russia owns the biggest gas stocks (reserves plus resources) on the Eurasian continent, in the long run it will remain the main supplier of gas for the European market. Russian gas production had already reached a high level by the end of the Soviet Union period and has not declined much since then. Between 2005 and 2030 Russian gas production will grow presumably not more than 40 percent, or 1.3 percent per annum.

Russian gas exports are severely limited by domestic gas consumption, which absorbs about two-thirds of production. Only if imports from Central Asia rise above average levels will exports rise faster than production.

The “favorable” forecast of the gas balance of Russia between 2005 and 2030 (see Table 1) assumes that three conditions are met: first, that the big gas deposits on the Yamal peninsula and in the Barents Sea will be opened up without delay; second, that gas imports from Central Asia will grow markedly; and third, that domestic gas consumption will increase far less than gross domestic product. The most critical condi-

tion seems to be the third one. Its fulfillment depends on the success of efforts to improve efficiency in the gas-consuming sectors.

Although Russia will expand its gas export to Europe between 2005 and 2030 by about 100 bcm, Europe's additional demand of approximately 350 bcm will not be met. North African countries, above all Algeria, will meet the bulk of the additional European gas demand, even though their gas reserves are much smaller than Russia's. Only in the distant future will Qatar and Iran appear as big gas suppliers for Europe.² Russia's future gas exports mostly will be directed to Europe. Only after 2020—when the necessary pipelines and LNG terminals will be in operation—will about one-third of Russian gas exports go to the United States and East Asia.

Could gas imports from Central Asia and the Caspian region solve the problem of Europe's considerable dependence on Russia? This is hardly to be expected. European gas imports from Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan will remain relatively small for a long time because the existing pipeline structure supports gas exports to Russia and/or Ukraine and Belarus. Gas from Central Asia and the Caspian Region will replace Russian gas on the domestic markets of the CIS countries and free up Russian gas for export to Europe.

The Transit Problem

While the majority of Europe's oil imports is delivered by sea transport, the bulk of the gas imported is delivered by pipelines. The pipelines from Russia to Western Europe pass through the transit states of Belarus and Ukraine. The transit pipelines share the storage facilities together with the pipelines that serve the domestic markets. Therefore, the gas transit is affected by fluctuations of pressure in the domestic grid. Hence, troubles with the gas supply of the domestic market of the transit countries have an impact on gas transit too. Gas disputes between transit countries and Russia resulted in disturbances of gas transit through Ukraine in 2006, 1995, and 1993; through Belarus in 2007, 2004 and 2003; and through Moldova in 1999.

² International Energy Agency (IAE), *World Energy Outlook 2006* (Paris: IEA, 2006) quoted as WEO 2006, p. 117.

Map 1. Gas pipelines in the Western CIS



Source: German Institute for International and Security Affairs.

This situation leads to a number of questions. Could Russia obstruct a reorientation to the West of CIS countries such as Ukraine, Moldova, Georgia, and someday Belarus, using its position as the main energy supplier of those countries? Could the energy supply of Europe be interrupted in this scenario? Many Western observers indeed suppose that Russia uses its energy exports directly for political objectives.³

³ See for example Larsson, *Russia's Energy Policy. Security Dimensions and Russia's Reliability as an Energy Supplier*, Swedish Defence Research Agency Report No. 1934 (Stockholm 2006), p. 291: "Russia's strategic ambition is to utilize its energy policy as a sword and a shield in its security policy." [http://www.foa.se/upload/aktuella-publ/foir1934.pdf].

They refer to plenty of “incidents,” such as cutbacks in energy supplies or buyouts of energy infrastructure in transit countries by Russian companies. One should be cautious when interpreting these actions as being politically motivated, however, because commercial motivations could also be at play. There exists a fundamental problem of analysis whenever business interests and foreign policy aims coincide, because empirical findings do not allow for non-ambiguous conclusions. The categorical equation of Russian business and foreign policies does not take into consideration the nature of the Russian economy. Russian enterprises have to operate under the conditions of the world market. They must pursue the aims of profit maximization and market control. They have to demand market prices and to expand their capital to foreign markets. These principles have to be observed by privately owned and partly state-owned companies as well.

Gazprom aims to bring gas prices for CIS countries in line with “European” prices. This step means, in essence, the abolition of the special relationship between Russia and the CIS states, which is based on preferential prices for energy, above all gas. Because energy consumption in countries such as Belarus and Ukraine is distinguished by the excessive use of gas, this step also causes very serious problems for industrial branches, communal and municipal facilities, and private households.

Gas Transit Across Ukraine

The gas export pipelines from Russia to Western Europe were built during the 1970s and 1980s. All of them led through Ukraine. Pipelines through Belarus and Poland would have been shorter and cheaper to produce, but at that time the rise of the Solidarnosc movement in Poland induced Russia to prevent this route. Only in 1999 did the Yamal pipeline across Belarus and Poland, and in 2003 the Blue Stream offshore pipeline at the bottom of the Black Sea to Turkey, open up alternatives to the transit across Ukraine.

Until 1993 the price at which Gazprom delivered gas to Ukraine was \$42 per 1000 m³, about half the price its Western customers had to pay. At the same time, Gazprom paid only a small transit fee, mostly in kind.⁴ Since the beginning of the 1990s, Ukraine had been accumulating payment arrears and Gazprom reacted by disrupting supplies.

⁴The transit fee was \$0.27 per 1000 m³ and 100 km.

Ukraine reacted by taking gas out of the storage facilities, resulting in a reduction in supplies to Europe. This was the first time that the transition to “European” prices for gas deliveries and transit fees came under discussion.⁵

In 1999 Gazprom passed the gas trade between the Central Asian producers and Ukraine to intermediate traders (to Itera in 1999, to EuralTransGas in 2003, and to RosUkrEnergo in 2004). Allegedly, Gazprom managers took an interest in this business, too.⁶ For the gas transit, as well as for the domestic gas supply, between 1994 and 2004 a series of agreements were concluded between Russia and Ukraine which complemented one another, but also left room for interpretations. They had a fundamental weakness in common: they did not contain a balance of interests—as is the case in long-term treaties between Gazprom and its European customers—that linked the gas price to the oil price. Furthermore, the relationship between the different agreements was not clarified, which allowed for varying interpretations. Questions about the continuation of existing settlements after their expiration and about a dispute settlement by an independent authority were not resolved.

In 2005 the negotiations between Ukraine and Russia regarding the continuation of the agreement were left unresolved. Because the agreement ended in December 2005, Gazprom suspended the domestic supply to Ukraine on January 1, 2006. Because the Ukrainian gas company took gas out of the storage facilities, the pressure in the transit pipelines fell.⁷

Western publics supposed that Russia simply used gas as a political weapon to punish Ukraine for the Orange Revolution. This is a one-sided interpretation. There exists an alternative economic-related interpretation, which is just as consistent with the empirical findings as the political explanation: The price of \$50 per 1000 m³ was charged to Ukraine in the middle of the 1990s, when the price for Europe amounted to \$70 per

⁵ Katharina C. Preuß Neudorf, *Die Gaswirtschaft in Russland* (Cologne: 1996, p. 125).

⁶ Global Witness, *It's a Gas. Funny Business in the Turkmen-Ukraine Gas Trade*, April 2006, p.32 [<http://www.globalwitness.org/reports/show.php/en.00088.html>].

⁷ Technically the gas for transit purposes and for domestic use is not separable, because both use the same storage facilities, see Leonid Grigoriev/Marsel Salikov, “Ukraine—Growth and Gas,” in: *Russia in Global Affairs* 4, no.2 (2006), p. 165 [<http://eng.globalaffairs.ru/numbers/15/1027.html>].

1000 m³, which was appropriate with regard to the transport distance. In 2005, when the “European” price had risen to between \$220 and \$250 per 1000 m³, it constituted a large subsidy for the Ukrainian economy, for which, in Gazprom’s view, there was no need.

Both sides could not reach an agreement during 2005 and headed toward a confrontation, which affected the Ukrainian population as well as the European clients of Gazprom. The loss of prestige for the Russian leadership—which, at the start of its G8 presidency wanted to present itself as a reliable energy superpower—was considerable and possibly accelerated negotiations about an agreement for 2006. According to the new agreement, the gas transit and the domestic supply are regulated in separate settlements. Gazprom has to pay a transit duty in cash.⁸ The gas supply of Ukraine is managed by the intermediate trader RosUkrEnergo. It buys Russian gas for \$230 per 1000 m³ from Gazprom and Central Asian gas for \$50–\$60 pro 1000 m³. In 2006 the gas was sold to the Ukrainian gas company for \$95 per 1000 m³.

This agreement was originally valid only for the first half of 2006, but was extended to the end of 2006. For 2007 Gazprom demanded a gas price of \$230 per 1000 m³. In October 2006 both sides agreed on a price of \$130 for 2007. Western observers related this “victory” to alleged concessions by Prime Minister Viktor Yanukovich regarding the context of Ukraine’s potential NATO membership. In any case, the price increase is considerable.

The unknown factor in Ukraine’s gas balance is represented by gas from the Caspian region and Central Asia and its price. Such gas will primarily come from Turkmenistan. In the past the former President Saparmurat Nijasov (“Turkmenbashi”) often tried to get a better price from Russia and Ukraine, but this always failed because there are no alternatives to the transit pipelines provided by Gazprom. Step by step, Turkmenistan is managing to find other customers such as Iran, China, Pakistan, and India. Turkmenistan’s bargaining hand would improve if either a big pipeline to Asia or the offshore pipeline through the Caspian Sea (Trans Caspian pipeline), with its connections to Azerbaijan and the Turkish supply network, were realized. In direct negotiations, not involving Russia, Ukraine did not succeed in

⁸ For the period 2006–2011, it amounts to \$1.60 per 1000 m³ and 100 km.

achieving a long-term security for its gas supply from Turkmenistan, because Turkmenistan's ruler could not make a definite promise.

Moreover, Turkmenistan's long-term export potential is debatable because of the insufficiently documented gas deposits of the country. According to Turkmen Geologiya, the gas resources amount to 43 trillion m³, while the German Federal Institute for Geosciences and Natural Resources only estimates 9 trillion m³. Correspondingly, long-term gas exports will account for 100 to 250 bcm per annum.⁹

Russia/Gazprom, Ukraine, and Belarus are all interested in a low price for the Turkmen gas, which is vital for their outdated and energy-intensive industrial parks. As long as there are no other customers of Turkmen gas, the country will be forced to accept the pricing of its CIS neighbors. For some years, therefore, Ukraine can hope to get relatively cheap gas from Turkmenistan.

Ukrainian Gas Economics

In the 1970s Ukrainian industry, including electricity production, largely switched from coal to gas. Therefore, the new Ukraine inherited an energy system which was strongly oriented toward gas use.¹⁰ In the 1990s domestic gas consumption amounted to 70–80 bcm per annum. Gas consumption in Ukraine, in relation to gross domestic product, is several times higher than in Western Europe.¹¹ Because about three-quarters of the consumed volume has to be imported, the import price has a considerable influence on the general economic situation.

The Ukrainian gas economy is dominated much more by the state than in Russia. The state-owned gas-holding company Naftohaz Ukrajinny and its subsidiaries produce gas, undertake gas field exploration, and operate the gas pipelines, including the transit pipelines. Only the distribution companies are partly privatized.¹² At the same time, the

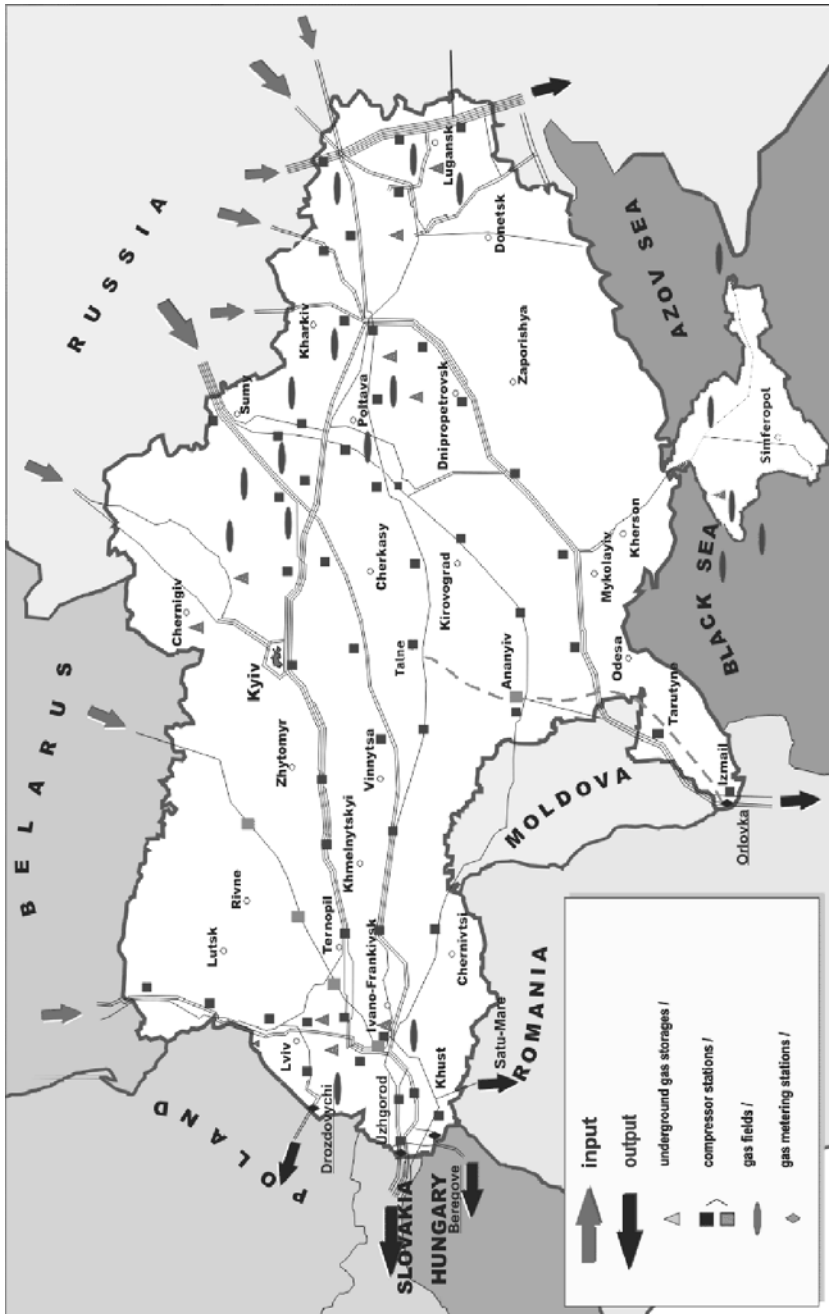
⁹ I. Nuriev on November 14, 2005 [<http://www.gasandoil.com/goc/news/ntc54904.htm>].

¹⁰ Margarita Balmaceda, "Explaining the Management of Energy Dependency in Ukraine: Possibilities and Limits of a Domestic-Centered Perspective," (Mannheimer Zentrum für Europäische Sozialforschung, Working Paper 79/2004, p. 6 ff.) [<http://www.mzes.uni-mannheim.de/publications/wp/wp-79.pdf>].

¹¹ Gas consumption in Germany, with its 82 million inhabitants, amounts to 95 bcm annually; the Ukrainian population of 47 million consumes about 80 bcm annually.

¹² International Energy Agency (IEA), *Ukraine: Energy Policy Review 2006* (Paris: IEA, 2006) quoted as IEA Ukraine, p. 42.

Map 2. Gas Pipelines of Ukraine and Moldova



Source: Gasunion, [http://www.gasunion.org.ua/images/karta_GTS_eng.gif].

Ukrainian gas sector is marked by an inscrutable network of politics, business and the shadow economy, which includes organized crime.

After Gazprom lost interest in this no-longer-profitable business, Ukrainian gas imports from Turkmenistan were managed by the private company Itera, which is known to be connected to former Ukrainian Prime Minister Yulia Tymoshenko. In 2002 Itera, which fell from grace with Gazprom, was replaced by the gas trader EuralTransGas, whose business was replaced again by RosUkrEnergo in 2004. The managers of both companies were suspected to have been entertaining connections with the Ukrainian mafia.¹³ In February 2006 RosUkrEnergo and the state-owned oil and gas company Naftohaz Ukrainy set up the joint venture UkrGazEnergo, which took over the retail gas business in Ukraine. As Prime Minister, Tymoshenko demanded the abolition of the intermediate gas trade in favor direct commercial relations between Naftohaz Ukrainy and Gazprom. Under Yanukovich, however, rapid changes in the gas sector are not to be expected. He will try to perpetuate the status quo and to prevent Russia from raising the gas price quickly.

About 70 percent of Russian gas exports to Western Europe go through the Ukrainian pipeline network. By means of new compressor stations, the output capacity of the Ukrainian gas transport system could be extended from the current 141 bcm to 175 bcm. At the same time, the existing transit pipelines and compressor stations need to be overhauled to maintain the existing capacity.¹⁴ This requires an annual investment of \$1.2 billion, which must be partly financed by foreign capital.

Even if the output capacity of the Ukrainian export pipelines is extended, the share of Russian gas which passes across Ukraine will fall to about 50 percent of Russian total gas exports (see table 2). This is caused by the expected extensions of the Yamal, Blue Stream, and Baltic Sea (North Stream) pipelines. Nevertheless, Ukraine will remain the single most important gas transport corridor for Russian gas to Europe.

¹³ The owners of RosUkrEnergo are Gazprom and the holding company Centragas, 90 percent of which belongs to Ukrainian Dmytro Firtash, who is supposed to have been in contact with Ukrainian mafia authority Semion Mogilevich.

¹⁴ IEA Ukraine, pp. 214ff.

Table 2. Capacities of Russian gas export pipelines 2005 and 2020 (bcm)

To:	2005 bcm	Share (%)	2020 bcm	Share (%)
Ukraine*	141	67	145	51
Belarus (Yamal-Europe)	33	16	33	12
Turkey (Blue Stream)	16	8	30	11
Finland	20	10	20	7
Baltic Sea (Nord Stream)	0	0	55	19
Total capacity	210	100	283	100
Throughput†	147		180	
Capacity utilization‡ (%)	70		64	

* 2005 without the inoperative pipeline Torzhok (Ivatsevichi)—Dolina.

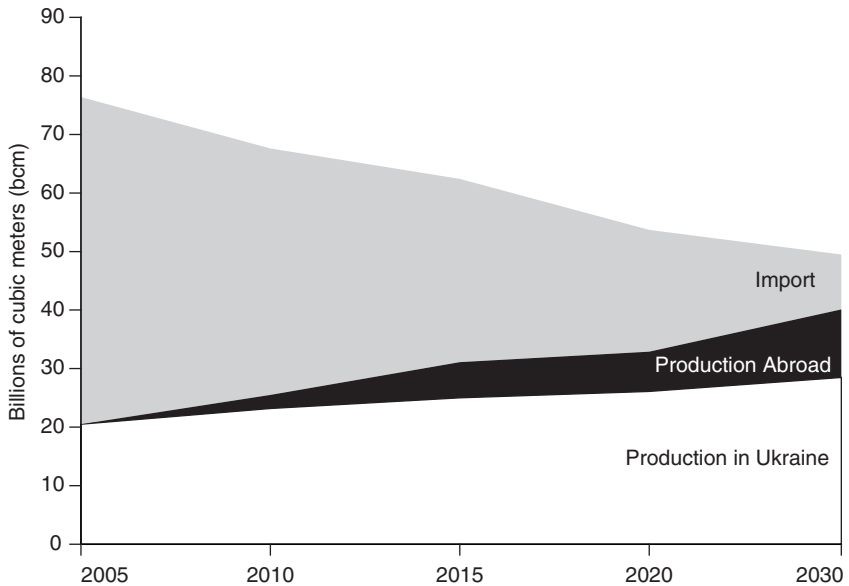
† Export to Europe, in 2020 including 20 bcm of LNG.

‡ Calculated on an annual basis. Source: Own calculations.

At the June 2002 World Economic Forum, Ukrainian President Kuchma, Russian President Putin, and German Chancellor Schroeder launched a Ukrainian-Russian-German gas transport consortium (GTS).¹⁵ Its task is the maintenance, modernization, and expansion of Ukrainian transit pipelines and storage facilities. Members of the consortium include the national gas companies of Ukraine and Russia, and the German company EON/Ruhrgas, with the consortium remaining open to other interested parties. Privatization of the pipeline system was to be a matter of discussion as well.

Since 2002 the GTS has made no progress except for the extension of the pipeline Alexandrov Gai-Uzhhorod to 30 bcm. The delay has been due to the tensions between the Russian and the Ukrainian leadership after the disputes over the Kuchma succession in autumn 2004, which ended with the victory of the “orange” forces. After the renewed change of leadership in Ukraine, a change of attitude took place. Even participation by Gazprom in the Ukrainian transit pipelines is not excluded any more.

¹⁵ V. L. Saprykin, “Ukraine as Eurasia’s Oil and Gas Hub: Realities and Prospects” [<http://www.uceps.org/eng/print/753/>].

Figure 2. Gas in the Ukrainian Energy Strategy to 2030

Source: Ukrainian Ministry of Energy, *Energy strategy of Ukraine up to 2030*, [<http://mpe.kmu.gov.ua/control/uk/archive/docview?typeld=36172>].

Ukrainian Energy Strategy to 2030

In 2006 the Ukrainian government approved a new energy strategy to 2030.¹⁶ The general aims of the strategy are reduction of energy import dependency from 55 percent (2005) to 12 percent (2030) of energy consumption by energy saving as well as by raising the domestic energy production; and regional diversification of energy imports by participation in development projects abroad (Algeria, Egypt, Iran, Kazakhstan, Near East).¹⁷ Gas has to be substituted by increasing the use of renewable energy sources; doubling coal production from 65 million tons (2005) to 153 million tons (2030); expanding use of nuclear power, upgrading domestic uranium production, and ending uranium imports from Russia. Various targets were established for the gas sector, including diminishing gas consumption from 76 bcm to 50 bcm per annum; raising domestic production from 20 bcm to 28–29

¹⁶ Ministry of Energy, *Energy Strategy of Ukraine up to 2030* [<http://mpe.kmu.gov.ua/control/uk/archive/docview?typeld=36172&sortType=4&page=1>].

¹⁷ IEA Ukraine, pp. 81–92.

bcm per annum; procuring gas up to 12 bcm (2030) by means of own production projects abroad; and diminishing gas imports from 56 bcm (2005) to 9 bcm (2030). Figure 2 shows the forecasted developments in the gas sector.

The Ukrainian energy strategy emphasizes energy saving and the increase of energy efficiency, as well as change of energy composition in favor of coal and nuclear energy. In contrast to corresponding EU programs, the Ukrainian energy strategy equates supply security with autarky. The strategy does not represent an orientation toward renewable energies, as the Ukrainian ecological movement claims, and continues to rely on ecologically problematic energy carriers such as coal and nuclear energy.

The Ukrainian energy strategy postulates ambitious targets for reducing gas imports. Whether these aims can be met or not cannot be assessed because concrete measures have not yet been formulated. Some first steps have been made within the framework of cooperation of between Ukrainian and EU authorities.

The Ukrainian energy strategy aims for comprehensive national economic targets, but it is questionable whether it takes into account supply conditions as well as demand conditions or the interests and financial capabilities of the enterprise sector. It is evident that forecasts for the development of energy prices are missing. Increased energy efficiency as well as lower gas consumption, and a more varied energy composition can only be achieved by a change in the relationship between the prices of different energy carriers and the dismantling of energy subsidies.¹⁸ In short, the strategy should be understood as a political declaration, but not as a feasible concept to improve Ukraine's energy situation, including the transit problem.

Belarus: A Gas-Dependent Country

In Belarus energy consumption is dominated by gas, because the country possesses no energy resources except for peat and hydropower. Oil is imported on a large scale, primarily for refining and the lucrative export of oil products. 95 percent of electricity production is based on gas, of which 99 percent has to be imported.

¹⁸ IEA Ukraine, pp. 81ff.

Annual gas imports amount to about 20 bcm, or 2000 m³ per head. This ratio exceeds considerably the corresponding ratio of Ukraine (1200 m³).¹⁹

Table 3. Gas balances of Belarus 2001 and 2005

	2001	2005
Production (bcm)	0.26	0.23
Import (bcm)	17.27	20.12
Consumption including change of stocks and losses (bcm)	17.30	20.35
Share in consumption of production (%)	1.50	1.10
of import (%)	98.50	98.90

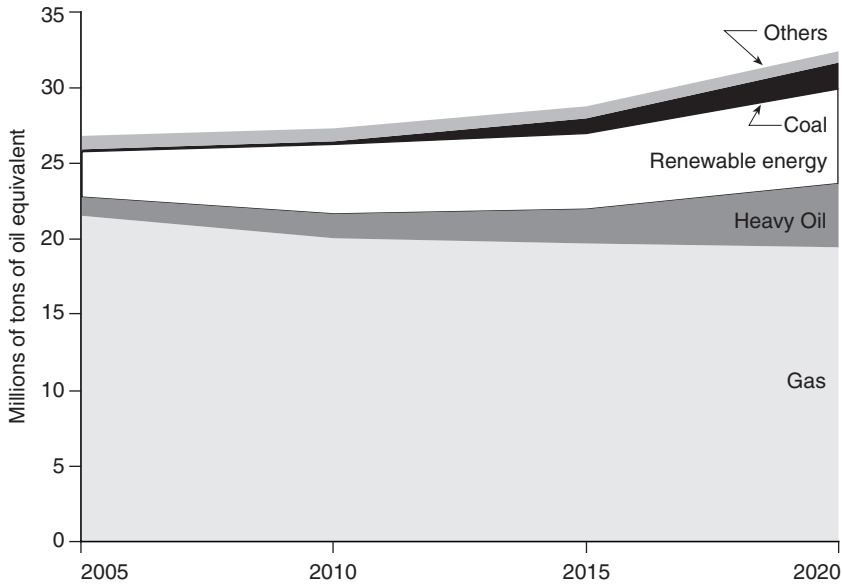
Sources: International Monetary Fund, Republic of Belarus. Statistical Appendix, August 2006, (IMF Country Report 06/316), p. 11, [<http://www.imf.org/external/pubs/cat/longres.cfm?sk=19840>].

Gazprom supplies gas to pipeline operator Beltransgaz, which sells it to the public utility company Beltopgas. Until 2006 the annual gas import bill amounted to only \$1 billion, because Belarus benefited from a low Russian domestic gas price (\$47 per 1000 m³, corresponding to the price for the most remote Russian consumers). If the gas price rose considerably, as has been announced by Gazprom, a corresponding deficit in the energy trade balance would occur.

Increased burning of crude oil and peat as well as the use of renewable energy sources represent alternatives to gas as the main source of electricity production in Belarus. Moreover, additional amounts of electricity could be imported if Ukraine expanded its nuclear capacities. Belarus intends to build a nuclear power station which comprises two blocks of 1000 MW each. However, the high costs involved and the perpetual dependence of Belarus on Russia—where the fuel rods would have to be reprocessed—work against this plan.²⁰

¹⁹ Belarus had 9.8 million inhabitants in 2005.

²⁰ Ina Rumiantseva/Christian von Hirschhausen, “Economics of Nuclear Power Development in Belarus,” (Working Papers WP-EE-11, Dresden, November 2005), [<http://www.tu-dresden.de/www/leeg/publications/publications.html>].

Figure 3. Energy Consumption in Belarus 2005-2020

Source: T. Pospelova/V. Kouzmitch, "Renewable Energy Projects in the Republic of Belarus" [<http://www.desire-net.enea.it/documenti/presentazioni/presentazioni%203%20aprile.pdf/Pospelova.pdf>].

There is high potential for energy savings and energy efficiency in Belarus, upon which the government's 2006–2010 energy saving program seeks to capitalize. Apart from raising the efficiency of conventional fuel use, the plan calls for increased use of local and renewable energy carriers.²¹ Calculations of the Belarus energy situation by Ukrainian scientists forecast a slow increase in energy consumption and a doubling of the share of renewable energy (see figure 3).

Even if Belarus succeeded in lowering the share of gas in total energy use from 80 percent (2005) to 60 percent (2020), this decline would be partially offset by continued economic growth, and the overall result would be only a slight decline in gas consumption and gas import needs. The lobbies seem to support the extension of gas use: In March 2006 representatives of Gazprom, Beltransgaz, and the Min-

²¹ Council of Ministers of the Republic of Belarus, *News*, January 24, 2006. [http://www.government.by/en/eng_news24012006.html].

istry of Energy agreed upon an increase of gas imports from 21 bcm (2007) to 23 bcm (2015) and 25 bcm (2020).²²

Belarus as a Gas Transit Country

Since the 1980s Gazprom has projected a “northern” export pipeline in connection with the development of the gas fields on the Yamal peninsula. It passes parallel to the existing “Northern Lights” pipeline across Belarus and continues to Poland and Germany (see map 1). Gazprom’s partners are Beltransgaz, the Polish EurPolGaz, and the German BASF AG.²³ The pipelines in the Belarus and Polish segments are owned by Gazprom, while the ground is leased long-term. Originally, two pipes had been projected, each with an annual capacity of 33 bcm. Between 1966 and 2000, however, only one pipe was completed, and completion of the compressor stations was delayed until 2006. The construction of the second pipe has been deferred in favor of the Baltic Sea gas pipeline.²⁴

Gazprom und Belarus

Since independence in 1991 Belarus has been striving to pay its gas bill to Russia. After arrears in 1993 had accumulated to \$100 million, Gazprom reduced its gas supply. In the same year, Gazprom for the first time offered to rent the assets of Beltransgaz in exchange for a guarantee of supply, but the Belarus parliament was not ready to ratify the agreement.²⁵ In the following years debts accumulated further, but Gazprom abstained from pressure against Belarus because in 1994 Russia and Belarus agreed on a currency union and the free deployment of Russian troops. Only in 1997 did Gazprom increase pressure on Belarus because it had been forced to pay overdue taxes. In 1997

²² “Kak reformirovat’ nereformiruemoe” [How to reform what cannot be reformed?] *Neft’ Rossii*, May 27, 2006.

²³ Nadeja M. Victor/David G. Victor, “Bypassing Ukraine: Exporting Russian Gas to Poland and Germany,” in: David G. Victor et al., *Natural Gas and Geopolitics. From 1970 to 2040*, (Cambridge: Cambridge University Press) pp. 122–168, here p. 149f.

²⁴ Vladimir Socor, “Belarus Seeks to Emulate German-Gazprom Deals,” in: *Belarusian Review*, no. 2 (2006) [<http://www.belreview.cz/articles/3017.htm>].

²⁵ Chloe Bruce, “Friction or Fiction? The Gas Factor in Russian-Belarusian Relations,” (Chatham House Russia and Eurasia Programme Briefing Paper, May 2005) [<http://www.chathamhouse.org.uk/pdf/research/rep/ BP0501gas.pdf>].

and 1998 Gazprom reduced gas supply to Belarus and demanded cash payment instead of barter. In 1998 the private gas companies Itera and Transnafta started gas supply to Belarus. Since 1999 Belarus has had to pay only the low Russian domestic gas price, which meant a reduction from \$40 to \$30 per 1000 m³. When the Yamal pipeline began operations in 1999, the bargaining position of President Alexander Lukashenko was strengthened.

In 2002 Gazprom, with its new head Alexei Miller, tried again to obtain a 50-percent share in Beltransgaz in exchange for a supply guarantee. A final settlement could not be achieved because both sides disagreed on the value of Beltransgaz. Lukashenko demanded \$5 billion, whereas Gazprom offered only the book value of \$600 million. In 2003 the disputes intensified and, in 2004, Gazprom demanded \$50 per 1000 m³, which Belarus rejected. Then on February 18, 2004, Gazprom stopped the supply to Belarus completely. Beltransgaz then siphoned gas intended for transit to Western Europe. Though Gazprom resumed supply on the following day, the first disruption of gas transit from Russia aroused concern in Europe, especially in Poland, which was disconnected for two days. Discussions on alternatives to the gas supply from Russia heated up.

For a long time Gazprom could not enforce a higher gas price because Lukashenko successfully shifted the dispute to a political level by bringing up the stationing of Russian troops, the Union between Russia and Belarus, and the Common Economic Space. Gazprom's efforts to secure its share of the gas transport system of Belarus were unsuccessful until the beginning of 2006. After Gazprom made clear that it would no longer subsidize Belarus, and asked a price of \$200 per 1000 m³, Lukashenko met Putin in April 2006 and conceded to 50 percent participation of Gazprom in Beltransgaz, combined with participation by Beltransgaz in a non-specified Russian gas field. But the following negotiations between Gazprom and the Belarusian authorities brought no results. Finally, on December 31, 2006 Gazprom and Belarus signed a new gas contract for the years 2007–2011. Belarus will pay \$100 per 1000 m³ in 2007, a 114 percent increase from the previous level. Between 2007 and 2011 the price for Russian gas will increase gradually, reaching the "European" level in 2011. The agreement also stipulates that Gazprom will buy 50 percent of Beltransgaz for \$2.5 billion. Under this agreement Belarus will receive relatively

cheap Russian gas compared with the prices other CIS states will have to pay (Ukraine in 2007 will have to pay \$130 per 1000 m³, Moldova - \$170, Georgia - \$235). On the other hand Gazprom came closer to control of the Belarusian gas transportation system.²⁶

Perspectives of Transit States and European Consumers

European gas imports from Russia will continue to grow. Ukraine and Belarus will remain the most important transit countries for Russian gas, although its relative importance will shrink when the Baltic gas pipeline is put into operation. Western customers of Gazprom will not be disadvantaged if the gas transit across Belarus and Ukraine is separated from their gas supply, because disturbances of transit will become less likely. If Gazprom owns the gas transportation network, the power of the transit countries to fend off price increases is reduced. But Gazprom's price margin ends when the European price level is reached.

European political support for the transit states against Russia/Gazprom in disputes over energy prices, transit fees, or the property transfer of pipelines should concentrate on compliance with treaties and other agreements, and underscore the right of appeal to an international arbitration court. Higher gas prices in the transit countries as well as in Western Europe will make alternative energy carriers more attractive and lead to more efficient gas use. Nuclear energy will see a revival, as will coal—particularly if “clean coal,” with its low carbon emissions, becomes affordable.

²⁶ “Russia and Belarus sign new gas deal”, in: *Eastweek*, no 1 (2007), p. 2 [<http://www.osw.waw.pl>].

Ukraine and Its Neighbors

Ukraine's Role In Changing Europe

Elena Kovalova

During Ukraine's period of independence, it has been repeatedly addressed as a country at the crossroads between East and West that holds the potential to play a stabilizing role in the European and Eurasian regions, under conditions of comprehensive domestic reforms, subsequent rapprochement with the West, and maintenance of good relations with its neighbors, first of all, Russia. In practice, however, hindered democratization and interrupted reforms have always lent an East-West dichotomy to Kyiv's foreign policy, suspending realization of its declared intent to "join Europe."

The West enthusiastically supported Kyiv's European and Euro-Atlantic objectives after the Orange Revolution. The United States renewed and strengthened the partnership with Ukraine. Kyiv's intention to join NATO was supported by the Alliance through the Intensified Dialogue on Membership between NATO and Ukraine. The European Commission offered the Ukraine-EU Action Plan as an interim instrument for enhanced relations with Ukraine before its accession to the WTO and negotiation of the new EU-Ukraine agreement. Ukraine, with the assistance of Poland, Lithuania, and Georgia, sought to promote democratic developments in the post-Soviet space through establishment of the Community of Democratic Choice (CDC) and final institutionalization of the Organization for Democracy and Economic Development—GUAM (GUAM).

Notwithstanding political declarations, Ukrainian democrats have failed to support their pro-Western rhetoric with the reform strategy that would have ensured irreversibility of domestic democratic developments, foreign policy consistency, and ultimate integration into Western democratic organizations. The disruptive potential of semi-reformed political institutions, the highly fragmented political elite within the orange camp, and rivalry of the factionalized political groups emerged as primary threats to the reaffirmed pro-Western aspirations. The parliamentary elections of 2006, followed by a new

political crisis, final collapse of the Orange coalition, and formation of the so-called anti-crisis coalition, have widened the gap between pro-Western declarations and the country's capability to meet conditional-ity requirements that could have enhanced democratic values.

This chapter highlights the inevitable East-West dichotomy of Kyiv's foreign policy, unless and until Ukrainian elites of every political color begin to comprehend the complex nature of the reforms needed to "join Europe." The chapter assesses major problems with Ukraine's integration into the West, its strategic partnership with Russia, and Kyiv's role as a regional actor.

"Joining Europe?"

After the end of the Cold War, integration into Western democratic institutions became the imperative driving political transformations in Europe. The result was the accession of Central Eastern European (CEE) states, including the former Baltic republics of the former Soviet Union, and South Eastern European (SEE) states to the European Union (EU) and to NATO. Kyiv's declarations to join Western democratic organizations, on the other hand, have not become a driving force of transformation, and the idea of Europeanization through European and Euro-Atlantic integration has little impact on Ukraine's politics. Lack of elite consensus over integrationist priorities has caused uncertainty regarding foreign policy. Implementation of any integrationist strategy would have to fail because its objectives would be misinterpreted by political elites and correspondently misunderstood by public at large.

For Western observers, the broken link between declarations to "join Europe" and actual lack of actions to advance that goal was one of the most striking marks of Ukraine's integration during the pre-Orange period:

"... Kuchma never made the strategic decision to "join" Europe. Ukraine geographically is a part of Europe... "joining" Europe means drawing closer to and ultimately entering European and Euro-Atlantic institutions, such as the European Union and NATO. Kuchma did not understand what integration with these institutions entailed in terms of the political and economic changes needed within Ukraine to produce a country that

Table 1. Nations in Transit Ratings and Average Scores: Ukraine, 2006

	1997	1998	1999	2001	2002	2003	2004	2005	2006
Electoral Process	3.25	3.50	3.50	4.00	4.50	4.00	4.25	3.50	3.25
Civil Society	4.00	4.25	4.00	3.75	3.75	3.50	3.75	3.00	2.75
Independent Media	4.50	4.75	5.00	5.25	5.50	5.50	5.50	4.75	3.75
Governance	4.50	4.75	4.75	4.75	5.00	5.00	5.25	n/a	n/a
National Democratic Governance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.00	4.50
Local Democratic Governance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.25	5.25
Judicial Framework and Independence	3.75	4.00	4.50	4.50	4.75	4.50	4.75	4.25	4.25
Corruption	n/a	n/a	6.00	6.00	6.00	5.75	5.75	5.75	5.75
Democracy Score	4.00	4.25	4.63	4.71	4.92	4.71	4.88	4.50	4.21

Source: *Nations in Transit 2006*, Freedom House, <https://www.freedomhouse.org>. Score: the ratings are based on a scale from 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest.

reflected the democratic, market economies prevalent in Europe. Kuchma, moreover, was unready to take the necessary steps, particularly in the area of democratization.”¹

Western expectations that Yushchenko would develop an integrationist strategy in line with the democratic conditionality posed by the EU and NATO were not justified.² Instead, Ukraine has been sluggish in its transformation and has made only instrumental use of institutional reforms. Such indicators as the Freedom House Democracy Score and the Transparency International Corruption Perceptions Index (ICP) clearly show that Ukraine has made only limited progress in deepening the democratization process, in countering corruption,

¹ Steven Pifer, “Ukrainian Foreign Policy: Changes and Challenges,” Prepared for George Washington University Workshop: “The Orange Revolution: One Year On,” December 2, 2005, www.gwu.edu/~ieresgwu/Pifer.pdf.

² The failure to deliver the promised reforms was obvious by summer of 2005. See, for instance, *The Testimony before the US Congress by Daniel Fried, US Assistant Secretary of State, August 2005*: “President Yushchenko has dramatically transformed Ukraine’s international image and put relations with the U.S. and Europe on a new track,” however “... in its first six months, the government of Ukraine has not demonstrated full commitment to key market reforms.”

in establishing the independent judiciary and civil services, and in security sector reforms in the post-orange period.

The Freedom House annual assessment of Ukraine's democratization process reveals insufficient reforms or their absence in crucial areas of political institution-building (see Table 1). The greatest progress was achieved in democratization of the electoral process, growth of civil society, and development of independent mass media—areas that for years were subjected to scrupulous attention by Western democratic organizations such as the Council of Europe, EU, NATO, and numerous non-governmental organizations. Although Ukraine was granted the status of a free country in observance of political rights and civil liberties, the democratic functioning of political institutions remained questionable and the average democratic score of 2006 was even lower than the score of 1997—4.21 versus 4.00. According to the Freedom House methodology, the score range between 1.00 and 2.99 indicates the level of a consolidated democracy, the score range between 3.00 and 4.99 indicates a transition or hybrid-time regime, and the score range between 5.00 and 7.00 points to an authoritarian regime.

Independence of judiciary and overall quality of judicial framework (4.25) were also rated lower than in 1997 (3.75). Two indicators—national democratic governance and local democratic governance, which replaced the more general indicator “Governance”—confirmed that the quality of governance at both levels was far behind the standards of consolidated democratic regimes (4.50 and 5.25 respectively). In the context of integration into Western democratic organizations, these indicators signaled the absence of horizontal governance, which would play a crucial role in implementation of the integrationist policies at both national and local levels. The level of corruption continued to be very high (5.75), hampering the entire political system.

The Transparency International CPI also validates the lack of significant activities in countering corruption in Ukraine. On a scale on which the rank number 1 indicates the least perceived corrupted state and the highest number—159 in 2005 and 163 in 2006—indicates the most perceived corrupted state, Ukraine's country rank moved from 113 to 104.³ Needless to say, high levels of corruption are

³ Transparency International Corruption Perceptions Index (CPI), Transparency International, <http://www.transparency.org/>.

impediments to foreign direct investments and raise questions about Ukraine's trustworthiness when it comes to information sharing and deepening cooperation on security issues. The overall assessment of Ukraine's democratic transition showed that Ukraine has advanced only very gradually in the direction of the level of consolidated democracies in the CEE states, despite the political rhetoric of the post-orange period.

The democracy score of the states that have become members of the EU, such as Slovenia, Estonia, Slovakia, Hungary, Latvia, Poland, Lithuania, Czech Republic, and Bulgaria, ranged near 1.75. The semi-consolidated democracies of South Eastern Europe and the Western Balkans, with the democracy score ranged from 3.39 to 3.89, have demonstrated evidence of further consolidation. Ukraine has shown faster progress on reforms only in comparison with the Eurasian region (see Table 2). However, the risk of sliding back to a semi-authoritarian or hybrid-type regime was not excluded from future scenarios.

The relationship between Ukraine's democracy score and the development of Ukraine's foreign policy may be understood in two ways. First, political institutions may be characterized as semi-reformed. They are neither entirely Soviet nor entirely Western, which makes implementation of any coherent integrationist strategy difficult. Second, such institutions may be diverted easily from the goals of NATO and EU accession to the task of integration into CIS-based organizations such as the Single Economic Space (SES).

In addition to poor reform performance, Kyiv's foreign and security policy have become "hostage" to so-called political reforms.⁴ The constitutional amendments of 2004, which were accepted when it became

⁴ According to the Constitution of Ukraine, foreign and security policy fall within the competence of Ukraine's president. Article 102 defines the president as "the guarantor of state sovereignty and territorial indivisibility of Ukraine," and article 106 gives the president a right to conduct foreign and security policy. The same article asserts his rights as a Commander-in-Chief of the Armed Forces and a head of the National Security and Defense Council (NSDC), which is the "coordinating body to the President of Ukraine on issues of national security and defense." Concurrently, the Ukrainian parliament, Verkhovna Rada, enjoys substantial controlling powers, such as approval of budget and ratification of international treaties; and it also possess the right to determine the principles of foreign policy (art. 85). The English version of the official legal documents is quoted from the official site of Ukraine's Parliament (Verkhovna Rada): <http://www.rada.gov.ua/const/conengl.htm#r5>; for summaries of the Law of Ukraine On the Fundamentals of National Security of Ukraine of 19.06.2003 No. 964-IV see: <http://zakon.rada.gov.ua/>.

Table 1. Democracy Score Rankings 2006

Consolidated Democracies		Transitional Governments or Hybrid Regimes	
Slovenia	1.75	Bosnia	4.07
Estonia	1.96	Ukraine	4.21
Slovakia	1.96	Georgia	4.86
Hungary	2.00	Moldova	4.96
Latvia	2.07		
Poland	2.14	Semi-Consolidated Authoritarian Regimes	
Lithuania	2.21	Armenia	5.14
Czech Republic	2.25	Kyrgyzstan	5.64
Bulgaria	2.93	Russia	5.75
Semi-Consolidated Democracies		Tajikistan	5.93
Romania	3.39	Azerbaijan	5.93
Croatia	3.71	Consolidated Authoritarian Regimes	
Serbia	3.71	Kazakhstan	6.39
Albania	3.79	Belarus	6.71
Macedonia	3.82	Uzbekistan	6.82
Montenegro	3.89	Turkmenistan	6.96

Source: *Nations in Transit*, Freedom House, 2006, <https://www.freedomhouse.org>
 Score: the ratings are based on a scale from 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest.

clear that the Orange coalition was winning the elections, reduced the power of the president but left presidential prerogatives unchanged regarding the conduct of foreign and security policy. The president retains the right to appoint ministers of foreign affairs and defense, and the head of the National Security and Defense Council (NSDC), while the rest of the government is appointed by the prime minister and should be approved by the Ukrainian parliament, the Verkhovna Rada. Simultaneously, the constitutional amendments changed the power balance in favor of the Verkhovna Rada and the Cabinet of Ministers.

The amendments not only blurred the competencies of the different powers in the process of government formation, they also failed to provide a procedure of dismissal for ministers appointed by the president. That creates preconditions for an endless enmity and eventual stalemate should the president and parliamentary majority belong to the different political groups.⁵

⁵ Oleg Varfolomeyev, "Will Ukraine Join WTO any Time Soon?" *Eurasia Daily Monitor*, 2006, November 3, Vol. 3, No 203, <http://www.jamestown.org/>, [Published by the *Jamestown Foundation*].

The constitutional amendments came into force in January 2006. Shortly afterwards, the former orange coalition partners lost the March 2006 parliamentary elections to the Party of Regions (PR) and failed to form the coalition of the former orange alliances in the Verkhovna Rada. The new Cabinet was formed by the so called anti-crisis coalition, while pro-Western Ministers of Defense and Foreign Affairs, Anatoliy Gritsenko and Borys Tarasyuk, who had been holding their positions from February 2005, became permanent targets of a “law war” between the President Victor Yushchenko and Prime Minister Victor Yanukovich.⁶

In an attempt to secure a pro-Western foreign policy, the Universal agreement on national unity between the anti-crisis coalition and the president was negotiated. With regard to Ukraine's foreign policy, the Universal repeated Kyiv's EU (article 25) and NATO (article 26) ambitions.⁷ The Universal provided for a national referendum as a condition for the final decision on the NATO membership within the country and emphasized the importance of “implementation of all necessary procedures” for NATO accession before the actual referendum would take place.

The binding capacity of the Universal was unclear—all its articles were part of the Constitution or previously existing constitutional amendments, state strategies or programs. Beyond the NATO issue, there was no significant difference in the positions of the various signatories. The reasons for this were deeper than the straightforward anti-NATO sentiments based on stereotypes of the Soviet period.

First, NATO membership would mark a point of no return in the democratic reforms. Second, accession to NATO may be realistic in a medium or even short term under conditions of continuing reforms, while integration to the EU is certainly a long term process. Third, although there is no official link between NATO and EU membership, Ukraine's accession to the alliance would be the most important precondition for the EU to consider that the principal security guarantees for proceeding with Ukraine's European integration were achieved.

⁶ Digest of Ukrainian Press, October 4, 2006 Open Society Institute. *CEP20061004950011 Caversham BBC Monitoring in English 0000 GMT 04 Oct 06*, <https://www.opensource.gov>.

⁷ Universal Natsionalnoyi Yednosti [Universal of National Unity], Ofitsiynе predstavnutstvo prezidenta Ukrayiny [Official Site of the President of Ukraine] // http://www.president.gov.ua/done_img/files/universal0308.html.

The negative position of France and Greece regarding Ukraine's NATO membership is first due to their interpretation of membership in the alliance as "a precursor for membership of the EU, which is currently going through a difficult period of 'soul-searching'."⁸

These trends together—the slow reform progress and absence of comprehensive strategy, a maze of foreign and security policy decision making, and constitutional stalemate—negatively affected Ukraine's image in the West. Euphoria brought by the Orange Revolution has been replaced by a more cautious prognosis on Ukraine's future development, and to some extent by the new wave of fatigue from Ukraine in Europe.

Integration with the West

During Kuchma's second term in office, Ukraine's relations with NATO and the United States were significantly damaged as a result of the Kuchma-gate crisis and growing domestic instability,⁹ Ukraine's delivery of arms to Macedonia during the likely escalation of the ethnic conflict there, and the Kolchuga radar scandal.¹⁰ During the presidential elections of 2004, anti-NATO and anti-American slogans became a focal point of the Yanukovich campaign.

The Orange Revolution revitalized Ukraine-U.S. and subsequently Ukraine-NATO relations, making it possible to put membership in NATO on Kyiv's strategic agenda. After the February 2005 meeting of presidents Bush and Yushchenko at NATO headquarters and Yushchenko's visit to Washington two months later, NATO confirmed its "open door" policy and the U.S. provided all-encompassing help to facilitate Ukraine's accession process. With Washington's endorsement, NATO offered Ukraine the Intensified Dialogue on Membership at the April 2005 Vilnius ministerial.

⁸ Jiri Kominek, "Country Briefing: Ukraine—Moving West," *Jane's Defence Weekly*, February 1, 2006, Jane's Sentinel Security Assessment, <http://sentinel.janes.com/public/sentinel/index.shtml>.

⁹ Walter Parchomenko, "Prospects for Genuine Reform in Ukraine's Security Forces," *Armed Forces & Society*, 2002, Vol. 28, No. 2, p. 303.

¹⁰ Taras Kuzio, "Ukraine's Relation with the West: Disinterest, Partnership, Disillusionment," *European Security*, 2003, Vol. 12, No. 2, pp. 32-33.

Ukraine was expected to be upgraded to the Membership Action Plan (MAP) at the November 2006 NATO summit in Riga. Considering Ukraine's experience with completion of the Annual Plans from 2003, the move to the MAP was supposed to be relatively straightforward. The United States lobbied Kyiv's interests, despite a cautious attitude of some NATO member states, who openly warned that in politically divided Ukraine representatives of the old political leadership were still in power, preserving Cold War thinking at the various levels of the bureaucracy. With NATO membership, the critics argued, these elements would gain influence over the flow of information and the decision-making processes that would in turn result in obvious security problems for NATO.¹¹

The 2006 political crisis in Ukraine changed the position of NATO and the U.S. on the prospects of MAP for Ukraine. The U.S. Vice President Dick Cheney and J. D. Crouch II, Assistant to the President and Deputy National Security Advisor, both advised President Yushchenko of the link between the creation of an Orange parliamentary coalition as encouragement for the Bush administration to support Ukraine obtaining a NATO MAP.¹²

However, the Orange coalition was not formed. The government was composed by the anti-crisis coalition of the PR, the Socialist Party of Ukraine (SPU), and the Communist Party of Ukraine (CPU), with Victor Yanukovych as a Prime Minister. The Prime Minister confirmed the commitments of his government to continue Euro-Atlantic integration, but during his visit to NATO headquarters in September of 2006 he announced the new position of the government "to take a pause" in relations with NATO, not applying for the MAP and continuing cooperation.¹³ He explained his position by low support for NATO membership among the population. Ukraine thus missed the chance to join the MAP at the NATO Riga summit in November 2006.

¹¹ Karl-Heinz Kamp, "Not Ready for NATO," Konrad Adenauer Stiftung, July 11, 2006.

¹² Ukraine: External Relations, Russia & the CIS, Global Political and Security Risk Analysis, Jane's Sentinel Security Assessments, <http://sentinel.janes.com/public/sentinel/index.shtml>.

¹³ Peter Finn, "Ukraine's Yanukovych Halts NATO Entry Talks," *Washington Post Foreign Service*, Washington, D.C.: September 15, 2006, p. A15.

The suspension of the MAP ought to be an invaluable lesson for Ukraine's national democrats. Their failure to secure movement of Ukraine in a pro-Western direction through rapid accession to NATO was caused by their inability to communicate the integrationist strategy in comprehensive way. Following the traditions of Kuchma's period, explicit preferences in foreign and security policy, especially with regard to NATO membership, were not expressed in Ukraine's politics during the presidential or parliamentary electoral campaigns. Such tactics were usually explained in terms of the country's divided identity, the elites' divided loyalty, Russia's presence in the region, and indifference of the population to foreign policy issues.

The political side of NATO was largely ignored and the Alliance was viewed as a predominantly military bloc. Speculations regarding NATO's threat to Ukrainian society were an integral part of the left party's rhetoric. The public perception of NATO has not been altered in the post-Orange period and is almost identical to 2004 (see Table 3).

Opponents of Ukraine's accession to NATO tend to use three main arguments. First, they say, NATO is an aggressive military bloc, which instigates conflicts.¹⁴ Second, they argue that Ukraine's membership in the Alliance would be too expensive and Ukraine cannot afford such membership due to its cost. Third, they charge that accession to NATO would damage Ukraine's relations with Russia.

As the bureaucracy awoke from the slumber of the Kuchma administration, new arguments appeared against accession: membership in NATO could add risks stemming from international terrorism directed against the Alliance to Ukraine's national security. Here the arguments are developing along two lines. First, it is argued that since NATO is going beyond the area of its traditional responsibility, "it is a big question whether the Alliance can act as successfully under conditions of growing geographical scope and such radically changing tasks." Second, a cautionary note is sounded that upon Ukraine's accession, Ukraine would be obliged to share the burdens of common defense under Article 5 of the North Atlantic Treaty, even though it might be very doubtful that the article would be applied in case of a threat against Ukraine.¹⁵

¹⁴ For the detailed analysis on this see: Nikolay Snugurovski, "Ukraine-NATO: Problema soznatel'nogo vybora," *Zerkalo Nedeli*, 2006, December 2, 2006, # 46 (625).

¹⁵ The Ukraine-NATO Relationship, Transition Online, August 14, 2006, www.transitiononline.org.

Table 3. Security Threats and Perception of NATO in Ukraine, 2004

"Which of the following countries or organizations represent a threat to Ukraine?"		
	2000	2004
Germany	16	6
Iraq	29	24
China	25	8
NATO	–	16
EU countries	12	5
USA	35	22
Russia	22	10
"In your opinion, what are the real objectives of NATO?"		
NATO's objectives	2004	
Strengthening of international security	31	
A platform for Western expansion	23	
Relic of the Cold War	14	
Hard to say	31	

Source: Stephen White, Julia Korosteleva & Roy Allison, "NATO: The View from the East," *European Security*, 2006, Vol. 15, No. 2, p. 178, 179.

Unlike NATO membership, integration into the EU is equally supported by all parties. After the Orange Revolution, Kyiv expected that the EU would reformulate its policy towards Ukraine and give clear signals on prospective membership. The logic behind such approach was based on two unrealistic assumptions. The first assumption was that the December 2004 constitutional reform, together with further democratization, would give Ukraine a parliamentary-presidential model similar to those of CEE states. The second assumption was that the peaceful Orange Revolution had proven that Ukraine belonged to democratic Europe.

In February 2005 Ukraine signed the EU-Ukraine Action Plan, hoping that its fulfillment would lead to an EU accession treaty by 2008.¹⁶ Support by new EU members, especially Poland, Lithuania, and the Czech Republic, raised the optimistic expectations in the country. Democratic conditionality was viewed as fully achievable

¹⁶ "Ukrainian President Victor Yushchenko, How I am Going to Wake this Great Sleeping Elephant and Ride into the EU," *The Times*, January 31, 2005.

within the foreseeable future. The stipulation of WTO membership for the signing of a Free Trade Agreement (FTA) was treated as reasonable and was expected to be achieved by 2006. Euro-enthusiasm was so strong that the Ukrainian political leadership seriously addressed the question of application for membership in February-March of 2005. Later, according to the Ukrainian Center for Peace, Conversion, and Foreign Policy, the application was postponed until the Action Plan would be fulfilled.¹⁷

However, Ukraine did not receive any clear signal on membership prospects from the EU.¹⁸ The domestic political crisis and failure to implement a comprehensive reform strategy reduced Ukraine's chances to be given such a signal at all. Notwithstanding the recognition of the 2006 parliamentary elections as free and fair, democratic conditionality has become more important than ever in light of the ongoing rivalry between and within the power branches of government.

All political camps have reconfirmed that integration into the EU is priority number one for Ukraine. However it is not clear whether Ukraine would pursue reforms without the incentives of membership. Meanwhile, the Yanukovich government confirmed its intention to continue the political and economic reform process at the September 2006 EU-Ukraine Cooperation Council meeting in Brussels. During the meeting the EU explained clearly that an FTA agreement would exclude for Ukraine the possibility of signing analogous agreements in the framework of the SES with Russia, Belarus, and Kazakhstan.

The European Union's approach to Ukraine is based on the idea of developing the increasingly close relationship between Ukraine and the EU, going beyond cooperation to gradual economic integration and deeper political cooperation. In practice, such an approach means partial improvement of the existing cooperative instruments and maintenance of the same undiversified approach to the post-Soviet states. For instance, the EU intends to provide assistance to Ukraine

¹⁷ *Mizh nadiyamy ta mozhlivostyamy: vidnosyny EC-Ukrayina za rik po pomarancheviy revolyutsiyi*, Analytychna dopovid Tsentru muru, konversiyi ta zovnishnyoyi polityky Ukrayiny, Ukrayinsky Monitor, [*Between hopes and realities: EU-Ukraine relations in a year after the Orange Revolution*. Analytical report of the Ukrainian Center for Peace, Conversion, and Foreign Policy], 2005.

¹⁸ For the detailed analysis of the EU hesitations towards Ukraine's prospective membership see: Flemming Spildsboel Hansen, "The EU and Ukraine: Rhetorical Entrapment?" *European Security*, 2006, Vol. 15, No. 2, pp. 115-135.

through the new European Neighborhood and Partnership Instrument (ENPI) in the framework of the European Neighborhood Policy (ENP). ENPI will replace the current Technical Assistance to CIS (TACIS) program, including a wider range of delivery mechanisms, such as Twinning and Technical Assistance Information Exchange Office (TAIEX).

Although Ukraine is following the EU policy of “small steps” in bilateral relations, President Yushchenko has reconfirmed that Kyiv is still hoping for a signal.¹⁹ In 2008 the EU will negotiate an Enhanced Agreement with Ukraine to replace the PCA, which will come to the end in 2007. Supposedly, Ukraine would seek to include in the Enhanced Agreement some commitment from the EU to an open door policy. Ukraine hopes that the “new” EU members and the European Parliament would help Kyiv define the Enhanced Agreement as “associate membership.”

Strategic Partnership with Russia

In the post-Orange period the Kremlin has tended to present Ukrainian-Russian relations in very pragmatic terms in order to receive maximum profit from Russian gas supplies and to acquire Ukrainian enterprises. Although commercial considerations play an important role for Moscow in setting its agenda with Kyiv, the contest with the West for influence over the post-Soviet states has obvious supremacy in Russian foreign policy. Ukraine's pro-Western move means eventually integration to NATO and thus collapse of the re-integration efforts. Both trends are perceived to threaten Kremlin interests. Moscow's new tactics are based on four key elements:

1. ignore Kyiv's pro-Western foreign policy, especially its NATO ambitions, at official level;
2. foment destabilizing developments inside of Ukraine, deepening the historical division of the country and halting Ukraine's drive to NATO;
3. use direct economic, social, and cultural pressure as instruments of foreign policy; and

¹⁹Andriy Hetmanchuk, Evrointegratsiya zamedlennogo deystviya, *Zerkalo Nedeli*, October 21, 2006 [European integration of delayed action].

4. offer help in providing Ukraine's security through different forms of cooperation with the CIS or through bilateral channels.

The focal disagreements in Moscow-Kyiv relations that may directly affect regional security and have repercussions in Europe are energy prices, the gas transit system, and the Crimean military base of the Black Sea Fleet.²⁰ These issues will arise regardless of any Ukrainian concessions to the Kremlin, because all of them are tools for reintegration into the post-Soviet space and elements of Kremlin rhetoric, supported and understood by the Russian population. Ukraine's accession to NATO would put Kyiv out of reach of Russian influence and thus would be never tolerated by Russian officials.²¹ Referring to "the right to choose the vectors of cooperation in security" for any country, the Russia's Minister of Defense Sergey Ivanov pointed out that "consequences of those steps [accession to NATO] would have negative impact on interactions of two countries [Russia and Ukraine]."²²

Russia has not forgotten its defeat in the 2004 presidential elections in Ukraine, when it entirely supported then Prime Minister Yanukovych, who was President Leonid Kuchma's chosen successor. When Yushchenko was elected as president, official rhetoric in Moscow and Kyiv remained friendly,²³ but the Kremlin rapidly revised its policy towards Ukraine, trying to pull the country back into Russia's orbit by damaging Ukraine's image as a reliable partner for the West and testing the ability of the new leadership to prevent conflicts in a country with a divided identity.

²⁰ Vladimir Socor, "Putin Testing Ukraine's Political System with His Black Sea Fleet Proposal," *Eurasia Daily Monitor*, 2006, Vol. 3 [November 1], No. 202, <http://www.jamestown.org>, [Published by the *Jamestown Foundation*].

²¹ The Kremlin's attitude towards Ukraine joining NATO is not an exception. Further Georgian rapprochement with the Alliance could only worsen Russian-Georgian relations: "There is a general consensus among the Russian policy elite that for Georgia to normalize relations with Russia, it has to stop its integration into NATO, abandon plans to forcefully establish control over the separatist provinces of Abkhazia and South Ossetia, and try not to rattle the Russian leadership with harsh and, at times, outright provocative rhetoric." Igor Torbakov, "Russian-Georgian Row Could Seriously Sour Russia-West Relations," *Eurasia Daily Monitor*, Vol. 3, No 185, 2006, October 6, <http://www.jamestown.org>, [Published by the *Jamestown Foundation*].

²² See "Russia's Defense Minister: Ukraine's Joining NATO will Affect Bilateral Relations," *Kiev Post*, 2006, December 7.

²³ The first visit of President Yushchenko abroad was to Moscow to make bridges with Russia after the Kremlin's anti-Orange campaign during the presidential elections of 2004.

The first cluster of disagreements in Kyiv-Moscow relations derives from issues relating to energy prices. In January 2006 the Russian state-owned monopoly Gazprom unilaterally annulled the agreement with the Ukrainian gas company Naftahaz Ukrayiny and asked for a five-fold increase in gas prices. After Ukraine's rejection, Gazprom stopped supplying gas through Ukraine's gas transportation system to Europe. Agreement was finally reached to double gas prices. The Russian-Ukrainian companies EuralTransGas and Rosukrenergo, established in 2002 and in 2004 respectively, were installed as shadow mediators.

On the one hand, resolution of the gas crisis involved non-transparent schemes of an earlier era, and underscored that promised reforms in the energy sector had failed to be implemented. The promise of what by market standards was still relatively cheap Russian gas outweighed Ukraine's strategic need to counterbalance its energy dependency on Russia through energy system modernization and energy source diversification. On the other hand, the 2006 gas crisis in Ukraine had large repercussions in Europe and the U.S.²⁴ and put the issue of energy security squarely on the agenda of the EU and NATO.

The gas price hike was a major irritant in relations between Moscow and Kyiv, but by no means the only one. Ukraine's principal strategic asset is the gas transit system from Russia to European countries. Ever since 2002, when Ukraine signed a preliminary document of intention to establish a Russian-Ukrainian gas transportation consortium, Russian policy has sought to assert Kremlin control over the system. In 2003 Germany expressed its intention to join the consortium. At that time, the probability of approval of such an agreement by the Verkhovna Rada was minimal, due the strength of the political opposition. In October 2006, however, the issue of the gas consortium arose again. According to the Ukrainian presidential press service, President Yushchenko discussed by telephone the consortium-in-question with German's Chancellor Angela Merkel during President Putin's visit to Germany.²⁵

²⁴"Another feature of the Russian offensive is speed. From Algeria to Iran to Venezuela, a new gas cartel is being formed. From Norway to Canada to Brazil, new opportunistic energy market players are being co-opted. From Slovakia to Lithuania to Poland and Ukraine, old-style energy hardball is being played involving everything from phony pipeline repairs to outright blockade." Robert R. Amsterdam, "Oil weapon: It's time for a long, hard look at Russia," *International Herald Tribune*, September 29, 2006.

²⁵ Interfax-Ukraine, October 10, 2006.

It is realistic to expect that Russia would try to move forward with the idea of a Russian-Ukrainian consortium, with Germany as a minor partner. Russia could try to sweeten the deal for Kyiv by offering to reduce Ukraine's past debts and promising to keep gas prices at lower rate. Such arguments would be worth considering if they were reasonable. First, Russian and Ukrainian business circles have perceived it to be in their interest to blur the actual size of Ukraine's debt or methods of payment to Russia's Gazprom and affiliated companies. The Ukrainian energy sector has been lingering as the most non-transparent branch of the economy. Second, an increase in gas prices might be caused and explained by external factors. For instance, the price on Russia-delivered gas to Ukraine was increased from \$95 to some \$130 per one thousand cubic meters due to Turkmenistan's price hike on the gas it sold to Russia for resale to Ukraine, although the price, which was negotiated with Russia through the year of 2008, was formally unchanged.

The second cluster of disagreements in Russian-Ukrainian relations relates to Russia's military base in Crimea in general, and the stationing of the Russian Black Sea Fleet (BSF) in Sevastopol in particular. Since the 1997 Russian-Ukrainian Treaty, Ukraine has been dealing with an enormous number of disputes over the deployment of the BSF in Ukraine that have never been fully settled for resolution.

At the technical level, the major issues of concern include the status and functioning of the Russian military courts in Crimea, transfer of hydrographic and navigation facilities to Ukraine, inspection of BSF units by Ukraine, size of the BSF military contingent stationed in Ukraine, inventory of the lend slots and facilities leased to the BSF, and agreement on joint actions in emergencies. Some of those issues, for instance transfer of hydrographic and navigation facilities to Ukraine, are principally excluded from the agenda of the Russia-Ukraine sub-commission on Russian BSF issues by the Russian side until the end of the lease in 2017. Others, such as the border-crossing regime for the Russian navy and the fleet's modernization are matters of top-level bargaining. According to experts, in some cases—for example the border-crossing regime and movements of Russian military units in Crimea—the regulations exist but their implementation is highly subjective and depends solely on political will, not on the

agreed procedure or on established mechanisms.²⁶ The distinctive feature of the technical disputes related to the Russian base and the BSF is that any topic could immediately become a political issue between two countries.

At the political level, one issue is rapidly gaining attention in Moscow, especially in the light of the presidential elections of 2008 in Russia. During Russian President Vladimir Putin's annual phone-in dialogue with Russian citizens in October 2006, he offered the possibility of extending the BSF stationing in Crimea beyond the 2017 legal deadline. He justified such a possibility as a response to a hypothetical request by Kyiv to protect Ukrainian sovereignty, stating that,

“The decision on such issues undoubtedly lies within the competence of the Ukrainian sovereign state. Should the need arise, and should the Ukrainian people and leadership make a request, Russia would guarantee noninterference in Ukraine's internal affairs, if anyone would fancy such temptations [to interfere]. In that case, I assure you, the presence of Russia's Fleet would not be irrelevant... If the Ukrainian leadership deems it possible and addresses us with a request for assistance, we are prepared... to provide assistance to our closest neighbor the fraternal Ukrainian republic, to protect her.”²⁷

Moscow's rhetoric on extending the BSF stationing serves not only Russia's domestic purposes or Russia's nationalistic enthusiasts in Crimea. The offer of security assistance to Ukraine seems to be a logical continuation of the well-organized mass protests against the regular *Sea Breeze* exercise in Crimea in June of 2006. Those protests led to the first cancellation since 1997 of joint military exercises with the U.S. and with other NATO countries through the Partnership for Peace program. According to reports, Russia's intelligence agencies and BSF personnel directly participated in the preparation of anti-NATO rallies together with Yanukovych's Party of Regions, which then was promoting anti-NATO policies in Ukraine.²⁸

²⁶ Vladimir Kravchenko, “How much is prolongation?” *Mirror Weekly* [English version of the selected articles from *Zerkalo nedeli*], November 4-10, 2006, # 42 (621).

²⁷ Quoted from: Vladimir Socor, “Putin Offers Ukraine “Protection” for Extending Russian Black Sea Fleet's Presence,” *Eurasia Daily Monitor*, *Eurasia Daily Monitor*, 2006, October 30, Vol. 3, No 200, <http://www.jamestown.org/> [Published by the *Jamestown Foundation*].

²⁸ Russian Subversion in Crimea, *Jane's Intelligence Digest*, November 3, 2006.

Kyiv's reaction to Moscow's supposition was ambiguous. President Yushchenko emphasized that the Ukrainian Constitution prohibited the presence of any foreign military base in Ukraine. For this reason extending BSF stationing could not be justified or legalized. Prime Minister Yunukovych pointed out that the issue of prolongation had to be approached from the angle of both sides' interests and benefits before 2017.

The situation is potentially perilous in two ways. First, if Kyiv would allow to be drawn into discussion of the possibility of extension, it could create preconditions for automatic prolongation of BSF stationing in Crimea because of the complexity and duration of the withdrawal process. Second, Moscow needs time and resources to reconstruct a naval base (supposedly, Novorossiysk naval base) for BSF relocation. Therefore, Kyiv has to start discussion on the issue of the BSF withdrawal as early as possible, avoiding such areas as "prolongation" and "protection" in negotiations with Russia. In addition to that, Ukraine has to take into account that the discussion on prolongation of BSF stationing in Crimea might induce separatist tendencies.

Considering Russia's attempts to accelerate reintegration of the post-Soviet space, it would be naive to believe that Ukraine could benefit from its return to the multi-vector foreign policy of Kuchma's period. Equality of Russian-Ukrainian relations are conditioned by Ukraine's integration to Western democratic organizations and thus by further political and economic reforms in the country.

Ukraine as a Regional Actor

Ukraine has always attempted to gain the status of a regional leader to play its own role in the region. Yet in the beginning of the 1990s Ukraine offered a so-called Central European Initiative (CEI) to the CEE states. CEI was a hypothetical framework, the aim of which would have been to achieve integration levels approaching those of Western Europe. Predictably, the idea of CEI did not find support among the CEE states. The CEE states also did not respond positively to Kyiv's rhetoric about creating a Baltic-Black Sea bloc, or about joining the Visegrad group, which was deliberately established by Hungary, Poland, and then Czechoslovakia to synchronize their

accession to NATO and the EU.²⁹ At the same time, Ukraine's independence from Russia changed the geopolitical landscape in Europe, "shielding the region from Russia and enabling most of its countries to join NATO and the European Union without fear of Russian countermeasures."³⁰

Ukraine's relations with the post-Soviet republics remained relatively uncertain until the second part of 1990s. Signing the 1997 Ukrainian-Russian Treaty, however, together with successful prevention of escalating tensions in Crimea and the increasingly apparent ineffectiveness of CIS cooperation altered Ukraine's image in the post-Soviet space, making bilateral and multilateral cooperation without Russia attractive for the political elites of neighboring states.

The first attempt toward joint regional efforts was made in 1997, when four countries—Georgia, Ukraine, Azerbaijan, and Moldova (GUAM)—formed a group during negotiations on the Treaty on Conventional Forces in Europe (CFE) at Azerbaijan's initiative. The leaders of GUAM addressed issues of energy source diversification, a potential free-trade zone between their states, and resolution of the "frozen conflicts" of Nagorno-Karabakh, Transnistria, and Abkhazia. Despite U.S. efforts to support the initiative, the results were limited to discussion. The lack of clear mission, unclear incentives, lack of funding, Russia's negative attitude, and unstable political dynamics inside the GUAM countries postponed institutionalization of the initiative.

In the post-Orange period, Ukraine made an effort to reinvigorate GUAM. The Chisinau GUAM summit of April 2005 brought together the Presidents of Azerbaijan, Georgia, Moldova, Ukraine, Lithuania, Romania, with official observers from Poland and the United States. The Summit offered a symbolic message: recent developments in the region signaled the strengthening of democracy in Europe and thus generated new tasks for Europe as a whole and for

²⁹ See: Ilya Pritzke, *National Identity and Foreign Policy: Nationalism and Leadership in Poland, Russia, and Ukraine* (Cambridge: Cambridge University Press, 1998), pp. 379-382; Tor Bukkvoll, *Ukraine and European Security* (London: The Royal Institute of International Affairs, 1997), p. 65.

³⁰ Vladimir Socor, "Ukraine in Search of a Regional Policy," *Eurasia Daily Monitor*, Vol. 3, No. 184, October 5, 2006, <http://www.jamestown.org> [Published by the *Jamestown Foundation*].

the region in particular.³¹ The Kiev GUAM summit of May 2006 institutionalized the organization. The four member states—Azerbaijan, Georgia, Moldova and Ukraine—extended the name of GUAM to include *Organization for Democracy and Economic Development*, and again reasserted their dedication to democratic values, full respect for human rights and freedoms, economic reforms, security and stability in the region, and supremacy of the rule of law in domestic and foreign affairs. The four presidents expressed their concern with regard to the “frozen conflicts” and to the increasing practice of energy leverage in Russia’s foreign policy on the post-Soviet space. They confirmed their priority of enhanced cooperation with the EU and NATO.³²

In the end, however, the GUAM summits did not result in any new agenda beyond the political rhetoric of shared democratic values. Yet official Kyiv praised GUAM as one of the major achievements of the Ukraine’s foreign policy in post-Orange period, much as it had at the end of the 1990s.³³

In reality, after almost ten years of GUAM’s history, the organization has remained an ephemeral project. GUAM states have never developed any joint policy and have always avoided risking Russian ire.³⁴ GUAM has played a modest functional role as a “voice” in delivering messages on such sensitive issues of regional concern such as a group position within the OSCE, creation of a peacekeeping unit in order to replace Russia’s troops in the zones of “frozen conflicts,” or developing alternative transit capabilities.

GUAM, almost certainly more than any other organization, would be directly affected by alterations in Ukraine’s pro-Western foreign policy. Such a change would affect not only GUAM but the entire regional process of conflict resolution, and Transnistria’s settlement in particular. According to such a scenario, a Kaliningrad-type enclave in

³¹ “Building Democracy from the Baltic to the Black Sea,” Joint Statement by the Heads of State of Azerbaijan, Georgia, Lithuania, Moldova, Romania, and Ukraine, Chisinau, Moldova, April 22, 2005; in *Digest of Ukrainian Press*, April 26, 2006. Open Source Center, <https://www.opensource.gov>.

³² Kyiv Declaration on establishment of the Organization for Democracy and Economic Development—GUAM, Kyiv, May 23, 2006// <http://www.guam.org.ua>.

³³ Interview of Minister of Foreign Affairs of Ukraine Boris Tarasyuk to *Profile Ukraine*, September 25, 2006.

³⁴ *Kommersant*, October 11, 2006.

Transnistria would be likely, which in turn would modify the security disposition of the whole region and hinder the EU's efforts to stabilize its eastern border.

Kyiv's mediation in the Transnistria conflict has not been successful. Ukraine's efforts to resolve the Transnistrian issue have been devoid of much substance, regardless of whether they were offered during Kuchma's time or in the post-Orange period. Ukraine has failed to address such crucial issues as the stationing of Russian troops,³⁵ the existence of Transnistrian armed forces, pervasive activity by security services, developed organized crime networks, illicit arm trafficking, the intertwined business interests of Moldova, Transnistria, Ukraine, and Russia in Tiraspol, and the role of Ukraine's Black Sea port of Odessa, which has been reported as a key transit point for Tiraspol's contraband.

At EU initiative Ukraine joined Moldova and the EU's Border Assistance Mission (EUBAM) in March 2006. The goal of the EUBAM is to stabilize the situation in the region by stopping the flow of contraband from Transnistria and across the territory of Transnistria. The task of the mission is in implementing border and customs regulations in line with EU norms on the Ukraine-Moldova border, including the Transnistria sector. The direct implication for Ukraine means discontinuing the practice of contraband deliveries through the port of Odessa.

Meanwhile, Ukrainian business circles involved in illicit activities with Transnistria try to influence Ukraine's participation in EUBAM. The customs regime with Transnistria has been criticized for cutting revenues for the Odessa port. Moldovan officials insist on full observance of the border and customs control installed by the EUBAM. Tiraspol, supported by Russia, insists on the right of Transnistria to have "independent foreign economic contacts."³⁶ To demonstrate the credibility of its pro-EU policy, Ukraine has to support the policing

³⁵In November of 1999, Russia made the commitment to withdraw its troops and military equipment from Moldova and Georgia by December 31, 2002 at the 1999 Istanbul OSCE summit. For details see: Occasional Paper #284, "The 1999 OSCE Istanbul Summit. Decisions on Moldova and Georgia: Prospects for Implementation" (Washington, DC: Kennan Institute, 2002), p. 6-8.

³⁶"Mediators in Dniester Settlement From Russia, Ukraine, OSCE Hold Talks," Open Source Center, October 20, 2006, <https://www.opensource.gov>.

functions of the EUBAM. Any attempt to return to bad old habit would undermine any official assurance by Kyiv regarding the supremacy of its “European choice.”

Another of Ukraine’s regional projects is the Community of Democratic Choice (CDC). In post-orange euphoria the Presidents of Georgia and Ukraine declared their commitment to democratic values and promised to support them on post-Soviet space. The objective to establish a new organization was declared in Borjomi, in Georgia, in August 2005, and its opening summit was held in Kyiv in December 2005. As was the case with GUAM, the CDC meeting attracted countries outside the former Soviet area. The forum was attended by the presidents of Georgia, Moldova, Estonia, Latvia, Lithuania, Macedonia, Romania, Slovenia, and Ukraine. Government delegations from Azerbaijan, Bulgaria, the Czech Republic, Hungary, and Poland also attended the gathering, along with observers from the United States, the EU, and the OSCE.

From the very beginning the CDC had a symbolic meaning.³⁷ CDC objectives were formulated so broadly—comprising the promotion of democratic values, regional stability, and economic prosperity—that its real impact was limited. As was the case with GUAM, the CDC received a negative response from Russia³⁸ and was accused of harboring an anti-Eastern attitude by Belarus.³⁹ The creation of CDC was broadly understood as an anti-CIS, if not anti-Russian, project and its long term potential was rather overestimated.⁴⁰ The CDC forum confirmed the new image of Ukraine in the region. The West once again showed its readiness to assist Ukrainian reforms; and the new EU members once again expressed their support of Ukraine’s membership in NATO and the EU. With the change of government in Ukraine, the future of both projects—GUAM and the CDC—is

³⁷ Declaration of the Countries of the Community of Democratic Choice (Kyiv, Ukraine, December 2, 2005)// ProUA.com. Полный адрес статьи: <http://proua.com/news/2005/12/02/132749>.

³⁸ Formirovaniye antirossiyskoy koalitsii na postsovetском prostranstve bessmyslenno—Kosachev [Formation of anti-Russian coalition on the post-Soviet space is senseless - Kosachev], Official View of the Fraction “United Russia” in the State Duma of Russian Federation, <http://www.duma-er.ru/news/12891>.

³⁹ Interv’yu Aleksandra Lukoshenko informatsionnomu aginstvu BELTA [Aleksandr Lukoshenko’s Interview to BELTA], December 6, 2005.

⁴⁰ Jean-Christophe Peuch, “Ukraine: Regional Leaders Set Up Community of Democratic Choice,” RFE/RL, December 2, 2005.

indeterminate. Their role in the region was defined from the perspective of rapprochement with the West and thus both projects may be subject for change.

The future of Ukraine as a country that will follow the democratization pattern of the CEE states and finally integrate with NATO and the EU is undetermined. The issue of Kyiv's "East-West" preferences has arisen again, causing discussion of geopolitical loss for the West and retaliation for Russia. Ukraine has a clear choice: to "join Europe" or to remain a part of the post-Soviet space.

In order to "join Europe," Ukrainian political elites would have to prove their commitment to the complex political, economic, social, and military transformations that would be required. They would have to redesign their entire reform strategy, develop mechanisms for its implementation, and clearly communicate challenges and options to Ukrainian citizens. Foreign and security policy would necessarily be part of such systemic transformation, and could not be a subject of competition between president and government.

In the meantime, Ukraine's integration into NATO has been put on hold and it is clear that Ukraine will need time before it could resume such a course. Anti-NATO and anti-U.S. slogans were extensively used by the Party of Regions during the electoral campaigns of 2004 and 2006. Although the Party of Regions and Prime Minister Yanukovich changed their position from total opposition to NATO membership to support for enhanced cooperation with the Alliance, there are no guarantees in their support for membership, despite the signed agreement on national unity. To what extent President Yushchenko can influence decisions on Euro-Atlantic integration within the Ukrainian government is uncertain. NATO is keeping to its "open door" policy, however it is clear that it cannot offer a Membership Action Plan to Ukraine anytime before its next summit, slated for 2008.

If Kyiv fails to reconsider its erroneous strategy pushing off NATO membership and does not accelerate the accession process through comprehensive domestic transformation, Ukraine's role in the region as well as prospects of European integration will be diminished significantly. Reversal of a pro-Western foreign policy or impasse in pro-Western directions would threaten Ukraine itself by undermining the country's national interests, creating preconditions for instability in

the region, strengthening Russia's position, and accelerating the reintegration process on the post-Soviet space. The regional role of Ukraine as an independent actor is conditioned by its rapprochement with Western democratic organizations.

Russia And Ukraine

Dmitri Trenin

This chapter will address Russia's policy toward Ukraine against the background of fundamental changes in Moscow's foreign policy which became consolidated at the beginning of Vladimir Putin's second presidential term. The chapter will show the place that Ukraine occupies in Russia's new foreign policy strategy, and identify the principal Russian interests in or with regard to Ukraine. Then, the chapter will include three mini-case studies. It will first seek to analyze the reasons that led to the Kremlin's policy fiasco during the 2004 presidential elections in Ukraine, and look for any lessons learned thereafter. It will similarly look at the 2006 gas crisis and its aftermath, including the parliamentary elections and the formation of the Yanukovich-led government. Finally, the chapter will lay out Russian policy options *vis-à-vis* Ukraine to 2008–2009, when both countries should stage presidential elections, and beyond.

The Nature and Thrust of Russia's New Foreign Policy

Between 2003 and 2005, fundamental changes have occurred in Russia's foreign policy. Rather than seeking integration in, or with the West, NATO or the EU, the Kremlin defined Russia as a self-standing great power again. It also insisted on being treated as an equal partner by both the United States and the European Union. It further strengthened relations with China and India, seeing them, alongside Brazil, as the wave of the future, on the way of eventually establishing a pluralistic world order in lieu of post-Cold War U.S. hegemony.

Changes in foreign policy style, being the more apparent, have caught much attention, but there is a lot of substance behind this new-look foreign policy. The Kremlin leadership is more self-confident today than at any time since the Soviet Union's attainment of strategic nuclear parity with the United States in the early 1970s and America's withdrawal from Vietnam in 1975. In the mid-2000s, the Kremlin has managed to pacify

the North Caucasus through its policy of Chechenization, even as the Russians watch the mounting difficulties for the U.S. in Iraq, Afghanistan and the Greater Middle East more broadly. Actually, the Vietnam reference is not too far-fetched. From Moscow's perspective, U.S. actions in Iraq have undermined America's global standing.

Against this background, Russian foreign policy has again become assertive. Loudly and frankly, it talks about what Russia wants, not about some abstract interests of the international community or world peace. Russia's interests are increasingly formulated in specific economic terms. Conversely, Moscow uses economic sanctions to press its don't-mess-with-us message where other forms of persuasion do not work. Not infrequently, this assertiveness degenerates into outright bullishness, as happened in 2006 with regard to Georgia.

The Russian leadership has become studiously impervious to outside pressure. Times when the West had a say in Russian government appointments are long gone. Putin has closed the books on the Yeltsin years, when he believes Russia was controlled from the outside. In effect, the Kremlin has been telling the West that Russia is nobody else's business, and that they should keep their hands off. Today's Russia is not shy to compete openly with the United States and the Europeans, politically as well as economically, in the former Soviet states. Central Asia, the South Caucasus and Ukraine are all battlefields in that intensifying rivalry.

Russia's independence from the West is secured financially. Thanks to massive windfall profits from oil and gas exports, past debts have been repaid, and currency reserves have topped \$300 billion, and are third-largest in the world, after China's and Japan's. Moscow has also been able to stash away around \$90 billion as a rainy-day stabilization fund that should keep the Russian budget afloat when oil prices plunge.

So far, high oil prices have been largely responsible for Russia's good economic performance, averaging 6 percent GDP per annum over the last 6 years, strong stock market performance, and a rise in many leading Russian companies' capitalization. Since Putin came to power, the country's GDP, in current U.S. dollars, has tripled. However, the Kremlin hardly banks on turning Russia into a petro-state. It has made steps toward consolidating the aircraft industry, restructuring civilian nuclear production and the national electric power

monopoly. However, seeing energy abundance as its main comparative advantage for the foreseeable future, the Russian government seeks to secure its dominance of the country's energy sector.

Today, the Russian economy rests on a degree of political centralization and control unheard of since the late 1980s. However, there is much less of a state in the vaunted Russian "state-monopolistic capitalism" than there appears to be. Some of the top bureaucrats have de facto privatized chunks of the state and look forward to making those acquisitions legal. Russia's foreign policy has never been driven so much by economic considerations. For the people who not only rule Russia but also own it, what is good for Gazprom is certainly good for Russia.

The political system, authoritarian and top-heavy as it is, draws upon the genuine, solid and stable popular support for the sitting head of state, who represents the only relevant state institution in the country. There is no viable opposition, but the differences of interest among the ruling groups are real. One can argue, only half-jokingly, that Russia already has a two-party system, built around Gazprom and Rosneft. The task of the Russian president is to maintain a balance among the groups of moneyed bureaucrats linked to nominally majority state-owned companies, and to keep a modicum of social peace and quiet in the country as a whole.

Having consolidated his position at the top, Putin has been trying to exploit both traditional Russian patriotism and the new post-imperial nationalism as props to his government's legitimacy. The official nationalism of the Kremlin has been reflected in the twin notions of a "sovereign democracy" and an "energy super-power," both of which came to the fore in 2005. In these phrases, *sovereign* and *super-power* are the key words. The Russian leadership regards Russia as one of the very few truly sovereign states in the world, most others being dominated by the United States. Moscow also believes that in terms of power and international influence present-day Russia belongs to a select group of super-powers, which also includes the United States and China. Some would even go as far as to put Russia next to America in terms of international influence and leadership capacity.

It is only logical that in lieu of trying to integrate into, or "with" the West, Russian foreign policy has been tasked with creating a Kremlin-centered "solar system" (or a power center) in the former Soviet

Union. The post-Soviet Commonwealth of Independent States (CIS) has been pronounced by Moscow a clinically dead *institution*. However, the *area* covered by the CIS, i.e. the former Soviet Union minus the three Baltic States, is now seen as the principal “operating field” for an active Russian foreign policy.

From the Kremlin perspective, the former Soviet borderlands feature a high concentration of Russia’s vital interests in various spheres. Thus, the new states are treated as a natural space for Russian economic expansion, its political influence and cultural primacy. This expansion claim sees U.S./European influence in the CIS as the main obstacle to Russia realizing its goals, thus creating the situation of a zero-sum game.

Where Ukraine Fits In

In this worldview, Ukraine has a prominent place. However, one should guard against certain misconceptions about the significance of Ukraine for Russia. Some of them may have been correct in the past, but are no longer relevant.

Russia is not practicing “reunification” with Ukraine. Great power does not equal empire. Having rediscovered its great power mentality, the Russian elite has not fallen back into its traditional empire-building mood. Russian leaders and elites see Ukraine as a sum of lucrative assets and attractive opportunities, rather than a territory which must be physically joined to Russia.

Russia’s success or failure in Ukraine will affect the realization of the Kremlin’s ambition to construct a new power center, but it will not single-handedly determine its fate. In other words, Ukraine is important but not critical to this project.

Similarly, the success or failure of democracy in Russia will not be determined by the results of Moscow’s policies in Ukraine. To a much more significant degree, it is Ukraine’s own democratic evolution that will impact on internal socio-political developments in Russia.

Ukraine, however, should not be placed too easily into the category of Central European countries, which were once Soviet satellites or “captive nations,” alongside, e.g., neighboring Poland or Lithuania.

For a long time, the bulk of Ukraine formed part of the core of the Russian empire, and later of the Soviet Union, and had a historical experience markedly different from that of its immediate western neighbors. This is reflected in Ukrainians' attitudes toward Russia and the Russians.

Ukraine's current importance to Russia is primarily determined by several key factors. Top among them is Ukraine's position as a transit corridor for Russian oil and gas en route to customers in the European Union. Just a notch below come various economic assets in Ukraine, from metals to telecommunications, that are of interest to the Russian business groups. Further, Ukraine is home to the largest Russian-speaking population outside of the Russian Federation, who make the east and the south of the country, including Crimea, as well as the capital Kyiv, predominantly Russophone. Finally, in this short list of principal interests, the Russian Orthodox Church regards Ukraine, alongside with Russia itself and Belarus, as an inviolable part of its "canonical territory."

Although Ukraine's independence, which was immediately recognized by the Russian leadership in December 1991, was internalized by the Russian elites and public by the end of 1990s, Ukraine is still seen today in Russia as separate state, rather than as a foreign country. Many Ukrainians, for their part, hold a similar attitude toward Russia.

Russia's willingness to allow Ukraine to emerge as an independent state within its very generous Soviet-era borders has been the foundation of the peaceful security order in Eastern Europe. First the illusion of Russia's speedy Western integration, then an illusion of a post-Soviet Ukraine "naturally" gravitating toward Russia, and finally the beginning of the war in Chechnya helped put the issue of Crimean separatism and Russian irredentism on the backburner.

Much of the 1990s was taken up in the Russo-Ukrainian relations by the disputes over important but essentially negotiable issues. The fate of the Soviet nuclear legacy and of the Soviet property abroad, the status of the Black Sea Fleet and of the Russian language, and of course the constant wrangling over the terms of the gas transit formed the core of the bilateral agenda. Meanwhile, Ukraine was getting invaluable experience as an international player.

Until the early 2000s, Moscow essentially acquiesced in Kyiv's vacillation between Russia and the West. In 2003, however, it made an attempt to bind Ukraine closer to Russia. The Single Economic Space (SES) project, initially leading to an economic union, and eventually a political and security alignment, under Moscow's aegis, of Russia, Belarus, Kazakhstan and Ukraine, was drafted with the express purpose of swaying Ukraine away from the EU and NATO and closer to Russia. This project, however, was based on a false premise. Moscow learned the truth about Ukraine the hard way. This led through a spectacular fiasco of its policies during the 2004 presidential election campaign culminating in the Orange Revolution.

The 2004 Debacle and Its Lessons

As it was devising its strategy ahead of the 2004 presidential elections in Ukraine, the Kremlin made a huge miscalculation. It put all its money on a single candidate from the "party of power," fielded by the outgoing president, Leonid Kuchma. The candidate, prime minister Viktor Yanukovich, was presumed to be pro-Russian. He was to be supported at all costs, for his rival—another former premier, Viktor Yushchenko—was presented as pro-Western, pro-NATO and above all pro-U.S.

The Kremlin should have known better: as Leonid Kuchma himself said in the title of his best-selling book which appeared in Russian in 2003, *Ukraine is NOT Russia*. One simply *had* to infer from that that there could be no *bona fide* pro-Russian politician in Ukraine. To be sincerely and consistently pro-Russian, as opposed to simply playing the Russia card, would be to give up on Ukraine and to wish its inclusion into a Greater Russia. Kuchma himself, first elected in 1994 as a Russia-friendly candidate, very soon discovered that he was a Ukrainian president above anything else, and turned out to be a difficult partner for the Kremlin.

Kuchma and Yanukovich, despite all the problems that they faced in the West, and particularly in the United States, and all their frequent meetings with Vladimir Putin notwithstanding, were still hoping for a signal from the European Union that Europe would integrate Ukraine some time in the future. They also wrote into Ukraine's military doctrine a clause that foresaw Ukraine's eventual membership

in NATO. At the same time, they made it clear at the signing of the Single Economic Space document that Kiev was not interested in the SES beyond the free trade area, an old Ukrainian demand that Russia had repeatedly rejected.

It dawned too late on the Russians that Kuchma's (and Yanukovych's, for that matter) interests were not identical to those of Putin and the Kremlin. Whereas Putin, in his many visits to Kiev and meetings with Kuchma, was trying to sway Ukraine to Russia's side, Kuchma was trying to stay as arbiter in the Ukrainian political system even after stepping down as president. Putin believed Kuchma was playing the Kremlin's game. Kuchma, however, simply used the Kremlin. When his game was up, he was not prepared to clamp down to ensure that Yanukovych succeeds him. He simply gave in to the revolutionaries, in exchange for personal immunity. Putin is said to have been beside himself. This is indirectly supported by Putin's revealing comments about Kuchma's unreliability at his meeting with the new president Victor Yushchenko in Astana in January 2005.

Moscow, of course, was surprised by what became known as the Orange Revolution. Gleb Pavlovsky, the Kremlin's spin doctor working for Yanukovych on the Kremlin's behalf, famously commented that the terms of his contract with the Russian Presidential Administration included ensuring a victory at the polls, which he had produced (though this was contested by the Ukrainian opposition), but not preventing a revolution. Later, the Kremlin made another mistake, misunderstanding the revolution as a U.S.-sponsored and directed "special operation." Russian leaders feared that Kyiv was only a way station on the American plotters' "march to Moscow," that they themselves were targeted by an international "liberal conspiracy." By the spring of 2005, their self-confidence sank to the lowest level since Putin's coming to power.

Humiliated as he was, Putin recovered surprisingly quickly from the worst foreign policy defeat of his presidency. He realized that he could not subcontract Ukraine to a loyal local leader. Instead of trying to support Ukraine's east against its own west, the Kremlin decided to work with *all* political forces in Ukraine, and to push Russia's own agenda. Moscow now saw Ukrainian parties as no more than rival clans with their vested interests. To advance its interests in this environment, Russia decided to resort to the traditional use of both carrots and sticks, exploiting the openings on the Ukrainian side.

It soon became clear to Moscow that the Orange victory was not the end of the world. Above all, the much-feared effect of the democratic mobilization in Kyiv failed to impact on Russia. Moscow was unmoved. A “tulip revolution” in Kyrgyzstan, while it succeeded in chasing the local president, soon turned out to be a farce. All other CIS regimes were standing tall. In Ukraine itself, the new ruling coalition’s tasks were daunting, and its members’ propensity to infighting unyielding. In mid-2005, Europe’s integration march, heretofore deemed virtually unstoppable, got stuck in its tracks, as France and the Netherlands rejected the EU Constitution. At the same time, the U.S. predicament in Iraq started to grow worse, sapping the political strength of the Bush administration. “Why did we get scared?” the Kremlin leaders were probably asking themselves. There was not a chance of an Orange Revolution in Russia. As to Ukraine, the show would go on. The game was long. And political technologies could always be improved.

The 2006 Gas Crisis and Its Aftermath

At the end of 2005 Russia rediscovered itself as a superpower, with energy abundance taking the place of nuclear weapons and the geopolitical dominance of the Cold War era. The temptation of converting Russia’s comparative advantage in the period of high energy prices into an elevated political status was just too big for the Kremlin to resist. What the Moscow elites had been longing at least for a decade became a reality: Russia was back in the play as a great power. It almost immediately started flexing its muscles.

In principle, Gazprom had a solid case for raising gas prices. There was no reason at all to continue to subsidize other former Soviet economies to the tune of several billion dollars per annum. Two things need to be mentioned here, however. One is that selling one’s products below the market price usually creates political dependence. Thus, it is *the artificially low* energy price, rather than raising prices to the world level that is the real energy weapon. The other thing is that during the 1990s and the early 2000s payment schemes between Ukraine and Russia for Russian gas deliveries were extremely murky, which led to plausible charges of a major fraud performed by the interested and well-connected parties on both sides.

In the mid-2000s, the situation changed. As Gazprom was getting ready for a great leap forward in capitalization, and announced the liberalization of its shares market, the old scheme became untenable. However, while the general idea was right, its implementation was disastrous.

Gazprom quoted the new price to its Ukrainian clients (\$160 per 1,000 cu. m) already in the spring of 2005, but chose not to publicize it. The virtual absence of a public relations campaign at that stage stood in stark contrast to the over-abundance of Russian PR during the 2004 presidential campaign. This was its first miscalculation, which did not allow the Russian company to explain its reasons publicly and to prepare the Ukrainian public for the inevitable energy shock. Gazprom's second mistake was that its negotiators lost an incredible amount of time in the summer and autumn of 2005, failing to achieve any progress in their talks with the Ukrainians, who resorted to stalling tactics. Realizing that the Ukrainians had outsmarted Gazprom, the Kremlin ordered the gas company to shift gears abruptly and pass on from a leisurely negotiation to a *diktat* mode with a price hike of over 300 percent and a firm deadline only weeks away. This was the Russian version of *Shock and Awe*. That was the biggest blunder.

The Ukrainians, faced with a sudden and acute crisis, were unable to make a decision. It looked, however, that, suddenly victimized, they refused to give in. The Russians saw their credibility at stake and did what they had threatened: on New Year's Day 2006 they cut off supplies to Ukraine, while continuing to pump gas via Ukraine to their customers downstream in Western and Central Europe. Thus, they demonstrated that cynicism could be coupled with naiveté. The Russians knew that Ukraine would have to siphon off part of the transit gas to keep itself going in the middle of the winter. To put it bluntly, they expected Kyiv to "steal" EU-bound gas. The Russians however also believed that the Europeans, thus deprived of a portion of their gas deliveries, would get angry with Ukraine. As a result, they (mis)calculated, Kyiv would face pincer action from both east and west, with Russia and Europe acting as allies against the "irresponsible Ukrainians."

In actual fact, of course, the Europeans turned out to be quite lenient with the Ukrainians (who just had a glorious Orange Revolution) and blamed the newly-assertive Russians for resorting to blackmail and using energy supplies as a weapon. The Russians may have

been falsely encouraged by a highly muted reaction in the EU countries, except in Poland, to the 2004 one-day shut-down of the gas supplies to Belarus, another transit country. However, mired in these “economic disputes,” and focused on raising Gazprom’s profits and the company’s capitalization, they curiously ignored their political dimension. The Lukashenko regime truly had few friends abroad, but the newly-born “Orange Ukraine” was wholly a different matter.

The New Year’s Day crisis, which was deepening and spreading fast, was defused four days later when Gazprom and Ukraine’s Naftogas reached a fairly complex and still not fully transparent deal. The agreement established a new gas price, almost twice as high as the previous one, but twice lower than Gazprom’s original figure.

Gazprom gained in material terms. Ukraine was only part of the “new deal.” Gas prices were raised for all former Soviet states, including such close Russian allies as Armenia and Belarus. The liberalization of the shares market led to a hike in Gazprom’s capitalization. Within the first four months of 2006, it gained \$100 billion. Ranked 9th among the world’s leading companies at the end of 2005, Gazprom became the world’s third largest company by the end of April 2006. To the people running Russia (and owning the juicy chunks of it, such as Gazprom), there could be no better proof of the correctness of their actions.

However, although the Russians were slow to realize this, their country, on balance, lost heavily. Moscow, which had previously advertised its reliability as an energy supplier (“we never stopped oil or gas deliveries, even as the Soviet Union was collapsing”) was faced with a barrage of criticism from the U.S. and Europe, the likes of which it had not experienced since pre-Gorbachev days. The Kremlin suffered a major loss of prestige. Russia’s G-8 presidency, which formally began on the day of the Ukrainian gas crisis, instead of being a crowning success for President Putin, turned into a pretext for putting Russia in the dock as a gross international offender.

As to Ukraine, although the rough passage from subsidized gas prices to real ones was a shock, which appeared like Moscow’s use of the energy weapon, in reality this was the act of Ukraine’s liberation from a dependence on Russia. Ever since, Kyiv owed Russia the price of the gas it was consuming—but nothing else.

There is little doubt that Gazprom's actions were closely coordinated with the Kremlin. President Putin publicly emerged as the principal actor on the Russian side. Gazprom looked like a tool in the Kremlin's hands. The relationship between the two, however, is less that between a state-owned company and the state as its majority shareholder. There is not too much of a state around in Russia today, and Gazprom's de facto principal stakeholders are at the same time the people who work the levers of the Russian state. In the situation when the state is actually owned by a corporation, who only thrives because it has managed to privatize the state, private interests dominate, but they can easily hide behind notionally national ones.

2006 Parliamentary Elections and the Formation of the Yanukovich-Led Government

The gas crisis between Russia and Ukraine happened less than three months before the parliamentary elections in Ukraine. In contrast to the ill-fated interference in the 2004 presidential elections, the Kremlin assumed a far lower profile in the run-up to the Rada poll. It hoped for a strong showing by Yanukovich's Party of the Regions, but refrained from too much exposure internally. (Yanukovich, too, publicly distanced himself from Moscow). Instead, Moscow obviously hoped that the gas price, which could be fixed within a fairly broad margin (the January 4, 2006 deal only covered the first half of the year), was a far more effective tool than the generous promises that Putin was giving in 2004.

The Russian leadership did not treat the Orange Revolution as a victory of Ukraine's democratic forces. Rather, they saw this as a reconfiguration of the oligarchical clan system which had formed in Ukraine in the decade of Leonid Kuchma's rule. They also perceived a strong role played by the United States. This reading both raised a challenge and opened certain possibilities.

The challenge was competition in and for Ukraine with the United States and, to a lesser extent, the European Union. The opportunity was to manipulate the various Ukrainian clans, who were in most cases dependent on the terms of economic relations with Russia. Even a relatively small difference in the price of gas would mean significant gains or heavy losses for the material interests of the particular groups.

Thus, even before the gas crisis, the Kremlin reversed its approach to Ukrainian politicians. Instead of discriminating against all others in favor of its favorites, Kuchma and Yanukovich, Moscow held court for all major actors on the Ukrainian side. During 2005, all faction leaders traveled to Moscow and were received at the appropriate level. In March 2005, Presidents Putin and Yushchenko formed a committee on bilateral cooperation, which however was left dormant for 18 months.

Despite this diversification, Yanukovich and his party remained the Kremlin's best hope to derail the Orange coalition's "quick march to Brussels" (i.e. NATO membership). In May 2005, President Putin, still reeling from his defeat at hands of the "Orangists," sounded studiously relaxed on the issue of Ukraine's NATO membership. It would result, he said, in a curtailment of Russo-Ukrainian defense industrial cooperation and the withdrawal of the Black Sea Fleet's more sensitive equipment from the Ukrainian territory. However, this apparent calmness should not have been taken as an indication that Moscow had accepted Ukraine's NATO membership as an inevitability. On the contrary, in 2005 Russia probably decided to do what it could to derail this.

In the months that followed the March 2006 parliamentary election, Russia helped raise the profile of the NATO issue in Ukraine. Natalia Vytrenko, a firebrand populist, launched a virulent anti-NATO campaign, appearing often on Russian TV channels. Viktor Yanukovich, whom the Orange parties had sought to sideline, joined the effort, and gave prominence to another divisive issue, the status of the Russian language in the east and the south, where most residents are Russophone.

In the summer of 2006, Yanukovich, fighting for his party's share of power, and Vytrenko, who was trying to stay in politics, joined forces with NGOs such as "Proryv" (Breakthrough). This NGO, founded in Sebastopol, Crimea, and Tiraspol, Transnistria, with the support of the Kremlin's CIS point man, Modest Kolerov, staged a vocal protest in Feodosia against joint U.S.-Ukrainian military exercises in the predominantly Russian-populated peninsula. In the end, the new "political technology" proved a success: the exercises were called off.

It was the discord among the Orange leaders, and their opportunism, rather than the success of Moscow's efforts, however, that led to the unraveling of the revolutionary coalition and the formation of

something which had been the Kremlin's goal and hope: a Yanukovich-Yushchenko alliance, formalized in August 2006. It was one of Yanukovich's first actions as prime minister, in September 2006, to declare Ukraine not ready to apply for a membership action plan from NATO. The November 2006 Riga gathering of the Alliance, originally conceived as a "Ukraine summit," setting that country's course firmly toward the Euro-Atlantic community, turned out to be a mere footnote to history. The Rada's decision in December 2006 to sack the pro-Atlanticist ministers of foreign affairs and defense was a major move designed to change Kyiv's foreign and defense policy priorities. Thus, the ground had been prepared for Putin's visit to Ukraine, toward the end of 2006, his first official trip there since the 2004 fiasco.

The Russian leadership has certainly learned several lessons from its past mistakes. It is in principle open for business to all Ukrainian political forces and figures who would "honor Russian interests." It has been able to use to Russia's advantage the current realities of Ukraine: the fractious character of Ukrainian body politic and the lack of minimal support for NATO membership (and even strong resentment against it, comparable to anti-NATO feelings in Russia itself). The Russians probably realized that there were two main factions in Ukrainian politics: pro-Western and what could be called "nativist," insisting on Ukraine's middle course between Russia and the West. By reaching out to the latter (which was by no means pro-Russian!), Moscow hoped to isolate the former.

The political reform in Ukraine, which was implemented after the Orange Revolution, makes Russia's tasks easier. As a parliamentary-presidential republic, Ukraine will be ruled in the foreseeable future by weak coalition governments. Due to its economic leverage, the Kremlin would be in a position to make life for Ukrainian leaders easier or harder, depending on those leaders' behavior. Moscow also draws confidence from the fact that pro-NATO sentiments in Ukraine have been weakening, rather than getting stronger in the last few years, the Orange revolution notwithstanding. After all, Ukraine is different from Poland, Romania or the Baltic states in that the bulk of its population, with the notable exception of the western regions, does not regard Russia as a hereditary enemy. Ironically for many in the West, a more democratic and pluralist Ukraine works to Russia's advantage.

Moscow has also profited from the enlargement fatigue and the overall crisis of the European Union. Brussels' refusal to give Ukraine an EU perspective pushes Kyiv back to its former position of a neutral ground between Europe and Russia. The new Ukraine fatigue in the United States, which has become disillusioned and confused with post-Orange developments in Ukraine, opens the field even wider for the Russian Federation. The Kremlin is thus busy making hay while the weather is dry.

Prospects to 2008–2009 and Beyond

The battle for Ukraine is not over with the Yanukovich premiership. The principal gains of the Orange Revolution have been finally secured with the 2006 election and the formation of the coalition government which included both antagonists of 2004. One absolutely good outcome was that, with the Yushchenko-Yanukovich alliance (however temporary) established, the chances of a split within Ukraine, one which would threaten its political unity and territorial integrity, have dramatically decreased. Most importantly, this situation precludes openings which Russian irredentists could use to undermine Ukraine.

What emerges is a market-oriented, politically pluralist and open, Western-bound and Russia-friendly Ukraine. In principle, Ukraine's two basic foreign policy options are fast-track Western integration, which is not possible for the time being, and a slow-moving drift toward the West. The "East" in terms of Ukraine does not exactly mean Russia. Many Eastern metals tycoons are more interested in Western than in Russian markets. Ukraine is complex and fractious, but this does not mean its East and its South are eager to break away and join with Russia.

The Kremlin is anything but reassured that from now on, things will only go in Moscow's favor. Ukrainian politics are mercurial, and Kyiv's air, to use an old expression, is "thick with treason." Russia will not simply sit and watch the Ukrainians gradually warm up to NATO, while the European Union gets over its problems and becomes ready to reach out to Ukraine as a prospective member. Moscow will work on ways to tie Ukraine to Russia even closer economically. Even though the Single Economic Space looks a non-starter, it still could be a convenient cover. In reality, Russia's economic expansion into

Ukraine and the development of common infrastructure would provide the necessary bond between the two countries.

Russia does not really need Ukraine as a military ally. It can hardly hope to integrate Ukraine into the Collective Security Treaty Organization, which it dominates, but it would continue to work to further undermine the prospects of Ukraine ever joining NATO. Moscow's goal is a friendly and neutral Ukraine, a latter-day version of Finland positioned between Russia and the West. Russia hopes to be able to extend the Black Sea Fleet's basing rights in Crimea beyond 2017, when the current treaty, signed in 1997, expires. Meanwhile, the coastal infrastructure of the Russian Navy in Crimea (beacons, etc.) is being a subject of a heated legal dispute between the two countries. Given Russia's desire to keep its military presence in Sebastopol, and internal divisions in Ukraine on that issue, the Black Sea Fleet is likely to continue as an irritant. The closer one gets to 2017, the more contentions the situation will become.

The Russian defense ministry also wants to retain the use of the two early-warning radars, in Mukachevo and Sebastopol, which it leases from Ukraine. Even though Moscow and Kyiv continue to be at odds about their border in the Sea of Azov, especially in the Kerch Straits area, Russia is satisfied that, pursuant to the 2004 bilateral agreement, the sea will be regarded as joint waters of its two littoral states, thus barring access to NATO outsiders.

Russia's warning to Ukraine in 2005 over potential NATO membership was that joining the alliance would terminate Russian-Ukrainian defense industrial cooperation, which accounts for about 30 percent of Ukraine's defense exports. Since then, Russia has proceeded on a case-by-case basis. It finally called off the project of building the Antonov-70 military transport aircraft, while continuing with other cooperation projects. Since 2000, the prevalent trend in Russia has been toward achieving complete self-sufficient in military production, which puts a cap on Russo-Ukrainian cooperation in that field. However, Ukraine still remains important to the Russian Strategic Rocket Force, which needs to continue servicing the SS-18 heavy ICBMs; and the Russian Air Force, which deploys hundreds of aircraft with Ukrainian-built motors, etc. The situation remains complicated, as Russia hopes to use Ukrainian interest in continued military industrial cooperation to block the country's NATO accession, while different

lobbies within Russia, depending on their particular interests, promote defense “cooperation” or “self-sufficiency.”

Today, Russia has no plans of a political union with Ukraine, or for that matter with any other post-Soviet state, including Belarus. The myth of Moscow and Minsk marching toward a union state was punctured during the gas and oil dispute between the two around New Year’s Day 2007. With the cancellation of the gas subsidies, old-style Big Brother - Little Brother dependence is over. However, an independent Ukraine (like Belarus, Moldova, et al.) has to face new hard realities (and “natural” inequalities) in dealing with its big neighbor. The reframing of the relationship with the biggest post-Soviet state would make it much easier for Moscow to attain its goal of overall new-style economically-based dominance across the post-Soviet space. The Kremlin hopes that the Community for Democratic Choice, proudly inaugurated in December 2005, will quietly wither away.

Russian policy toward Ukraine will continue to be based on the strong cultural bonds between the two nations. Even though official bilingualism in Ukraine is off the cards, the primacy of the Party of the Regions in contemporary Ukrainian politics gives more prominence to Ukrainian Russophones. When and if Russia discovers the potential of its soft power, this could be a hugely important asset. What the Russians need to do is to make their country attractive to Ukraine as an economic partner, a cultural magnet and a trusted friend. However, this is precisely what the new Russian foreign policy approach, built on crude power politics, would fail to deliver.

Russia, Ukraine and the Wider Europe

Ukraine’s case proves one most important truth about post-Soviet states. It is that the nations themselves or, where the nations are still dormant, countries’ elites or individual autocratic rulers will decide the fate of the new countries. They are very far from being pieces on a Eurasian board moved about at will by Moscow, Washington or Brussels. Russia was unable to sway Ukraine to its side in 2004. If anyone in the U.S., however, tried now to speed Ukraine’s entry to NATO, that person would produce a crisis, but no solution.

In the early 2000s, the Kremlin’s slogan was that Russia and Ukraine should march toward Europe together. This is no longer rel-

evant. From the mid-2000s, Russia and Ukraine have parted ways. Both face the problem of modernization. However, Russia seeks to re-enter the world as a major power center. Ukraine, for its part, is drifting toward Europe. It is difficult to speculate on the time frame and the forms this movement will take, but there is a distinct probability that within the next two decades, if not earlier, Ukraine will join Europe in some meaningful way. The process of Ukraine's European integration (initially and for a long time in the form of "more Europe in Ukraine"), and its eventual outcome ("Ukraine in Europe"), will be good news to Russia. Russian isolationists will have far fewer arguments for a special Russian way.

If traditionalism and isolationism should prevail in Russia, Ukraine's larger mission could be that of a Little Russia, open and European-oriented. Ukraine would need to remember its Kievan Rus' roots, which makes it an heir to the East European cultural tradition, embracing also Belarus and Russia. Its Russian language tradition, which is strong and viable, could endow it with a role of generating and projecting new ideas across the entire Russophone space, which includes, apart from the Russian Federation itself, Belarus and Kazakhstan. Historical bilingualism would be a major asset for Ukraine's 21st century foreign policy. This, of course, can only be effective if Ukraine develops itself into an attractive model for countries further north and east.

A Ukraine that is committed to modern European values and speaks Russian with confidence could become a force for good in Eastern Europe, the Caucasus and Central Asia. Like Scots in Great Britain, Ukrainians within the Russian empire and later the Soviet Union were empire-builders. They can now use this experience as impartial mediators and promoters of advance values and practices. This should not be confused with an attempt to outbid Russia, to compete with Moscow for influence, etc. Ukraine's potential strength lies in what Russia has so far been unable to use, i.e. soft power.

Ukraine would best lead by example, with practices, not just ideas. Key to that would be instituting the rule of law, and establishing de facto independence of the judiciary. Ukraine's parliamentary system, should it made work, would be an interesting thing to compare with the strong presidential rule further to the east. Similarly for the political parties: should they be seen develop and flourish, they can under-

mine the political apathy of so many of Ukraine's post-Soviet neighbors. Ukraine's regionalism, if it flourishes, would provide some serious input to a future Russian debate on federalism. Few things could be as important in terms of positive examples as Ukraine's record of rejection of political violence. The crucial thing, however, will be Ukraine's success or failure with the transformation of its oligarchy into a modern business class, curbing and stemming corruption, and the implementation of economic reforms.

Is this beyond Ukraine's capabilities? Not necessarily. The country has embraced political pluralism and is unlikely to slide back to the morass of "Kuchmism." Its political formations are fractious and fragile, but they are engaged in real political fights. Its judiciary system is anything but perfect, but it is *de facto*, not just *de jure*, independent of the political authorities. Its media, not only the press but TV above all, are genuinely free and vibrant. Its citizens travel east *and* west, with more and more people identifying themselves with Europe and its modern values. Its business interests, including those of the East Ukrainian tycoons, are increasingly westward-oriented. Not waiting for Western reciprocity, Ukraine has opened itself up to visa-free travel from the EU countries and North America. Not just the Kremlin, but all Russia are watching.

By helping Ukraine realize its full potential, the European Union and the United States would be contributing to a more prosperous and more secure Europe. The EU's outreach to Ukraine would bring Europe even closer to Russia, and help create a truly pan-European economic space. NATO faces a challenge of engaging the Ukrainian publics and elites. If it is successful, this will be a very serious argument to be used in the Alliance's relations with Russia. The EU and the U.S. have a major interest in a stable and close relationship between Ukraine and Russia, which is key for peace and security not only in Eastern Europe and the Black Sea region, but in Europe more broadly.

A decade and a half after the collapse of the Soviet Union, the Russia-Ukraine story of relations, despite its many problems and occasional crises, is overwhelmingly a story of success. Once part of the imperial core, Ukraine has managed to find an identity and push forward toward political and economic modernization. Russia, for its part, has discovered that there was life after empire, and for all its current great-power pretensions, is definitely in its post-imperial age.

The story, however, continues. The ultimate success can not be automatic. Thus, it requires all the attention of those whose goal continues to be “Europe whole and free.”

Ukraine and the European Union

Michael Emerson

The Indeterminacy of Ukrainian Politics

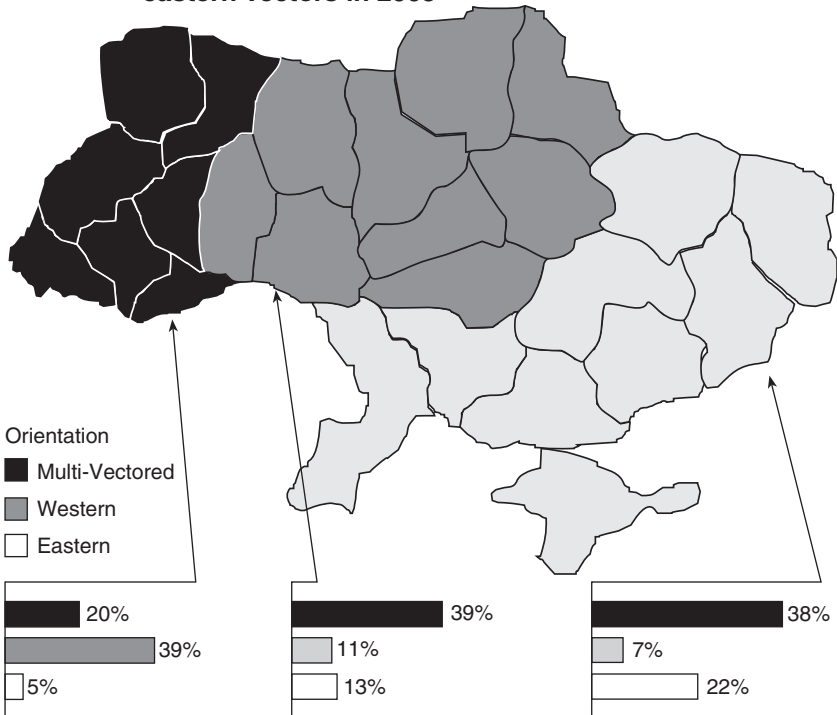
Nothing has so illustrated the indeterminacy at the heart of Ukrainian politics as the gap from March to August 2006 between parliamentary elections and formation of a government. The heroes of the Orange Revolution, Viktor Yushchenko and Yulia Tymoshenko, failed to consolidate their power and therefore their revolution. Viktor Yanukovich, who had been ousted because of manifest fraud to win the presidential election of late 2004 to succeed Leonid Kuchma, was back as prime minister by August 2006.

The Orange Revolution had first of all been about throwing out the Kuchma regime, whose malpractices included gross financial corruption and collusion with industrial oligarchs (for example in favor of the President's son-in-law) through to evidence in cassette recordings that the President had favored the assassination of a journalist critical of the regime. However the second most important theme was that of Ukraine's geopolitical and societal future, with the Orange revolutionaries advocating accession to both the EU and NATO.

On these geopolitical matters the Ukrainian constitution has inherent conflict potential, since the president remains empowered to nominate foreign and defense ministers, and thus to set the main lines of external policy. However, the party of Viktor Yanukovich, the largest in the new parliament, is opposed to NATO and more cautious or ambiguous on the EU. Yanukovich wants a more even-handed policy towards Russia and the EU. In this he is supported by public opinion (see Figure 1),¹ which would prefer a multi-vectored (i.e. EU and

¹ Kataryna Wolczuk, "The EU and the Eastern Neighbours: Democracy and Stabilization without Accession?" paper given to the CESPI, IAI, PISM, CPCFPU international conference in Rome, 29-30 May 2006, on Domestic Politics and European Integration in Ukraine. The map was kindly provided by Joanna Konieczna, who used data from the Stefan Batory Foundation, 2003.

Figure 1. Regional distribution of support for the western and eastern vectors in 2003



Russian) orientation to the predominance of either a Western or Eastern orientation.

The central question for this chapter is whether the EU can make a constructive contribution towards resolving this indeterminacy in Ukrainian politics. In the absence of coherent government a country can survive on automatic pilot for some time, as the year 2006 illustrated. But sooner or later a continuation of this dysfunctional state of affairs would lead to disintegration of the state and nation itself.

In principle the EU is not badly placed to play a constructive role. It is not seeking a ‘winner takes all’ struggle for sphere of influence in competition with Russia. It regrets that this old-fashioned geopolitical mindset still seems to prevail in Moscow, where the Kremlin sets reclaiming the ‘near abroad’ as its first foreign policy priority. EU observers also deplore that Ukrainian leaders also fall into this manner of discourse too, be they advocating West or East. The EU would

most like to see a convergence of Ukraine on European political values and economic norms and standards, with both parties retaining warm and relaxed relationships with Russia at the same time. In this way the EU-Russia-Ukraine triangle would become a stable factor in wider European affairs, rather than one threatening constant tensions and unpredictable political twists and turns.

Ukraine's 'European' Choice under the Kuchma Regime

For the first five years after independence in 1991 EU-Ukrainian relations were on a low key, with the EU side following a 'Russia first' policy. The EU was negotiating a Partnership and Cooperation Agreement (PCA) with Russia, and in the course of so doing working out what became a template for all the CIS states. In fact Russia proved to be a more obstinate negotiating partner, with the result that Ukraine was the first CIS state to sign its PCA in 1994. But Ukraine was hardly encouraged by the fact that the EU took a further four years to ratify. This was a time when the EU was still uncertain what to make of the CIS itself, with some support for the idea that it should become a successful organization taking some inspiration from the EEC for model features.

The design and structure of the PCA agreements were themselves weak derivatives of the earlier 'Europe Agreements' signed with the Central and East European states. The categorical difference was of course that the Europe Agreements envisaged full membership, and were thus part of the pre-accession process with all that this entailed for becoming compliant with masses of EEC rules and regulations in the economic domain. The Ukrainian PCA contained a long list of sectoral policies (customs, product standards, competition policy, transport policy etc) where the EU itself had certain competences. Ukraine was thus signing a treaty without extremely little knowledge even in the new elite, let alone the public at large, of what kind of animal the EU was or how it was itself developing, or therefore of where the PCA was coming from.

Things began to change however when President Kuchma announced Ukraine's 'European choice' as a strategic objective in a speech in 1996.² Then in June 1998, only three months after the entry

² For a full account of these developments see Kataryna Wolczuk, "Integration without Europeanisation: Ukraine and its Policy towards the European Union", EUI Working Paper RSCAS No. 2004/15.

into force of the PCA, Kuchma issued a decree entitled ‘Strategy on Ukraine’s Integration with the European Union’. This announced the long-term objective of full membership of the EU, and led to more detailed programs of work for the administration.

Given Ukraine’s manifestly thin understanding of what this implied, one can discuss several interpretations of the intention. It is of course non-controversial that Ukraine is part of Europe, and indeed according to some cartographers is its actual geographic center. Wolczuk sees Ukraine like other European CIS states as viewing the EU as a “civilisation-based geopolitical entity,” which allows for an enthusiastic attitude without getting to know too much about the costs and benefits of actually becoming totally and legally EU-compliant. A more immediate geopolitical motivation, and maybe the dominant one at the level of the leadership, was the desire to consolidate Ukraine’s independence, and in particular to get the Russian elite to accept this as a fact of life.

One consequence of the Kuchma decree of 1998 was that the administration was given instructions to adopt EU norms, standards and regulations for market policies. Already Article 51 of the PCA had set the objective of legislative approximation in 16 domains, and the lead role for this long-haul task was assigned to the Ministry of Justice. Since at that time Ukraine was only beginning to adopt free market regulations, it was not such an implausible idea to try to make a rapid advance by adapting or simply adopting EU model regulations. Much detailed legal work was done, with technical assistance from the EU (under the UEPLAC project³, chronicled thoroughly in the Ukrainian Law Review). By 2004 a comprehensive review revealed the state of progress, as summarized in Table 1. The overall score was that in 26 instances the approximation of Ukrainian laws was achieved, in 62 instances it was advanced, in 113 it was under way, and in 33 there was no progress.

Given the gross corruption that was accompanying Ukraine’s move to a market economy during these years, and the equally gross disdain for fundamental European political values, such as the rule of law, exhibited in practice by the Kuchma regime, one may be forgiven for wondering whether this painstaking legal work meant anything.

³ Ukrainian European Policy and Legal Advice Center, see for example Ukrainian Law Review No 5, May 2004 for a comprehensive account of work done.

Table 1. Approximation levels of Ukrainian legislation in relation to the EU acquis in the sixteen domains of Article 51 of the PCA—assessments as of 2004

Sector of Policy	Number of Ukrainian Laws			
	Apx.	Apx. Adv.	Apx. UW	Not Apx.
Trade and product regulation				
1. Customs	–	1	4	–
2. Technical standards	–	–	11	3
3. Food safety	8	3	24	2
4. Indirect taxation	–	4	4	–
Service sector regulation				
5. Banking	2	2	2	–
6. Financial markets, insurance	–	1	14	–
7. Transport	4	10	13	–
8. Nuclear energy sector	3	3	–	–
Economic governance				
9. Competition & bankruptcy	1	10	–	1
10. Public procurement	–	5	–	1
11. Intellectual property rights	5	9	–	6
12. Taxation	–	1	1	4
13. Civil Code	–	–	6	–
14. Consumer Protection	–	–	9	4
15. Labor Protection	2	7	9	10
16. Environment	1	6	16	2
Totals	26	62	113	33

Apx. = Approximated = The given legal instrument is very similar to the respective EU legislation.

Apx. Adv. = Approximation advanced = The main elements of the examined legal instrument are present in the domestic legal system and it has been developed along a similar line to that of the EU.

Apx. UW = Approximation underway = First steps towards implementing the given legal instrument have been taken, or there is a comprehensive legal draft in progress or in front of the government or Parliament.

Not Apx. = Not approximated = This area of law is at such an early stage of development that a particular legal instrument is missing from Ukraine's legal system.

Source: *Ukrainian Law Review No. 5*

In fact the reality is more complex. The transition process is an uneven one, with many dynamics set into motion in different parts of government, business and society on different timepaths, some of them being quite contradictory. In the case in point the legislative functions of the state were going about their business and rewriting, or writing for the first time Ukraine's economic law with considerable reliance on EU rules and standards. It was also true that the law was not being implemented at all well, but still the legal infrastructure was being put in place, which could see better compliance later.

Developments around the Orange Revolution

The EU watched Ukraine approach its Presidential election in the autumn of 2004 to choose the successor to Kuchma with pessimistic apprehension. It was widely assumed that things would be arranged for Yanukovich to steal victory successfully. Indeed falsification of the first round was blatant. Things really changed when the occupation of the Maidan square was sustained through day and night in the bitter winter weather, with Yushchenko's moral position enormously enhanced when it became clear that he had been viciously poisoned, strangely following a dinner with the state security chiefs. As the crisis mounted conciliation sessions were arranged between Kuchma, Yanukovich and Yushchenko, to which President Adamkus of Lithuania and President Kwasniewski of Poland were invited, at which point the two EU member state leaders asked Javier Solana to join them. As a result the EU found itself, greatly to its own surprise, participating in the mediation of a resolution of the crisis. Apparently Solana was effective in persuading the Ukrainian leadership to agree that there would be no military intervention to try to impose a solution.

After Yushchenko was duly elected president, and with Yulia Tymoshenko appointed prime minister, the question was immediately posed how to follow through the Orange Revolution in the matter of EU policy. Yushchenko was making speeches about a three stage plan, first WTO membership, second free trade with the EU, third full EU membership for which the date of 2010 was sometimes mentioned.

The EU's first gesture was to say that the Ukraine Action Plan under the ENP was ready for implementation, given that it had already been prepared in the course of 2004. However, given that it

had been negotiated with the Kuchma-Yanukovych government, the new regime was hardly enthralled by this. After the text was jointly adopted on February 21, 2005, President Yushchenko observed that the Action Plan had about 300 action points. He pointedly asked to his EU counterparts “what do I really have to do as our first priorities?” Javier Solana and Chris Patten duly obliged by supplying a shorter note with about seven priority headings for the year 2006, which was basically a sub-set of items and headings for the Action Plan.

On the Ukrainian side Oleh Rybachuk was appointed vice prime minister for relations with the EU and for implementing the Action Plan. He went to work impressively, drawing up a huge check list of action points for the government to implement the Action Plan. Rybachuk personally made a highly favorable impression on the EU, including in public meetings in Brussels, where he spoke with great clarity, frankness and energy and good command of the English language. This was in striking contrast to the customary procession of Ukrainian political representatives, whose capacity to communicate on matters of European policy was generally very poor, having neither linguistic skills nor any real comprehension of the subject matter. So far so good. Maybe the Orange Revolution was making a difference.

However, the Yushchenko-Tymoshenko pair rapidly ran into difficulties. Apart from personal antipathies, especially between Tymoshenko and the National Security Adviser to the President, Petro Poroshenko, there were problems of conception and execution of policy. Tymoshenko advocated re-privatization of up to 1000 enterprises, whereas the President favored only a few exemplary cases. This hiatus had the effect of virtually stopping new investment at the macroeconomic level. Tymoshenko also intervened in old-fashioned socialist command and control style, by ordering oil companies to roll back price increases, which resulted quickly in supply shortages. By May 2006 it became clear that these tensions within the government were intolerable, and the President sacked both Tymoshenko and Poroshenko. He also appointed Rybachuk as his new chief of staff, which was appreciated positively in Brussels.

On the other hand this left the direction of EU affairs without leadership. There followed an embarrassing administrative vacuum before the task of coordination of EU affairs was passed to the Ministry of Foreign Affairs, which however was not strongly equipped or empow-

ered for the task. For Brussels this was confirmation of Kiev's chronic weakness in organizing the affairs of government for the huge challenge that a real 'European choice' entails. A number of studies were undertaken with the aid of EU experts on how best to organize a European integration department, drawing on various examples from new member states such as Poland. Advice and examples were at hand, but in Kyiv nothing seemed to happen.

In early 2006 interim prime minister Yuriy Yehanurov actually showed signs of being a good manager of the government's business, although the shadow of the forthcoming parliamentary elections was already having a demobilizing effect on the legislative functions of government. For the EU the most obvious example of these circumstances was the failure of parliament to pass certain items of legislation required for accession to the WTO, which in turn was a prerequisite for opening negotiations over free trade with the EU. However the EU and Ukraine at least agreed to go ahead with a feasibility study on this free trade proposition (to which we return in some detail below).

Throughout this period there had been rumbling discontent coming from both Russian and Ukrainian sources over negotiations on the price of Russian gas supplies. This led to the famous turning off of the tap on January 1, 2006, broadcast live on Russian television as a show of power. Even Russian diplomats conceded some time later that Russian methods had been on the clumsy side, and created a huge wave of protest mixed with anxiety in Western public opinion. The EU for itself embarked on an emergency debate about security of energy supplies and excess dependence on a monopolistic Gazprom. However Ukraine itself failed miserably to gain support for its handling of the crisis. Ukraine was claiming breach of contract by Russia, with an agreement in 2005 for the gas price would remain fixed for five years. In this case it was difficult to understand why Ukraine did not take the case to the Stockholm international arbitration tribunal. And then Ukraine agreed with Russia to the Rosukrenergo solution, which was a monument to business non-transparency. This mysterious company, registered in Switzerland, administered by an Austrian bank, was empowered to be the intermediary for blending supplies of Turkmen gas at a price of \$50 per '000 cubic meter with Russian gas at \$230, making a cocktail average price of \$80. The shareholders of the Rosukrenergo were 50 percent Gazprom and 50 percent shared by two unnamed, faceless Ukrain-

ian citizens. It took several months of investigative journalism to reveal a certain Dmitri Firtash as the main Ukrainian shareholder. The Russian side claimed that it had been the Ukrainians who insisted on this formula, and it was not denied by the Ukrainian side. President Yushchenko claimed that this was all an excellent result for Ukraine.

The EU could only watch this being played out, with despair over the Orange leadership's messy handling. While EU public opinion supported Ukraine as the victim of Russian bullying, there was no evident way to help Ukraine, given its erratic management of its own affairs. EU gas supplies had been restricted for several days, yet Russia was able to sustain a propaganda offensive that this was because Ukraine was stealing gas destined for Europe. The EU did proceed to produce an energy security white paper, and to push Russia in the run-up to the St. Petersburg summit of July 2006 to ratify the Energy Charter treaty, and to negotiate agreement on the draft Transit Protocol, which would have been of great interest to Ukraine. In particular Ukraine had wanted to negotiate directly for gas supplies with Turkmenistan, which would have required Gazprom's acquiescence to the use of its pipeline network for transit. Gazprom declined this request, which would indeed have opened the dreadful prospect for a little price competition in the gas supply market. The G8 ended with no concession by Russia, beyond the legally meaningless declaration of welcoming the principle of the Energy Charter.

The EU has been mounting support for alternative gas pipeline routes, notably the Nabucco project that would bring Caspian and Middle East gas to South East and Central Europe via Turkey. This could conceivably connect with Ukraine's gas network from the South, but Gazprom deploys great energy in projects to prevent this from happening, including offering an alternative to Nabucco to the South and pressure upon Ukraine to sell a half share in its pipeline network to Russian interests. It falls to the Yanukovych government to decide for or against the later.

The Orange period was of some interest on matters of foreign and security policy cooperation between the EU and Ukraine. Most concretely this concerned Transnistria, for which the EU pressed Moldova and Ukraine together to control properly trade across the frontiers of the secessionist entity, which is notorious for smuggling, especially in collusion with Mafioso business interests in the Ukrain-

ian port of Odessa. Ukraine prevaricated for a long time over this question, saying that it would cooperate, but failing to deliver. However by the end of 2005 agreement was reached on an invitation by Moldova and Ukraine together to invite the EU to mount a Border Assistance Mission, named EUBAM, to monitor the Transnistrian frontier crossings and to assist the Moldovan and Ukrainian border services to stop illegal traffic. The EUBAM was duly inaugurated in early 2006, with 60 EU border guards deployed, with a majority coming from new member states whose personnel have inter alia good linguistic qualifications for the task. Their work revealed the now celebrated case of the 60,000 tons of frozen chicken legs imported into Transnistria in the first half of 2006, which if consumed in Transnistria would imply consumption six times that per capita observed in Germany. It needed less than Sherlock Holmes in the EUBAM to deduce smuggling of chicken legs on a grand scale, and reinforced border checks seem now to be cutting out this business. Of course the intention is to change the facts on the ground, in order to facilitate a negotiated solution of the Transnistria problem. While the EU with the U.S. have now joined as observers into the negotiating process, no substantive progress has yet been observed. Again here, it remains to be seen whether Yanukovych will maintain or undermine the EUBAM initiative, with all that this implies for EU-Ukrainian foreign and security policy cooperation. For the EU it will be a litmus test.

Europeanization and the Membership Perspective Question

Benita Ferrero Waldner's most infamous remark since becoming Commissioner for external relations has been that for Ukraine the EU's door is neither shut nor open. This is already signaling that EU policies towards Ukraine have their own degree of indeterminacy.

The EU side perceives a dilemma. On the one hand it is responsible for what political scientists have come to call the Europeanization paradigm. This is a process of extension of EU political values and norms through to economic standards such that this all becomes part of domestic discourse, identity formation, political structures and public policies. The EU feels rather proud while somewhat also surprised about having been its progenitor. The mechanism was ready in place to be used immediately after the collapse of communism, and served a

hugely important role in structuring and accelerating the post-communist transition in Central and Eastern Europe. While the Europeanization phenomenon is a fairly fuzzy matter, part of the general understanding is that the accession negotiation and conditionality process has been an essential mechanism in bringing it about. The EU's hope for the wider Europe is that a further extension of this Europeanization, but the countries in question—especially Ukraine, Moldova and Georgia—see this as coming together with credible perspectives for accession to the EU at least in the long run.

On the other hand the EU is now commonly described as suffering from enlargement fatigue. Put in the latest Euro-jargon, the EU's 'absorptive capacity' for further enlargement is being questioned. This term has been invented to cover a mixed bag of motivations at one and the same time. What does the term mean, and how does it relate to Ukraine's desire to be granted EU membership perspective? 'Absorptive capacity' has to be de-constructed into its various component parts.⁴ Can the economy withstand further enlargement? Here the answer is surely positive for the EU itself, since the addition of Ukraine could become both a useful market and part of the wider European industrial structure in which low wage cost locations like Ukraine could help the EU's own competitiveness. Can the EU institutions cope with more member states? Here Ukraine is hardly the problem, compared to the numerous small Balkan states that have already been granted membership perspective. Yet another variant of the supposed absorptive capacity concerns Europe's socio-cultural identity and coherence. Here again Ukraine is hardly the problem, compared to the case of Turkey. Can Ukraine itself become a reliable member state, in terms of the stability of its democracy and capacity to implement the heavy burden of EU laws and regulations? Today the answer cannot be positive. But this is the conventional issue of whether the candidate state can make the grade in terms of the Copenhagen criteria. The EU only has to apply the standard rules, and it would be for Ukraine to make the grade, which will in the best case still take many years. By which time the EU may have found its solution to the serious institutional problem posed by excessively fast or extensive enlargement.

⁴ See "Just what is this absorptive capacity of the EU?", Michael Emerson et al., CEPS Policy Brief No 113, September 2006.

The EU has debated the issue whether Ukraine should be granted membership perspective in order to enhance the perceived incentive for Ukraine's Europeanization. Poland is the most ardent advocate for granting Ukraine the membership perspective, with Sweden and other Baltic states in support. Some old member states are the most reserved, for example France and Belgium among the founding six. Their elites and public opinions view the recent enlargement in adding ten new member states as the European project having run 'out of control', with vocal demands for the 'final frontiers' of the EU to be fixed. Other member states seem floating indecisively in this debate, referring to the desirability of continuing enlargement, but unwilling and unable to force the pace, since the EU's decisions on accession of new member states is the most strictly guarded province of the unanimity principle. This was reinforced in 2005 by President Chirac who got passed a constitutional amendment in France requiring all future enlargements to be ratified by popular referendum. This was in reality a tactical gesture to appease opponents of the opening of accession negotiations with Turkey, but its formulation covers all further accession decisions after those already programmed for Bulgaria, Romania and Croatia.

The European Parliament is much more open to the granting of significant incentives to Ukraine than some of the member states. In its June 2006 Resolution the Parliament advocated an Association Agreement, which Ukrainian media immediately interpreted as meaning Associate Membership. The EU Council and Commission have already agreed with Ukraine to open negotiations with Ukraine for an 'enhanced agreement' to succeed the PCA, as soon as Ukraine has acceded to the World Trade Organization (WTO). This antiseptic, bureaucratic language is the provisional wording used to avoid the EU's own terminology for a 'Neighborhood Agreement'. However this term is categorically rejected by Ukraine as being exclusionary in meaning. It would not be difficult for the EU to be more forthcoming on these semantics. It could easily repeat the treaty of Rome's original language, which remains the law of the EU, to be open to all European democracies. It could easily add to this wording about the need to adapt its institutions to ensure sound decision-making with increasing numbers of member states. As the Finnish prime minister declared in June 2006 in his capacity of President in office of the EU Council, if the EU has an institutional problem, this should be fixed.

The Next 'Enhanced Agreement'

The EU agreed at its summit with Ukraine in June 2006 to open negotiations for an 'enhanced agreement' immediately after WTO accession, and to accompany this with negotiations for a 'deep free trade' agreement.

The likely structure on the enhanced agreement will be comprehensive in content, and from an EU standpoint it will be a new brand of multi-pillar international agreements. Whereas the PCA was mainly about Pillar I competences concerning trade and economic cooperation, the EU has since the early 1990s itself developed its Pillar II activities for foreign, security and defense policies (CFSP, ESDP) substantially, as well as its Pillar III competences for the area of Freedom, Security and Justice. All three pillars may well see substantial coverage in the enhanced agreement. In addition it will include institutional provisions and references to Ukraine's European choice in some form (as already discussed in the previous section).

However the Pillar I will probably still occupy a leading position in the new treaty. Already the groundwork for this has been done in the study contracted by the Commission, in close cooperation with the Ukrainian authorities, on the possible content, feasibility and economic implications of a free trade agreement⁵. The motivation on the EU side for doing something significant here is twofold. On the one hand the documents of the European Neighborhood Policy give an important place to the idea of the partner states achieving a 'stake in the internal market' of the EU, without this term yet having been given an operational definition. The use of the term 'Deep Free Trade' signifies however an attempt to do just this.

The enlarging European Union has become an increasingly important trade partner for Ukraine (Table 2). Since 1996 trade volumes with Ukraine have more than doubled. Taking the enlarging EU as a block, including South East Europe, over a third of Ukraine's exports go to the EU. What is most striking is that Ukraine's exports to Russia have undergone a huge decline over this period, from 39% in 1996 to

⁵ The study was entrusted to the Centre for European Policy Studies (CEPS), with the Institute for World Economics, Kiel, and the International Centre for Policy Studies (ICVPS), Kiv, and published as Michael Emerson et al., "*The Prospects of Deep Free Trade between the European Union and Ukraine*," CEPS, Brussels, 2006.

Table 2. Ukrainian changing trade structure, 1996 to 2004

Exports to:	1996 \$ mn	2004 \$ mn	1996 percent	2004 percent
EU-15	3,196	6,432	22.2	19.7
CEEC 10*	1,123	3,349	7.8	10.2
SEEC†	849	1,820	5.9	5.6
EU+CEEC+SEEC	5,168	11,600	35.9	35.5
Russia	5,572	5,886	38.7	16.0
Rest of the World	3,626	15,177	25.2	46.5
Total	14,400	32,666	100.0	100.0

Imports to:	1996 \$ mn	2004 \$ mn	1996 percent	2004 percent
EU-15	2,710	6,439	15.4	22.2
CEEC 10*	1,091	2,506	6.2	8.6
SEEC†	563	606	3.2	2.1
EU+CEEC+SEEC	4,364	9,551	24.8	32.9
Russia	8,819	12,127	50.1	41.8
Rest of the World	4,418	7,316	25.1	25.2
Total	17,603	28,996	100.0	100.0

*CEEC 10: new member states Estonia, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia, Hungary, Czech Republic, Cyprus.

†SEEC: Bulgaria, Romania, Bosnia/Herzegovina, Macedonia, Albania, Croatia, Yugoslavia, Turkey.

16 percent in 2004. Meanwhile the fast growth has been seen in exports to the rest of the world, which in the period under review has notably included a major increase in metal exports to Asia. Latest information suggests some correction to these trends, with a renewed increase in exports to Russia and a dampening of steel exports to China in particular, as that country increases its own production capacity. The main story of policy significance here is the relative decline in Ukraine's exports to Russia, which reflects Russia's preference for Western standard goods as well as the weakening of corporate links between formerly integrated enterprises of the Soviet Union. No less than 84 percent of Ukraine's exports in 2004 went to world markets other than Russia, which signals the overriding need for Ukraine to enhance its competitiveness by international standards. Ukraine's imports for the enlarging EU bloc have grown from one

quarter to one third of the total over the period under review. Imports from Russia have remained at a high but relatively declining level, due of course to the high dependence on energy supplies from Russia.

The concept of deep free trade developed in the study has a double purpose. On the one hand from the standpoint of EU Neighborhood Policy it seeks to provide an operational template for the stated objective of offering to partner states 'a stake in the internal market'. On the other hand for Ukraine the objective is to supply a template for domestic reform of microeconomic and regulatory policies as well as for strictly external trade policies, so as to accelerate the economic transition. As shown in Box 1 the agenda for action is very substantial. The extent of compliance with the EU *acquis* has to be carefully judged on a sector-by-sector basis in accordance with cost-benefit principles for Ukraine itself. There is no obligation under the Neighborhood Policy for Ukraine to adopt the whole *acquis*, which would be excessively burdensome and premature at this stage. At the same time the vital objective for Ukraine is to achieve a paradigm change in the quality of economic and corporate governance, so that the economy can achieve its full potential through deep integration with the European and international economy. The deep free trade package is conceived with this in mind.

Will Ukraine be willing and able to adopt and implement anything like this template? Will the powerful industrial groups now represented in the parliament support such measures - for example Rinad Akhmetov, owner of the largest industrial group in Ukraine, who has a major role in supporting Yanukovich and the Party of Regions? The answers to these questions remain to be revealed. However there are signs that the oligarchs' conception of their own interests are changing. Having secured ownership of huge industrial assets, their priority turns now towards securing their future competitiveness in world markets and attracting capital for fresh investments. This is a different situation compared to the oligarchs owning huge natural resource assets, such as in Russia.

The Deep Free Trade idea for the EU and Ukraine would not exclude a continued (or better implemented and respected) free trade regime between the Ukraine and Russia. Indeed the optimal regime would be to have free trade around all three sides of this triangle. What is not possible however would be for Ukraine to have a customs

Box 1. Priority Actions for Deep Free Trade between the EU and Ukraine

- Elimination of all remaining tariffs
- Reform of customs services
- Product standards, medium term program for harmonization/mutual recognition
- Agri-food standards (sanitary and phytosanitary rules), medium-term action program
- Convergence in regulatory policies
- Financial services, complete openness but staged process for regulatory approximation (Basle I)
- Civil Aviation, full acquis compliance and inclusion in common aviation area
- Road transport, liberalization and acquis compliance; investment in pan-European corridors
- Telecommunications, complete openness and compliance with 1998 acquis
- Energy sector, extensive acquis compliance for regulatory norms
- Electricity, if grid linkage, then full acquis compliance necessary
- Competition policy, staged convergence on EU practice
- Corporate governance, basic measures of best international practice needed
- Environment, long term process of gradual acquis compliance, with links to Kyoto measures

Source: M. Emerson, op.cit.

union (i.e. a common external tariff regime) with both the EU and Russia, until and unless there was free trade also between the EU and Russia. Since this is highly unlikely for the foreseeable future, it is crucial that Ukraine stick to its present policy of refusing Russian pressure to join a customs union of the Single Economic Space (SES, embracing Russia, Kazakstand, Belarus and Ukraine). This is one of the test cases for EU-Ukraine relations for the new government, since Yanukovych has made many statements underlying the importance of the SES, without being explicit on the customs union question.

Pillar II, covering cooperation with the EU's Common Foreign and Security Policy (CFSP) and its newer and fast growing European Security and Defense Policy (ESDP) will receive substantial attention in the negotiations of the enhanced agreement, certainly by comparison with the PCA when the EU's competences hardly yet existed. It will be first of all for the Ukrainian side to set out credibly what its objectives and requests are for association with the CFSP and ESDP.

The issue of credibility is especially pointed, given the division of responsibilities between the President who appoints the foreign and defense ministers and the government led by the Prime Minister. With the renomination of Boris Taraschuk as foreign minister and Anatoliy Grytsenko as defense minister as part of the new government from August 2006 it was certainly predictable that these two ministers would seek a maximum structured cooperation in these foreign, security and defense policy domains. The open question was whether the government as a whole would reveal coherence. Ominous on this account is that Boris Taraschuk was forced to resign in November 2006. While on the NATO issue the divisions between the coalition parties are well known, on the EU this is not evident.

Assuming coherence on the Ukrainian side, what could the content of cooperation be? At the level of the enhanced agreement, i.e. a treaty document that is intended to remain valid for many years, the content cannot be anywhere near as specific and binding as the possible content in the economic domain with a Deep Free Trade agreement. This is inherent in the nature of the business, where the economic domain is open for permanent and binding rules, whereas in the foreign policy the essence is played out in response to priority situations as they emerge. At the level of framework provisions suitable for the 'enhanced agreement' one can assume a provision looking forward to Ukraine's association with declaratory acts of the EU Council of Foreign Ministers as the easiest and softest option. It is possible to enhance the level of political dialogue, for example through structured links to the Political and Security Committee of the EU. Going further would mean adding specific provisions to facilitate inclusion of Ukraine in ESDP projects for crisis management with military and/or police personnel, as has already begun in the case of some operations in Bosnia. Here much will depend on the build-up of the quality of Ukrainian forces, for which indeed quality rather than quantity will be of the essence. The process of security sector reform undertaken by the present minister of defense, Anatoliy Grytsenko, has been favorably assessed by independent European observers. Ukraine has the potential to be a major associate partner of CFSP and ESDP if there is confirmation of political will and competence on the Ukrainian side. Satisfactory conclusion of the EUBAM mission and further political steps towards resolution of the Transnistria conflict will be viewed by the EU as a first test case with the new Yanukovich government.

Pillar III activities for the EU's Area of Freedom, Security and Justice (FSJ) will be a further important and new component for the enhanced agreement compared to the old PCA⁶. Ukraine already under the Orange regime made the much appreciated step of unilaterally scrapping visas for EU citizens, which stands in contrast to the obstinate Russian insistence on symmetry and reciprocity in this area, despite objective differences in the quality of the border controls and the rule of law. The EU has initiated in 2006 negotiations with Ukraine for a visa facilitation agreement, which as regards measures by the EU will doubtless draw on the agreement of this type concluded in 2006 between the EU and Russia. Ukraine will point out that the Russian agreement should serve only as a minimum benchmark, since Ukraine has been so much more liberal than Russia in scrapping already scrapped visas entirely for the EU. However there is a further EU-Russia-Ukraine triangular matter in the EU request for linked agreements on re-admission of illegal migrants of any nationality entering the EU territory from the partner state. As a matter of geography Ukraine is the major transit country now for the flow of illegal migrants into the EU from the former Soviet Union and Asia. However non-Ukrainian migrants arrive in Ukraine largely through Russia, while the Russian-Ukrainian border is itself not even demarcated, and even less properly controlled. Ukraine requests Russia to conclude demarcation of their frontier, but Russia is not cooperating in this. The EU for its part will be demanding a comprehensive upgrading of Ukraine's border management services as part of the enhanced agreement, which in part however will be dependent of cooperation from Russia of a quality that has not yet been forthcoming. The costs for Ukraine of a re-admission agreement with the EU could be very high if there is no corresponding agreement between Ukraine and Russia.

The comprehensive 'enhanced agreement' will contain many more sector-specific provisions, of which potentially the most important one could be in the field of education, to which therefore the next section contributes some specific details.

⁶ The use now of the term Pillar III has to be qualified on strict legal grounds, in that much of the EU's legislation in the FSJ area is now being passed under Pillar I procedures.

Building a New Ukrainian Elite

Given the ambiguities and uncertainties on both sides of the EU-Ukrainian relationship that seem set to remain for some time, are there some important cooperative actions that could be advanced in any case? One candidate is the education of a new Ukrainian elite qualified to lead the country's European choice in all professional and political domains. The starting point is quite favorable. Ukraine, together with most of Central and Eastern Europe, inherited from the communist period advanced levels of general education by comparison with Western countries. Studies of the levels of educational achievement suggest that the European transition countries actually exceed the levels observed in much of Western Europe in the fields of mathematics and the physical sciences (Table 2, where Ukraine is not shown but presumably has a ranking close to that of Russia). These high academic achievement levels in the mathematical and natural sciences offer a good basis for the expansion of knowledge-intensive industries.

Table 3. Educational Performance in Mathematics and Sciences

Groups of countries	Index of Performance*
EU—average of France, Germany, Italy, Spain and UK	511
EU—average of Greece and Portugal	450
EU new member states—average of Czech R, Hungary, Latvia, Lithuania, Slovakia, Slovenia	530
Russia	539
North Africa—average of Morocco, Tunisia, Jordan	415

*Third International Mathematics and Science Study (TIMSS) conducted in 1995 by the International Association for the Evaluation of the Educational Achievement and the TIMSS-Repeat study conducted in 1999. Mean performance: TIMSS-95/TIMSS-Repeat Study, re-scaled, weighted by sampling probabilities. Source: Schuetz, G., Ursprung, H. and Woessmann, L. (2005) "Educational Policy and Equality of Opportunity," *CESifo Working Paper 1515*. Munich, Germany: Centre for Economic Studies & Ifo Institute for Economic Research.

On the other hand, in the social sciences—especially economics, politics, management studies, international relations and the new field of European studies—the problem has been one of total obsolescence of Marxist-Leninist political economy theory, textbooks, and knowledge of a large number of teachers. Here there is a huge task of modernization still to be achieved, even now fifteen years since the begin-

ning of the post-communist period. Indeed this is a task for one or two generations.

The EU and the member states have opened their educational programs to Ukraine, yet the scale is not yet up to the task. The EU Tempus program and the bilateral programs of some EU member states have been active, but the number of scholarships awarded to Ukrainians to study in the EU has been in the order of dozens only. The new Erasmus Mundus program is an important global initiative for the EU, but Ukraine's allocation is for 23 students out of the global total of 808 for the year 2005–2006. As a further example, the London School of Economics, which is one of the largest and most internationalized universities in the social sciences, currently has about 5,000 non-British students, of which about 6 from Ukraine.

Thus, at present the scale of the EU's educational effort for Ukraine is only a small beginning. The most relevant comparison could be made with neighboring Poland with the same population size. Under the Erasmus program, the annual number of incoming Polish students studying elsewhere in the EU has risen from 200 in 1998–99 to 1,400 in 2003–04, with the number of Polish teachers participating in exchange programs having risen to 750 in 2003–04. The EU plans to raise the level of its grant aid to Ukraine from €50 million in 2003 to €100 million in 2006. This is a very precious resource, since grant funds on this scale are hardly available from any other source. Correspondingly there has to be a major effort to define the most cost-effective ways of using these resources, given also that many projects of the Tacis program have been extremely difficult to execute. A high percentage of the increase in budgeted grant to Ukraine could be devoted to strengthening Ukrainian human capital, for example by a transfer of funds from Tacis (or the future ENPI) for execution by the Erasmus program. The unit cost of a year's university studies in the EU may be about €30,000. On this scale a budget of €30 million would buy 1,000 scholarships. We suspect that a program on this scale would be getting closer to the needs of Ukraine to create a new elite professional group, capable of driving the country's transformative modernization during the next generation, in line with the objectives of the Orange Revolution.

Comparisons may also be made with Turkey. Ukraine's general education level is higher, but at the elite level incomparably weaker as

Box 2. Extracts from Prime Minister Yanukovich's speech to the Verkhovna Rada on matters of external relations:

"The civilized world does not seek to build new division lines, including the European continent. However it is obliged to do it, being afraid of threats which the economic backwardness possesses...

...Considering the European integration as a strategic goal of Ukraine, the new Government sees its task in becoming a player which is strong, self-sufficient, and therefore interesting to Brussels instead of a role played by Ukraine until now—the role of a 'beggar' in the EU negotiations. We should do everything to harmonize the legislation of Ukraine with the EU legislation as soon as possible...

...In this process, a special place will be assigned to the restoration of a mutually advantageous good neighborhood with Russia. We are convinced that this is an obligatory condition of leading the country to a rapid economic development...

...At the same timer, I would like to emphasize our firm intentions to provide stable supply of energy carriers to Ukraine and through Ukraine to the EU...

...We are a reliable partner both of Russia and Europe, and we will further endorse such a renown for our country, building the energy power policy which will correspond to Ukraine's interests...

...The time when mostly declarative slogans prevailed in the Euroatlantic rhetoric of Ukraine should be left in the past. We should not try to convince the world of our exclusiveness...

...We should simply work a lot, guided by the national interests only...

...When uniting the German lands, Bismarck acted only in the interests of Germany, and not of, say, Austria...

...We should do our business nonstop, with no right to rest, until the first encouraging results appear. Work with the obstinacy and persistence of a miner, who bites his jackhammer into lava to extract the coal needed by the people."

regards the prerequisites for European integration. Turkey has several universities teaching largely or entirely in English, which are now producing thousands of young professional people each year who are well qualified for participating in European and international business and political affairs. By comparison Ukraine's young generation still seems to be producing only a very small and thin layer of graduates well prepared to become young leaders of the Europeanization process.

Back to Yanukovich

The first indication of Prime Minister Yanukovich's policies was given in his speech to the Verkhovna Rada on September 5, 2006.

Most of this text is rambling political discourse without precise analytical or policy content. However the passages on external policy, essentially towards the EU and Russia, can be noted. The text seeks to be even-handed between the two. Examples are given in Box 2.

Prime Minister Yanukovych visited Brussels twice later in September 2006, to pay his respects to both NATO and the EU. The NATO visit immediately demonstrated the spectacular disunity between Prime Minister and President. Yanukovych told NATO that for him the membership question was off the agenda. This came as no surprise to NATO, but still when he returned to Kyiv he was summoned to a two-hour session with President Yushchenko, who said that he had been out of order. The EU visit was smoother, with Yanukovych making no fuss over the Commission's negotiating mandate for a future 'enhanced agreement,' to include a deep free trade agreement after WTO accession. Moreover, by early 2007 the Yanukovych government had succeeded in passing through the Rada all remaining pieces of legislation to permit WTO accession, which is a positive signal of the new government's ability to work with the parliament.

Ukraine made a new gas price agreement with Russia, raising the price for 2007 to the now quite low price of \$130 per '000 m³ (compared to \$230 for the EU or Georgia and Azerbaijan). This suggests that Russia and Ukraine are embarked upon a sequential game process, whereby Russia keeps Ukraine attracted to a low gas price while looking for Ukraine to make compensating concessions. These have been spelled out by Moscow as a return towards a Russian hegemonic order (keep out of NATO, extend the lease of the Sebastapol naval base beyond 2017, join the Single Economic Space etc.). The Yanukovych government therefore returns to something resembling the former Kuchma posture of trying to 'milk both cows' at the same time (Russia and the West), while delaying adjustment of the Ukrainian economy to world market energy prices.

Conclusions

From a European perspective the Orange Revolution has sadly proved to be a chimera to a large degree; although not entirely so, since the democratic behavior and aspirations of the people seem to have become more firmly entrenched. But the reality of dysfunctional

governance has remained a permanent feature of the political landscape, even while presidents and governments come and go. The credibility of President Yushchenko's European and NATO ambitions has sunk very low. Ukraine now has nonetheless now an enlarged constituency of support within the EU with Poland and other new member states.

However, at the same time the EU observes with increasing alarm a very different type of political behavior to the North in Russia. The vertical of power constructed by Putin is formidable, especially when allied to energy market power, yet the Russian 'near abroad' policy is seen to be both aggressively hegemonic and utterly unprincipled. This is read by the EU as a warning not to give up on Ukraine, in spite of all. Hence the EU aims in 2007 to strengthen its neighborhood policy, with Ukraine as number one customer, and the 'deep free trade concept' as the major economic component of the policy.

The European Union is extremely loath to get into a position of having to play geopolitics against Russia, and will no doubt try to come to some cooperative understanding around the EU-Russia-Ukraine triangle, for example by deploying a Black Sea dimension concept that could bring all parties together, coincidentally with enlargement of the EU itself into the Black Sea. Such seems to be the intention at least of the German Presidency of the EU in the first half of 2007.

Ukraine And NATO

F. Stephen Larrabee

Since the outbreak of the Orange Revolution in late 2004, the issue of Ukrainian membership in NATO has become a subject of growing debate in Ukraine as well as in the West. That Ukraine has the right to join the Alliance is not disputed—even by Russia. However, Ukrainian membership in NATO presents special challenges for several reasons.

First, Ukrainian membership would cross an important political red line and bring NATO directly into former Soviet territory. One can argue, of course, that NATO already crossed that line when the Baltic states joined the Alliance. But the Baltic states were regarded as a special case by Moscow. They had been independent countries during the interwar period and had been forcibly annexed by the Soviet Union.

Ukraine, by contrast, had been a part of Russia for over three hundred years except for a few years after 1918 when it briefly existed as an independent state. Moreover, the Baltic states are small and their military forces do not substantially add to NATO's military capabilities. Ukraine, however, is a country of over 50 million inhabitants with a large military whose defense industry was closely linked with Russia's. Moreover, culturally and politically, Ukraine still is viewed by many Russians as part of Russia. Thus Ukrainian membership in NATO is likely to be strongly opposed by Moscow.

Second, Ukraine has a long border with Russia. Ukrainian membership in NATO thus raises the question whether NATO is prepared to offer an Article 5 security guarantee to Ukraine and would be willing to undertake an obligation to militarily defend Ukraine's borders. Exactly how NATO was going to defend the Baltic states was fudged. But it will be much harder to fudge the issue in the case of Ukraine, which is much larger and strategically far more important than the Baltic states.

Finally, Ukrainian membership in NATO raises the issue of the Russian Black Sea fleet stationed in Sevastopol, an historic Russian city now part of Ukraine. Under the accord signed between Ukraine and Russia in 1997, Russia has the right to station the fleet in Sevastopol until 2017. However, many NATO members may be reluctant to admit Ukraine into the Alliance as long as the Russian fleet is stationed on Ukrainian territory.

The New International Context

In addition, the international context in which the debate about Ukrainian membership is taking place differs significantly from the international context in which the previous two rounds of enlargement occurred.

First, the first two rounds of NATO enlargement took place at a time when Russia was weak and insecure. Russia had little leverage and could do little more than loudly protest NATO's decision to enlarge. The debate over Ukrainian membership, by contrast, is occurring at a moment when Russia is in a self-confident and assertive mood. In addition, energy security has become an important issue on the Western agenda. Thus, today Russia has more leverage than it had at the time of the first two enlargements. As a result, many European members of NATO may be less willing to risk antagonizing Russia than in the past.

Second, the first round of enlargement took place at a time when the Alliance was relatively unified. Today, the West is divided and still recovering from the fissures provoked by the Iraq war. Moreover, while there was opposition in the West to the first round of enlargement—and initially to the second—there was general agreement that the countries of Eastern Europe were part of Europe. Some Europeans, however, question whether Ukraine is really a “European” country.

Third, in the first round of NATO enlargement, the United States had a strong European partner—Germany—which was willing to take the lead within the Alliance in promoting enlargement. Today, the United States lacks a strong European partner willing to assume a leadership role in promoting Ukrainian membership. Germany's enlargement agenda is complete. Berlin is focused more on its domestic agenda and is not strongly interested in further enlargement.

Moreover, Germany has a stronger vested stake—especially an economic stake—in good relations with Russia than it did a decade ago. Thus Berlin is more cautious about taking actions that could sharpen disputes with Moscow.

Fourth, the U.S. strategic agenda has changed. During the first two rounds of NATO enlargement the United States was focused on completing the unfinished business left over from the end of the Cold War in Europe. This agenda included integrating Central and Eastern Europe into NATO and the EU, restructuring NATO to deal more effectively with threats on NATO's periphery, developing a strategic partnership between NATO and Russia, and stabilizing the Balkans. In short, it was an agenda that was still focused largely on Europe.

Today, the U.S. strategic agenda is focused on threats and challenges beyond Europe's borders—Iraq, Iran, the Middle East, North Korea and China. There are still some residual problems in the Balkans (Kosovo) but Washington's European agenda is largely complete. Washington is seeking "global partners" who can operate effectively with NATO in areas beyond Europe. While enlarging NATO is still important, the prime task now, from Washington's point of view, is to restructure NATO to deal with new threats, most of which emanate from beyond Europe's borders.

In addition, U.S. influence and prestige in Europe are much lower today than a decade ago.¹ Many of the Bush administration's policies—particularly the invasion of Iraq—have created deep fissures in the Alliance. As a result, many members of "Old Europe" are less willing to follow the U.S. lead today than they were during the first rounds of NATO enlargement. Thus, the United States has a much harder time achieving its goals within NATO—including obtaining support for its enlargement agenda—than it did during the first and second rounds of enlargement.

Fifth, the NATO-EU relationship has changed in important ways. Today, the EU is a much more important international actor than it was during the first two rounds of NATO enlargement. It is slowly developing the military capabilities to enable it to play a more active and assertive role in areas outside Europe, particularly Africa. This has

¹ For details, see in particular the statistical data in *Transatlantic Trends: Key Findings 2006* (Washington, D.C.: German Marshall Fund of the United States, 2006).

added an element of competition to NATO-EU relations that was largely absent at the time of the first two rounds of NATO enlargement. At the same time, it has made cooperation and consultation between the two organizations all the more urgent.²

Finally, NATO is contemplating expanding into controversial new territory—the post-Soviet space. This makes many Europeans uncomfortable because it risks a possible confrontation with Moscow, but also because it raises larger issues about NATO's political and geographic identity. Are potential new members like Ukraine and Georgia really part of Europe? And if they join, who is next? Azerbaijan? Kyrgyzstan? The addition of the new members from Central and Eastern Europe did not change the political and geographic identity of the Alliance. NATO still remained essentially a Euro-centric alliance. For many Europeans, the addition of Ukraine (and Georgia) risks diluting the Alliance's European focus.

Ukraine's Evolving Security Environment

Ukraine's security environment has evolved significantly since the country became independent in 1990. The breakup of the Soviet Union left a number of unresolved issues that initially aggravated Ukrainian-Russian relations. Foremost among these was the recognition of Ukraine's borders and sovereignty. Until May 1997, Russia dragged its heels on signing a state-to-state treaty recognizing Ukraine's borders. In addition, during the Yeltsin era, the Russian Duma passed several resolutions calling into question Ukrainian sovereignty over Sevastopol. Relations were also strained by differences over the Black Sea Fleet.

Since the signing of a Treaty on Friendship, Cooperation and Partnership in May 1997, however, relations between Ukraine and Russia have significantly improved. Valid for ten years, the treaty officially recognized the immutability of existing borders—a key Ukrainian concern. Thus, the treaty gives legal substance to Russia's rhetorical recognition of Ukraine's territorial integrity and removes Crimea and Sevastopol as points of contention in Russian-Ukrainian relations.

² For a comprehensive discussion, see F. Stephen Larrabee, "NATO and the EU: Assuring Complementarity," *International Spectator*, Vol. 38, No.1, pp. 51-70.

At the same time, in a separate accord, the two sides regulated the remaining details of the division of the Black Sea Fleet.³ Under the accord, Russia received four-fifths of the fleet. Ukraine also agreed to lease port facilities at Sevastopol to Russia for 20 years. The agreement represented important gains for Ukraine. Although Russia retained use of the facilities at Sevastopol, the accord underscored Ukrainian sovereignty over the city (it is the facilities that are leased, not the territory itself).

The Treaty on Friendship, Cooperation, and Partnership, together with the accord on the Black Sea Fleet, paved the way for a normalization of relations between Ukraine and Russia. To be sure, differences continue to exist, but these differences stem primarily from Ukraine's heavy dependence on Russian energy, especially natural gas, and Ukraine's desire for NATO membership. Ukraine does not feel a strong military threat from Russia.

Relations with Ukraine's Central and East European neighbors have also significantly improved. The most important improvement has been the far-reaching rapprochement with Poland. Historically, relations between Ukraine and Poland have been characterized by considerable tension and mistrust. However, over the last decade and a half, the two countries have succeeded in overcoming their past animosities and developing remarkably cordial relations. In May 1992, they signed a Treaty on Friendship and Cooperation in which both sides affirmed the sanctity of the borders and renounced all territorial claims against one another.

This rapprochement has been buttressed by an expansion of economic ties. Military cooperation has also intensified. The two countries have set up a joint peacekeeping battalion (UKPOLBAT), located in Przemyśl (Poland) near the Polish-Ukrainian border. Drawn from a Ukrainian mechanized division in the Carpathian military district and a Polish tank brigade, the joint battalion is intended to participate in international peacekeeping operations under NATO and UN aegis and has been deployed in Kosovo as part of KFOR. Ukrainian officers are receiving training at Polish military academies.

³ For a detailed discussion, see James Sherr, "Russia-Ukraine Rapprochement: The Black Sea Accords," *Survival*, Vol. 39, No. 3, Autumn 1997, pp. 35-50.

The rapprochement with Poland is politically quite significant. It not only removed a major source of tension in the region, but also opened the door to Europe for Ukraine. For Kyiv, the road to Europe increasingly leads through Warsaw. Poland has been a strong spokesman for Ukrainian interests within NATO, and also pushed for a more flexible and active policy toward Ukraine within the EU. Poland's efforts help to ensure that the Ukrainian interests are given serious consideration by both organizations.

Ukraine's relations with Hungary have also improved significantly since 1990. In 1990, the two countries signed a declaration on minority rights—a concern for Budapest because of the large Hungarian minority (160,000) living in Ukraine. The Hungarian minority in Ukraine is relatively well treated. As a result, the minority issue has not burdened Hungarian-Ukrainian relations in the way it has Hungary's relations with Slovakia and Romania.⁴

Finally, Ukraine has regularized relations with Romania. In June 1997, Ukraine and Romania signed a Treaty on Cooperation and Good Neighborly Relations. The treaty contains important provisions regarding the inviolability of frontiers, effectively laying to rest Romanian territorial claims against Ukraine, as well as provisions for the protection of minorities. In an appendix to the treaty, both sides agreed to the demilitarization of Serpents' Island, which had been a source of contention because of large deposits of oil.

NATO Enlargement and Ukrainian Security

As a result of these developments, Ukraine faces a much more benign security environment today than it did at the end of the Cold War. Ukraine desires to become a member of NATO not because it faces an imminent military threat but because it wants to be a part of the Euro-Atlantic community. In short, NATO membership is a "civilizational choice," not a choice prompted primarily by military threats.

However, there is no widely shared consensus among the Ukrainian elite and population about how NATO membership can enhance

⁴ For a detailed discussion, see Sherrill Stroschein, "Hungarians in Transcarpathian Ukraine," in James Clem and Nancy Popson (eds.), *Ukraine and Its Western Neighbors* (Washington, D.C.: Woodrow Wilson Center for International Scholars, November 2000), pp. 51-65.

Ukraine's security. Many Ukrainians, especially in the Russified southern and eastern regions, continue to see NATO as a hostile, militaristic organization. This schism makes the Ukrainian situation quite different from Central and Eastern Europe, where there was strong popular and elite support for NATO membership.

Ukraine's position on NATO has evolved significantly, however, since the early 1990s. In the early years after independence, Ukraine pursued a non-aligned policy in part to avoid antagonizing Russia. Kyiv initially opposed NATO enlargement to Central Europe because it feared that it would create new dividing lines in Europe and lead to increased Russian pressure on Ukraine.

However, Moscow's hard-line opposition to NATO enlargement and Kyiv's desire to improve relations with the West contributed to a gradual shift in Ukraine's approach to enlargement. During 1995, Kyiv dropped its opposition to enlargement and began to regard the membership of Central European countries, especially Poland, in NATO as having security benefits for Ukraine as well.⁵ At the same time, Ukraine consciously began to strengthen ties to the Alliance. Ukraine was the first CIS state to join the Partnership for Peace (PfP), and it has been one of the most active participants in PfP exercises. Ukraine has a liaison officer at Supreme Headquarters Allied Powers, Europe (SHAPE) in Mons (Belgium), and in May 1997 a NATO information office was opened in Kyiv. A NATO Military Liaison Mission (MLM) has also been set up in Kyiv.

The most important development during this period, however, was the signing of the Charter on a Distinctive Partnership with NATO at the Madrid summit in July 1997. Although the charter did not provide explicit security guarantees, it called for the establishment of a crisis consultative mechanism that could be activated if Ukraine perceived a direct threat to its security.⁶ It also foresaw a broad expansion of ties

⁵ For a detailed discussion on the shift in Ukraine's attitudes, see F. Stephen Larrabee, "Ukraine's Place in European and Regional Security," in Lybomyr A. Hajda (ed.), *Ukraine in the World: Studies in International Relations and Security Structure of a Newly Independent State* (Cambridge, MA: Ukrainian Research Institute, Harvard University, 1998), pp. 249-270.

⁶ For the text of the charter, see "Charter On A Distinctive Partnership Between the North Atlantic Treaty Organization and Ukraine," *NATO Review*, Vol. 45, No. 4, July-August 1997, Documentation Section. See also David Buchan and David White, "NATO signs charter with Ukraine," *Financial Times*, July 10, 1997.

between NATO and Ukraine in a number of key areas such as civil-military relations, democratic control of the armed forces, armaments cooperation, and defense planning. Thus, the charter established a deeper relationship with Ukraine than with any non-NATO member—with the exception of Russia.

The rapprochement with NATO was not undertaken because Ukraine felt threatened by Moscow militarily. Rather President Kuchma sought to strengthen ties with NATO as a means of increasing his political leverage in relations with Moscow.⁷ In short, the rapprochement was part of a carefully calculated political strategy—and it succeeded. Rather than leading to more hostile relations between Kyiv and Moscow, as many critics predicted would happen, Kuchma's efforts to strengthen ties to NATO contributed to the emergence of a more conciliatory Russian policy towards Ukraine. Yeltsin's decision to sign the long-delayed Russian-Ukrainian Friendship and Cooperation Treaty in 1997 was in large part motivated by a desire to counter Ukraine's growing rapprochement with NATO and reflected a recognition by Yeltsin that his delaying tactics were driving Kyiv more strongly into the arms of the West.

The Kosovo conflict led the Ukrainian leadership to temporarily downplay ties to NATO, largely for domestic political reasons. However, relations visibly improved after late 1999. In March 2000, the North Atlantic Council (NAC) held a session in Kyiv—the first held in a nonmember country—and in June 2000, Ukraine hosted Cooperative Partner 2000 within the framework of NATO's enhanced PfP program—the largest exercises ever conducted by NATO forces in a post-Soviet state. In addition, exchanges were initiated between Ukraine's National Defense Academy and the NATO Defense College and the SHAPE school in Oberammergau, Germany.

In May 2002, President Kuchma announced that Ukraine intended to abandon its policy of nonalignment and apply for NATO membership. Here again Kuchma's decision was not undertaken because Ukraine felt any military threat. Rather it was part of a calculated effort to gain bargaining leverage. It was prompted by Putin's decision to support the United States in the war on terrorism and the subse-

⁷ See F. Stephen Larrabee, "Ukraine's Balancing Act," *Survival*, Vol. 38, No.2, Summer 1996, pp. 143-165.

quent improvement in U.S.-Russian relations. These moves raised the prospect that Russia would have a closer relationship with NATO than would Ukraine. In addition, Kuchma appears to have seen the application for NATO membership as a means to halt his growing isolation and repair relations with the West.

However, Kuchma's increasingly repressive internal policies as well as suspicions that Ukraine had sold aircraft tracking systems to Iraq (the Kolchuga affair) led NATO to put relations with Ukraine on hold. The Alliance decided to wait until after the 2004 presidential elections before taking any new initiatives with Ukraine. At the same time, Kuchma's increasing isolation in the West forced him to rely more heavily on Russia and downplay Ukraine's relations with NATO. As a result, Ukraine's relations with NATO largely stagnated after 2002.

The Orange Revolution and Aftermath

The Orange Revolution led to a revitalization and strengthening of Ukraine's relations with NATO. In an attempt to encourage Yushchenko's pro-Western reform course, NATO offered Ukraine Intensified Dialogue status in April 2005—a preparatory step toward an individualized Membership Action Plan (MAP). By the spring of 2006, there were widespread expectations that Ukraine would be offered MAP at the NATO summit in Riga (November 2006), with a possible membership invitation in 2008.

However, the collapse of the Orange coalition in June 2006 and the subsequent creation of an "anti-crisis" coalition headed by Prime Minister Viktor Yanukovich, Yushchenko's defeated rival in the 2004 presidential elections, have changed the nature of the debate about Ukraine's membership prospects. Of the five parties represented in the Rada after the March 2006 parliamentary elections, only Our Ukraine (OU) and the Tymoshenko bloc (BYT) favor NATO membership. Together they control only 210 out of 450 seats—not enough to form a majority. Two other parties, the Communists (CP) and Socialists (SPU) oppose Ukrainian membership while Yanukovich's Party of Regions has strong reservations about Ukrainian membership.

The position of the Party of Regions is driven largely by political expediency rather than ideology. When Yanukovich served as prime minister from 2002-2004, he supported the government's position,

which favored NATO membership. However, when the Party of Regions was in the opposition in 2005-2006, it opposed NATO membership. During the 2004 presidential campaign, Yanukovych campaigned on an anti-NATO platform. This same opportunism has marked the party's attitude toward cooperation with NATO. In opposition, Regions voted against a law permitting foreign troops to conduct joint military exercises on Ukrainian soil under NATO's Partnership for Peace (PfP) program. However, after it rejoined the government in August 2006, Regions voted for the law.⁸

The Changing Domestic Context

Since August 2006, the issue of NATO membership has increasingly become entangled with the internal power struggle between Yushchenko and Yanukovych for control over Ukraine's foreign policy. Under the Ukrainian constitution, amended at the end of 2004, the President has responsibility for foreign and security policy. He nominates the Foreign Minister, the Defense Minister and the Chairman of the Security Service, the Secretary of the National Security and Defense Council and the Prosecutor General. However, these officials must be approved by the Rada, where the Party of Regions controls the most seats (186 out of 450). The remaining cabinet posts are nominated by the prime minister.

However, since assuming the prime ministership in August 2006, Yanukovych has increasingly challenged Yushchenko's authority to define Ukraine's foreign policy. During his trip to Brussels in mid-September 2006, Yanukovych declared that Ukraine was not prepared to embark on a Membership Action Plan (MAP) and called for a pause in Ukraine's quest for NATO membership. In so doing, he not only highlighted his differences with Yushchenko over policy toward NATO but also openly challenged Yushchenko's constitutional role in defining Ukraine's foreign policy.

In addition, Yanukovych has conducted a campaign of trench warfare designed to remove Yushchenko allies in the cabinet who support Ukrainian membership in NATO. In December 2006, he fired Foreign Minister Borys Tarasyuk, a Yushchenko appointee and ardent

⁸ See Taras Kuzio, "Ukrainian Foreign and Security Policy Since the Orange Revolution," *The International Spectator*, 4/2006, p.6.

advocate of Ukraine's membership in NATO, The dismissal resulted in a bitter political tug of war between Yushchenko, who regarded the move as unconstitutional, and Yanukovych that ended with Tarasyuk's resignation at the end of January 2007 and badly damaged Ukraine's international image.

With Tarasyuk's resignation, Defense Minister Anatoliy Gritsenko remains the only Yushchenko ally and pro-NATO minister in the cabinet. However, Gritsenko has come under heavy criticism from Yanukovych, who seems intent on trying to force him out. His departure would be a severe blow to Ukraine's membership prospects. Since taking over the Defense Ministry at the beginning of 2005, Gritsenko has introduced a serious military reform program (see below) which has been widely praised by NATO officials. If he is forced out, the reform program is likely to stagnate, damaging Ukraine's membership prospects.

Given the lack of unity within the Ukrainian government regarding NATO and Yushchenko's weakened powers, the issue of NATO membership is likely to be put on hold for the near future. Cooperation—training, joint exercises, etc.—will continue. However, there is likely to be little movement regarding membership as long as Yanukovych is prime minister.

Public Support for NATO

If Ukraine hopes to join NATO, it will not only need to develop an internal consensus within the Ukrainian leadership but also increase public support for NATO membership. According to surveys by the Razumkov Center in Kyiv, support for Ukrainian membership in NATO declined from 32 percent in 2002 to 17.2 percent in October 2006.⁹ This downturn was observable across all age groups. According to a poll conducted in October 2006, if a referendum on NATO accession had been taken at that time, 54 percent of the population would have voted against accession.¹⁰

The low level of public support is due to the long years of anti-NATO propaganda during the Soviet period as well as the strong anti-

⁹ See Anatoliy Bychenko, "Public Opinion on NATO and Ukraine's Accession to it," *National Security and Defense*, No. 9 (81), 2006, p. 20.

¹⁰ *Ibid*, p.21.

NATO propaganda conducted by Yanukovych during the 2004 presidential campaign. NATO's air campaign against Serbia in the spring of 1999 and the U.S.-led military operation in Iraq have also contributed to a decline in public support for NATO.

Support varies significantly, however, from region to region. Pro-NATO sentiment is strongest in western and central Ukraine and weakest in the Russified southern and eastern regions. In general, however, public awareness of NATO is very low. Polls show that nearly half of the population (47 percent) have little knowledge or understanding of NATO.¹¹ Many of these could be mobilized to support NATO membership if the government conducted an effective campaign to inform the population about the benefits of NATO membership.

The East European experience is instructive in this regard. Public support for NATO membership was initially well below 50 percent in a number of new NATO members such as Slovakia, Slovenia and Bulgaria. Support significantly increased, however, after the political leaderships in these countries undertook concerted efforts to educate their publics about the benefits of membership. While support for NATO in Ukraine is unlikely to reach the heights attained in new members such as Poland or Romania, it could increase considerably if the Ukrainian government waged an aggressive campaign to educate the Ukrainian public about NATO. However, the Yanukovych government appears to have neither the will nor the desire to carry out a serious public education campaign.

Military Reform

Ukraine's ability to carry out a coherent program of military reform will also be an important factor affecting Kyiv's membership prospects over the long run. Under Kuchma, the military was chronically underfunded. Some reductions took place, but the armed forces were plagued by a number of serious weaknesses: draft dodging, low readiness, growing obsolescence of equipment, and low training levels.¹²

¹¹ *Ibid.*, p.25.

¹² For a detailed discussion, see Walter Parchomenko, "Prospects for Genuine Reform in Ukraine's Security Sector," *Armed Forces and Society*, Vol. 28, No.2, Winter 2002, pp. 287-92.

The Iraq deployment gave Ukraine valuable experience in working with Western military forces. But it also demonstrated that Ukrainian forces continue to face serious weaknesses, including outdated equipment, inadequate English language capabilities, a low level of professionalism, and a poor understanding of the rules of engagement. These weaknesses will need to be addressed before Ukraine can be seriously considered for NATO membership.

However, since early 2005, under Defense Minister Anatoliy Gritsenko, a number of important steps have been taken to address these weaknesses and develop a serious military reform plan.¹³ Civilian control of the armed forces has been strengthened. Gritsenko has also brought in a number of talented civilian defense analysts and placed them in positions of responsibility within the Ministry of Defense. Currently, all deputy ministers of defense are civilians. In the future, all Ukrainian ministers of defense are expected to be civilians. In addition, a Defense Policy and Strategic Planning Department, headed by a civilian, has been established in the ministry in order to ensure the implementation of political decisions concerning reform plans.

The size of the armed forces has also been reduced. When Ukraine became independent in 1991, its armed forces totaled nearly 1 million men. By June 2005, that number had been reduced to 260,000. Under the new National Program for Developing the Armed Forces, 2006–2011, personnel levels are expected to fall further to 143,000. The ministry also plans to reduce armaments and equipment by 10–15 percent.

Ukraine is in the process of establishing a Joint Rapid Reaction Force. Mobile and multi-purpose units will form the basis of the force, which is expected to be manned exclusively by “contract personnel” (soldiers who enlist for a relatively short, fixed term) within several years. According to the Defense Ministry’s plans, by 2011, 50 percent of the armed forces’ funds will be allocated to the Joint Rapid Reaction Force.

The new defense reform also calls for improving interoperability with NATO forces; improving the system of military education; increasing the percentage of contract personnel; disposal of surplus ammunition, weapons and gear; development of a unified logistics sys-

¹³ Discussions with senior Ukrainian MoD officials, Kyiv, November 2006.

tem; and improving the social conditions for military personnel and their dependents.

These reforms are a step in the right direction and, if fully implemented, should enhance Ukraine's ability to contribute to NATO's missions. However, a lot depends on adequate financing. Yanukovich sharply reduced the Defense Ministry's budget for 2007. The budget cuts will make it difficult to carry out many of the projected reforms. Moreover, as noted earlier, Gritsenko's position as Defense Minister is shaky. His departure would deal a serious blow to Ukraine's membership aspirations. Without his forceful leadership, the current military reform plans are likely to stall, damaging Ukraine's membership prospects.

The Russian Factor

Russia's attitude will be an important factor affecting Ukraine's membership prospects. Unlike Yeltsin, Putin did not make a major political issue out of NATO enlargement. He appears to have believed that there was little to be gained by loudly protesting something he could not prevent. His low key approach was also influenced by the fact that the second round of NATO enlargement had few serious strategic consequences for Moscow. Even the inclusion of the Baltic states did not pose a serious military threat.

By contrast, Ukrainian membership in NATO would have important strategic implications for Russia. It would deal a fatal blow to any residual Russian hopes of creating a "Slavic Union" between Russia, Ukraine and Belarus and severely diminish Russia's ability to expand its influence in the western CIS. It would also have important consequences for military cooperation between Russia and Ukraine, particularly in air defense and ballistic missile production.

Ukrainian membership in NATO would also have a much greater political-psychological impact in Russia than did the admission of Eastern Europe. The countries of Eastern Europe served as an important strategic buffer between Russia and Europe during the Cold War. However, they were never part of Russian or Soviet territory (except for Poland before 1918). Ukraine, by contrast, was an integral part of Russia and the Soviet Union for over three hundred years. Thus, psychologically, Ukrainian membership in NATO would be much harder for many Russians to digest than was East European membership.

Russia is likely to be particularly concerned about the possible deployment of nuclear weapons and/or Western combat troops on Ukrainian soil if Ukraine joins NATO. This was a major issue during the first round of NATO enlargement and the issue could resurface if Ukraine becomes a serious candidate for NATO membership.¹⁴ To allay—or at least diminish—Russian concerns, the Alliance may find it expedient to make a unilateral statement similar to the one it made during the first round of NATO enlargement, stating that the Alliance has no intention of deploying nuclear weapons or major combat troops on Ukrainian soil as long as there is no significant change in the security environment.

Finally, Ukrainian membership would raise the issue of the Russian Black Sea Fleet. Under the agreement signed in July 1997, Ukraine granted Russia port facilities in Sevastopol until 2017. Putin has suggested that the agreement should be extended.¹⁵ An extension of the accord, however, could complicate—probably kill—Ukraine’s prospects for NATO membership. Many NATO members would be reluctant to support Ukrainian membership if the Russian Fleet is stationed on a semi-permanent basis in Ukraine.

For all these reasons, Russia is likely to regard Ukrainian membership in NATO as a greater threat to its interests than the first two rounds of NATO enlargement. A lot will depend on the overall state of Russia’s relations with NATO and the United States at the time when Ukraine is being considered for membership. If relations with NATO and the West are improving or relatively good, Russia may make less of an issue over Ukrainian membership. But if relations are in a tailspin, Russia is likely to adopt a tougher line regarding Ukrainian entry into NATO. It may also seek some sort of agreement limiting NATO’s further expansion into the former Soviet space.

¹⁴ See Ronald D. Asmus, *Opening NATO’s Door: How the Alliance Remade Itself for a New Era* (New York: Columbia University Press, 2002), pp. 188-200.

¹⁵ “Russia ready for talks to extend Black Sea Fleet’s stay in Crimea,” *RIA Novosti*, October 25, 2006. See also Vladimir Socor, “Putin Offers Ukraine ‘Protection’ for Extending Russian Black Sea Fleet’s Presence,” *Eurasian Daily Monitor*, Volume 3, Issue 200, October 30, 2006.

The Alliance Dimension

Internal support for Ukrainian membership within the Alliance will also be important. At present, a strong consensus in favor of Ukrainian membership does not exist. The strongest proponents of Ukrainian membership are the United States, Poland and Lithuania. Most of the other “new” NATO members also support Ukraine’s entry. But many “old” members of the Alliance, such as France and Britain, are lukewarm or have reservations. Germany, which played a critical role in the first round of NATO enlargement, is also unenthusiastic about Ukrainian membership.

There are several reasons for the lack of strong support for Ukrainian membership. First, some European members of NATO question whether Ukraine really is a “European” country. They continue to see it as a part of the post-Soviet space. Second, concerns exist about Ukraine’s democratic credentials. Many members want to see a greater commitment to political and economic reform on the part of the Ukrainian government before admitting Ukraine. Thus Ukraine will have to work on strengthening its commitment to carrying out a serious program of political and economic reform if it hopes to attain NATO membership.

Third, some European members fear that Ukrainian membership in NATO will increase the pressure on the EU to admit Ukraine (see below). Fourth, many members are concerned about giving Ukraine an Article 5 security guarantee especially at a time when Ukrainian-Russian relations are strained. Finally, many members—especially France and Germany—are concerned about the impact of Ukrainian membership on relations with Russia. They fear Ukrainian membership could lead to a serious deterioration in NATO’s relations with Russia.

The most serious obstacle, however, is the lack of internal consensus within Ukraine and the low level of public support for NATO membership. Until there is a strong national consensus within Ukraine in favor of NATO membership, it will be difficult to build a consensus within NATO for admitting Ukraine. Building this consensus, in turn, will depend on the willingness and ability of the Ukrainian government to conduct an effective campaign to educate the

Ukrainian population about NATO. The Alliance can help, but the heavy lifting has to be done by the Ukrainian government itself.

The EU Factor

As noted, some European members of NATO are worried that admitting Ukraine into NATO could increase the pressure on the EU to admit Ukraine. This was the case in the first and second rounds of NATO enlargement. NATO membership made EU membership easier. But it may be less true in Ukraine's case for two reasons: (1) Ukraine has much further to go to meet the qualifications for EU membership than many of the East European aspirants did at the time of their entry; and (2) the context and mood in Europe regarding further EU enlargement has changed significantly since 2005.

The referenda in France and the Netherlands in May-June 2005 underscored that large parts of the European population have reservations about further enlargement of the EU. Bulgaria and Romania were admitted to the EU in January 2007. However, there is likely to be a prolonged pause before the EU opens its doors again to new members. Thus, even if Ukraine were to be admitted to NATO soon, other objective factors, including Ukraine's need to carry out a coherent reform program, make it unlikely that Ukraine will be able to join the EU in the next decade.¹⁶ Given the current opposition to further enlargement in the EU at present, NATO membership could serve as a means of anchoring Ukraine to the West while providing time for Ukraine to carry out the necessary reforms that would enhance its chances for gaining EU membership over the long run.

In the past, there has been a strong linkage between NATO and EU membership. However, if NATO expands further into the former Soviet space, this linkage may need to be reconsidered.¹⁷ Not all new NATO members may be viable candidates for EU membership. Thus in the future the linkage between NATO and EU membership that has existed to date may begin to erode. Membership in NATO may

¹⁶ For a good discussion of Ukraine's relations with the EU and its membership prospects, see Taras Kuzio, "Is Ukraine Part of Europe's Future," *Washington Quarterly*, Vol. 29, No. 3, Summer 2006, pp. 89-108.

¹⁷ For a detailed discussion of the linkage between NATO and EU enlargement, see F. Stephen Larrabee, "Enlargement and its Discontents," *Politique Etrangère* (forthcoming).

not necessarily mean that a country will be a serious candidate for membership in the EU—at least not in the near future. Weakening this linkage would allow some European countries to support NATO membership for countries like Ukraine whose qualifications for membership in the EU may be poor.

American Policy

Given the critical leadership role that the United States plays within NATO, the US attitude will be an important factor influencing Ukraine's membership prospects. The United States has been one of the strongest supporters of Ukrainian membership in the Alliance. During Yushchenko's visit to Washington in April 2005, President Bush expressed support for Ukraine's NATO membership aspirations. At the same time, he made clear that whether Ukraine was invited to join the Alliance would ultimately depend on Ukraine's performance.

With an eye on President Bush's historical legacy, the United States began pushing for Ukrainian membership in NATO toward the end of 2005. American officials initially hoped that Ukraine could be granted MAP at the NATO summit in Riga in November 2006, with a possible membership initiation at the NATO summit in 2008. This would have allowed President Bush to leave office having pushed through an historic third round of NATO enlargement which included Ukraine.

However, the collapse of the Orange coalition and the current internal divisions within the Ukrainian government over NATO have rendered this timetable unrealistic. It is highly unlikely that Ukraine will be ready to join the Alliance by 2008. However, there is a danger that U.S. interest in Ukraine may diminish. Over the next few years Washington's attention will be primarily focused on issues outside Europe—Iraq, Iran, the Middle East, North Korea, etc. While the United States will continue to support keeping NATO's door open to Ukraine in principle, Ukrainian membership in NATO is not likely to be a major U.S. priority in the near future unless a stronger consensus in favor of membership develops in Ukraine.

Prospects for the Future

More than anything else, Ukraine's membership prospects will depend on internal developments in Ukraine, especially the creation of an internal consensus in favor of NATO membership. Given the current internal divisions within Ukraine, forging such a consensus is likely to take time—at least 4-5 years, perhaps longer, depending on how much effort the Ukrainian government devotes to educating the Ukrainian population about NATO. In the meantime, NATO's door should be kept open to Ukraine, and Kyiv should be encouraged to undertake the necessary reforms to qualify for membership. If and when Ukraine joins the Alliance should depend on Ukraine's performance and ability to meet NATO's qualifications, not outmoded concepts about mythical "red lines" or spheres of influence.

The New Eastern Europe?

Deconstructing a Region

Gerhard Mangott

The New Eastern Europe Does Not Exist—It is What External Actors Make of It

There is a broad consensus that the countries bordering the western frontiers of post-Soviet Russia—the new Eastern Europe (NEE)—are of growing relevance and merit particular attention by EU and NATO nations.¹ Historically the object of fluid and volatile geopolitical shifts, none has ever existed as a state within its current borders, and none enjoys consensus on its respective national identity—as Angela Stent describes in this volume. All are located along major transportation and energy routes linking Europe to Eurasia, making them an arena for clashing geostrategic and geoeconomic interests of powerful external actors.

On what basis is the assumption made that the NEE countries are relevant to the EU and the U.S.? On what basis are statements made about the allegedly indispensable EU/U.S. commitment to this region? What geostrategic and geoeconomic motives are at play? Does the effort to treat these countries as a region distinct and separate from Russia serve such motives? If so, how—and why? Does this region exist at all if we use political, economic and social indicators? If we do, is there anything which makes it significantly different from Russia? If not, is the concept of a ‘new eastern European region’ largely arbitrary and constructed—meaning that this region is not based on common political, economic, cultural or societal features that render it different from both Russia and central Europe but instead is framed as a distinct region because it is strategically useful to external actors?

This chapter will address these questions. The first section will deal with the relevance of identity discourses and their political ramifica-

¹ See Ronald D. Asmus (ed.), *Next Steps in Forging a Euroatlantic Strategy for the Wider Black Sea* (Washington, DC: The German Marshall Fund of the United States, 2006).

tions and implications in NEE countries. The second section will deconstruct the NEE concept by evaluating basic social and political indicators and indices of human development. In the final section I discuss the impact of a deconstructed new Eastern European region for Russia, and Russian perceptions of EU, U.S. and NATO approaches to the region.

The Value of European Identities for the NEE

It is time to contest the common argument that the prospect of EU integration or association is an indispensable prerequisite for east European societies to endorse liberal economic and financial reforms and to accept the harsh social consequences such reforms might entail. The same holds true for the argument that engagement of east European political (and economic) elites by EU institutions necessarily will (re)socialize and ‘Europeanize’ such groups. We ought to be more cautious about claims that close relations with the EU are sufficient to have a profound and sustained transformational effect on the new Eastern European countries. What is more, it is important that the hard and difficult work of building democratic institutions, creating professional and accountable elites, forging competitive and open market economies and the adoption of liberal and democratic norms be valued by the people in the NEE countries in their own right, rather than be perceived narrowly as instruments to unlock membership in European and transatlantic institutions.

These societies certainly need to deliberate the nature of “European” values. But they also need a societal discourse about their own identities, one that takes into account national traditions and core values as well as basic principles they (aim to) share with western European societies. It is first and foremost the people of the NEE themselves who ought to contemplate the rationale of their societies; external actors such as the EU or the U.S. should not be seen—and should not perceive themselves—as the primary sources or references for the identity of the new Eastern European nations. Such a ‘native discourse’ on societal and cultural identities may very well serve to promote the cohesiveness of these societies—an essential precondition for state-building and “stateness.”² Furthermore, it is likely to

² See Juan J. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (Baltimore: The John’s Hopkins University Press 1996).

promote the consolidation of democratic polities and the internalization of liberal values.

Regional identity discourses instigated by regional elites emphasizing their countries' adherence to the cultural and societal space of Europe risk severing ties to traditional cultural and socio-structural spaces. Such an artificial elite discourse in the NEE is hardly consonant with the self-definition of large segments of NEE societies. Such an artificial re-definition of original identities is not only an unnecessary rupture in its own right, but could increase the risk of failed state-building, at least in the case of Ukraine. A regional identity discourse that accepts the NEE as part of the post-Soviet space, with century-old ties that link these states together, may be much less exclusive and divisive for these societies than an EU-centered discourse. It is likely to be much more inclusive and less disruptive as far as the NEE's neighbors are concerned—including Russia.

It would be detrimental to regional stability if a primary motive for identity building among the NEE countries was to disassociate themselves from Russia. Russia should not be the different "other" that defines the NEE countries' own identities.³ In addition, given the fact that EU enlargement is not an open-ended process, a discourse by the people of the NEE on modernization and democratization in the context of their own traditional and unique identities could help to avoid overstretching the European integration process. It is primarily a decision for and the responsibility of NEE political elites whether they pursue an exclusivist identity discourse or accept to take into account the historically shaped identities of their societies. Building cohesiveness and "stateness" by inclusive 'identity-building' is of political importance in Ukraine and in Belarus, less so in Moldova. The EU should encourage the political elites in the NEE to shoulder this very task. It has to be noted, though, that some EU members—such as Poland and the Baltic states—are not inclined to support such a process. Quite to the contrary, creating dividing lines in the region seems to be part of those countries' geostrategic calculations.

³ On the debate of exclusive identity formation in European-Russian interaction see: Iver Neuman, *Russia and Europe. A Study in Identity and International Relations* (London/New York: Routledge 1996); Iver Neuman, *Uses of the Other: 'The East' in European Identity Formation* (Minneapolis: University of Minnesota Press 1999).

Of course, by expanding its own self-awareness as a Eurasian power, Russia is delinking itself from continental Europe. This supports NEE elites' efforts to trigger pro-European identity discourses in the new Eastern European countries (with Belarus being the exemption). It is difficult to imagine a 'discursive bridge' in the western NIS if Russia does not support the effort—either by arrogance, ignorance or weakness. On the other hand, creating and preserving multiple identities in the NEE could help link Russia to a "European cooperation area." If this process were not successful, it would indeed foster the emergence of a new cultural and identity divide between Russia and the countries to its west. Therefore, I consider it of the utmost importance that the EU promote multiple identities in the NEE as well as a gradual convergence of values that can include Russia, at a minimum through pragmatic cooperation in areas of mutual interest.

This process also ought to engage the societies of these countries. Elite dialogues and interaction are certainly not enough. One of the main problems will be the engagement of the Russian public. Seventy-one percent of Russian respondents to a survey by the Levada Center in Moscow⁴ did not consider themselves to be 'Europeans'. Forty-five percent even saw Europe as a 'potential threat'. These sentiments are underlined by a growing alienation of Russians from core democratic values.⁵

One can argue that the EU and the NEE are linked by common interests and challenges. Key problems of the NEE—infectious diseases, organized crime, drug and human trafficking, pollution and illegal migration—could or already do directly spill over into the EU. These issues could be addressed in cooperative, sober and pragmatic ways. Common institutions may be required to address shared risks and challenges, but this need not require full accession of the NEE to the EU—not even in the long term. Moreover, Russia and the central Asian states must be included in any web of institutions created to address common threats.

The idea of fostering an inclusive post-Soviet identity that by itself is not decoupled from the EU cultural and economic space is much more intrinsic to the societies of the NEE than western oriented elites in the

⁴ www.levada.ru.

⁵ Data from: <http://www.eu-russiacentre.org> (accessed March 2, 2007).

NEE are willing to accept. A plurality of Ukrainians considers relations with Russia to be a priority (42.2 percent), whereas relations with the EU and the U.S. are accorded priority by only 25.4 and 1.5 percent respectively. Astonishingly, 20.4 percent of Ukrainians want the Soviet Union to be restored, and an additional 28.3 percent would like this to happen but consider it impossible. At the same time, 51.3 percent of Ukrainian society is opposed to a return to Soviet times. Public opinion *vis-à-vis* one of the most contested issues of Ukraine's post-Soviet independence—making Russian a second state language—is mixed. Fifty-seven percent support the idea of making Russian the official language in some regions of Ukraine, whereas 35 percent are opposed.⁶

Deconstructing a Region

This section seeks to deconstruct the concept of the new Eastern Europe by examining social indicators and indices of human development throughout Central and Eastern Europe as well as Russia. Many of these indicators demonstrate that the NEE countries have much more in common with Russia than with the central European countries. It is certainly not surprising that the NEE human development indices are to a very large extent similar to those of Russia, since all of them—like Russia—were part of the Soviet Union for many decades. As Belarus and Ukraine had been part of the Czarist Russian Empire as well, we can assume long-lasting historical impacts on the social structures, value and belief systems as well as cultural features in the NEE, all of which tie them together with Russia. At the same time, we can definitely state that the NEE countries are significantly different from human development levels prevalent in central Europe; many indicators draw a divide between central Europe and the post-Soviet space, whereas almost none indicate any separation between the NEE and Russia.

Let us first look at population development in the region. Ukraine's population is still in decline, reflecting a general pattern in the Slavic republics of the former USSR. By January 1, 2007, Ukraine's population had dropped to 46.6 million. According to the UNDP *Human Development Report 2006*, Ukraine's population will drop to 41.8 mil-

⁶ The poll was done by the Razumkov Center on Economic and Political Research. Data provided by RIA Novosti, February 27th, 2006.

lion by 2015. The decline is partially due to low birth rates, but more importantly due to very high death rates. This trend is most likely to continue as least for the next two decades. This will be among the most important reasons for a lack of qualified labor in a few years and will strain the growth of Ukrainian GDP. Belarusian population decline will also be pronounced, although less severe than in Ukraine. The population of Belarus is projected to decline from 9.8 million inhabitants in 2004 to 9.2 million by 2015.⁷ Projected population decline is lowest in Moldova, from 4.2 million in 2004 to 4.1 million in 2015.⁸ Declining population patterns are also evident in Central Europe as well, with the minor exception of Slovakia, where the population is projected to remain stable.⁹ In short, population decline is a phenomenon common to central Europe and the post-Soviet region and thus does not provide any basis for a distinct NEE identity.

Fertility rates are lowest in Ukraine, with just 1.1 births per woman between 2000–2005. The total fertility rate in Belarus and Moldova is 1.2. Russian total fertility in the same period was 1.3. Fertility rates in Central Europe are at the same level or slightly higher.¹⁰ The crude birth rate—defined as number of births occurring during the year per 1,000 mid-year population—by and large confirms this picture. In the period 2000–2005 Russia is on the upper end of the scale, Ukraine at the lower end, and Central Europe is in between. Belarus is at the average rate of the Central European countries.¹¹

Adult mortality—the number of 15 year olds per 1,000 who do not survive until age 60—is very similar in Belarus and Ukraine. In Belarus it is 377 for males and 136 for females respectively; in Ukraine the figure are 386 and 144. In comparison, the Russian data are much higher for males with 485/1,000, somewhat lower for women with 180/1,000. Data for Moldova are not available. Adult mortality rates in the Central European countries are substantially lower; the rates in Ukraine and Belarus are more the double the size than in the Czech

⁷ UNDP, *Human Development Report 2006*, online version (<http://hdr.undp.org/hdr2006/>), p. 298.

⁸ *Ibid*, p. 299. The UNDP prognosis may, however, very much underestimate Moldovan emigration—particularly due to the current Romanian policy to grant Romanian citizenship to Moldovans.

⁹ *Ibid*, pp. 298–299.

¹⁰ *Ibid*, pp. 298–299.

¹¹ <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007)

Table 1. Crude Birth Rates in Central European and New Eastern European Countries, 1950–2020

Nation	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020
Rus.	26.5	25.1	21.0	14.9	15.3	15.9	16.6	16.0	10.6	8.9	10.1	11.2	11.0	10.3
Belar.	22.9	24.3	21.3	16.8	16.0	15.8	16.7	15.9	11.8	9.1	9.2	9.5	9.6	9.2
Ukr.	25.4	23.3	18.6	15.4	15.7	15.0	15.2	14.4	11.2	8.6	8.2	8.7	8.8	8.5
Pol.	30.1	27.2	19.6	16.6	17.8	19.4	19.2	16.0	13.2	10.6	9.5	9.7	9.6	9.3
Czech	19.4	15.8	14.6	14.3	17.3	17.5	13.8	12.9	11.5	8.8	8.9	8.9	8.7	8.4
Slova.	27.4	24.3	20.5	18.0	19.7	20.6	18.2	16.3	13.7	10.8	9.5	9.4	9.2	8.9
Hung.	21.1	17.8	13.4	14.4	15.7	16.3	12.6	12.0	11.7	9.9	9.5	9.2	8.8	8.7
Bul.	21.1	18.7	16.6	15.9	16.2	15.8	13.9	13.0	10.2	8.2	8.7	8.5	8.2	7.9
Rom.	24.9	22.9	16.3	21.9	19.4	19.1	15.8	16.1	11.4	10.2	9.9	9.6	9.3	8.8

Source: <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

Republic, which has the lowest adult mortality rates in Central and Eastern Europe.¹² This indicator thus separates the NEE considerably from the Central European countries and moves them closer to Russia.

The death rate is highest in Ukraine, with 14.39 deaths per 1,000 in 2006; Belarus comes close with 14.02/1,000; Moldova is somewhat behind with 12.64 deaths per 1,000. In comparison, the Russian death rate in 2006 was 14.65 deaths/1,000. Death rates in most Central European countries are lower, significantly so in Poland, Slovakia and in the Czech Republic. Hungarian rates are close to those in the NEE; Bulgaria has about the same level.¹³

Looking at death rate projections by the UN, using the variable of crude death rate, i.e., the number of deaths occurring during the year per 1,000 mid-year population, we can see clearly that the death rate pattern is very different in the western CIS (Russia and the NEE) than in the Central European region, starting no later than in 1990. Crude death rates will remain significantly higher in the NEE countries than in the central European region (except for Bulgaria, which will approach the level of Belarus). Ukraine will continue to have the highest death rates among the NEE countries.¹⁴

¹² Data provided by the World Health Organization (WHO) on: <http://www.who.int/countries/en/> (accessed February 23, 2007).

¹³ <https://www.cia.gov/cia/publications/factbook/index.html> (accessed February 23, 2007).

¹⁴ <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

Table 2. Crude Death Rates in Central European and New Eastern European Countries, 1950–2020

Nation	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020
Russia	9.5	8.7	8.8	8.2	9.1	10.3	11.1	10.9	13.3	14.2	15.3	16.0	16.2	16.0
Ukraine	10.5	8.9	8.3	8.2	9.7	10.8	11.6	11.6	14.9	15.4	16.3	16.9	17.1	17.0
Belarus	11.4	10.2	6.0	7.1	7.9	9.1	10.0	10.1	12.4	13.7	14.5	15.0	15.1	15.1
Poland	10.9	8.8	7.6	7.8	8.4	9.2	9.7	10.1	10.3	9.9	9.7	10.1	10.5	11.0
Czech.	11.8	10.6	10.9	11.9	13.4	13.2	13.5	12.9	11.7	11.0	10.8	11.1	11.6	12.1
Slovakia	10.7	8.7	8.0	8.5	10.6	10.4	11.0	10.5	10.0	9.8	9.7	9.8	10.2	10.6
Hungary	11.4	10.3	10.1	10.9	11.8	12.8	13.7	13.8	14.3	13.8	13.0	12.9	13.1	13.3
Bulgaria	10.2	8.9	8.2	8.8	9.7	10.6	11.3	12.0	12.8	14.3	14.3	14.5	14.8	14.9
Romania	12.0	9.7	8.6	9.2	9.4	9.7	10.3	10.8	11.4	12.1	12.2	12.6	13.0	13.2

Source: <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

An analysis of life expectancy rates gives us the same picture. Belarus and Ukraine (no Moldova data available) are much closer to Russia than to the Central European countries. All the NEE countries started to fall behind their western neighbors at the beginning of the 1990s. This trend can be extrapolated until 2020.¹⁵

I do not intend to address economic indicators in this chapter, as Havlik and Astrov have dealt with these issues extensively in this volume; it can be stated, though, that their analysis basically supports my hypothesis. Let me stress, however, that an analysis of GDP per capita at PPP (with constant 1995 international dollars; data provided by the UN) shows that the NEE countries are lagging far behind those in Central Europe. Even the poorest new EU members—Bulgaria and Romania—are richer than the NEE countries.¹⁶

The Human Development Index, used here as an indicator to deconstruct the NEE ‘region,’ is highest in Belarus with 0.794. Ukraine is second with 0.774, and Moldova trails with just 0.694. In comparison, Russia’s HDI is 0.797. The new Eastern Europe HDIs are close to those of Bulgaria, but well below those of central European countries such as Poland, the Czech Republic, Slovakia and Hungary.¹⁷

¹⁵ <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

¹⁶ <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

¹⁷ UNDP, *Human Development Report 2006*, online version (<http://hdr.undp.org/hdr2006/>), p. 284–285.

Table 3. Life Expectancy Rates in Central European and New Eastern European Countries, 1950–2020

Nation	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020
Russia	64.5	66.8	67.9	70.1	69.7	69.0	68.6	70.2	66.8	66.0	65.4	65.0	65.6	66.9
Ukraine	65.9	69.3	71.1	71.3	70.1	69.4	69.1	70.1	67.1	66.7	66.1	66.5	67.7	68.9
Belarus	65.9	67.9	69.5	70.4	71.5	71.1	70.7	71.3	69.5	68.1	68.1	68.7	69.5	70.4
Poland	61.3	65.8	68.3	69.9	70.5	70.9	70.9	70.9	71.5	72.7	74.3	75.1	76.0	76.8
Czech.	67.4	70.1	70.4	70.0	70.1	70.6	70.7	71.4	72.5	74.3	75.5	76.3	77.0	77.7
Slovakia	64.3	68.5	70.7	70.6	70.0	70.4	70.6	71.0	72.1	72.9	74.0	75.0	75.8	76.6
Hungary	63.6	66.9	68.6	69.2	69.3	69.4	69.1	69.5	69.5	70.9	72.6	73.8	74.8	75.7
Bulgaria	64.1	67.1	70.2	70.9	71.0	71.0	71.2	71.3	71.0	71.1	72.1	73.0	73.8	74.6
Romania	61.1	64.1	66.8	66.8	69.2	69.5	69.7	69.5	69.4	69.7	71.3	72.1	73.0	73.8

Source: <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

Average life expectancy in 2004 was highest in Belarus with 68.2 years at birth; Moldova's rates are almost the same; average life expectancy is 68.1 years. With 66.1 years average life expectancy, the Ukrainian rate is somewhat lower. In all three eastern European countries, however, this indicator is higher than in Russia (65.2 years).¹⁸ All three of them, however, are well behind the Central European countries, who have substantially higher average life expectancy rates at birth. In the most advanced Central European country—the Czech Republic—it is higher by as many as 7.5 years.

The probability at birth of not surviving to age 60 is lowest in Moldova with 25.5 percent; Belarus is second with 26.7 percent; Ukraine is a distant third with 31.0 percent; Russia's probability score is almost that of Ukraine with 31.6 percent.¹⁹

In sum, we can say that the NEE countries are very different from the Central European countries in many spheres of human development, albeit less so when compared to Romania and Bulgaria. On the other hand, we can see that the NEE countries share many features with Russia. In short, the NEE countries are distinct from central Europe but very similar to Russia. We should bear this in mind when

¹⁸ UNDP, *Human Development Report 2006*, online version (<http://hdr.undp.org/hdr2006/>), p. 284–285.

¹⁹ *Ibid.*, p. 296.

Table 4. GDP Per Capita at PPP in Central European and New Eastern European Countries, 1990–2002 (in constant 1995 international dollars)

Countries	1990	1995	2000	2002
Russia	9,457	5,933	6,644	7,289
Ukraine	7,855	3,950	3,769	4,315
Belarus	4,884	3,189	4,405	4,887
Poland	6,781	7,159	9,114	9,350
Czech.	n.a.	11,720	12,840	13,977
Slovakia	10,171	8,621	10,505	11,369
Hungary	10,245	9,176	11,301	11,865
Bulgaria	6,746	5,836	5,714	6,318
Romania	6,035	5,608	5,243	5,806

Source: <http://unstats.un.org/pop/dVariables/DRetrieval.aspx> (accessed February 27, 2007).

we treat these countries as a different and distinct region—in fact, they are not. Obviously, we cannot exclude the possibility that the NEE will take a very different path of development than Russia. In a mid-term perspective the NEE may well drift closer towards central Europe, leaving Russia behind. As of today, however, the NEE are in the same boat with Russia and not with the central European countries, at least with regard to the above-mentioned indicators. In addition, path dependency theory could support the assumption that this state of affairs could remain for a long time to come.²⁰

If this NEE region is not distinct from Russia in the economic or social sphere, are the NEE countries distinct from Russia in terms of their politics, their constitutions, their party systems, their civil societies?

First of all, there are very great differences between the NEE countries themselves. Whereas the NEE countries are close to Russia in the human development sector, these countries are so diverse politically that they do not comprise a single political region. There are indeed some features that all share due to their common Soviet heritage—clannish structures, corruption, weakness of legal norms and formal institutions, lack of bargaining and consensual leadership and

²⁰ See for instance James Mahoney, “Path Dependence in Historical Sociology,” in *Theory and Society* 29:4 (2000), pp. 507–548; Paul Pierson, “Increasing Returns, Path Dependence, and the Study of Politics,” in *American Political Review* 94 (2000), pp. 251–67.

Table 5. Human Development Indicators in Central Europe and New Eastern Europe, 2006

	HDI	Average Life Expectancy at Birth	Fertility 200–05	Death Rate	Adult Mortality Male/Female
Belarus	.794	68.2	1.2	14.02	377/136
Ukraine	.774	66.1	1.1	14.39	386/144
Moldova	.694	68.1	1.2	12.64	n.a.
Russia	.797	65.2	1.3	14.65	485/180
Poland	.862	74.6	1.3	9.89	198/79
Czechia	.885	75.7	1.2	10.59	161/69
Slovakia	.856	74.3	1.2	9.45	203/76
Hungary	.869	73.0	1.3	13.11	249/108
Romania	.805	71.5	1.3	11.77	232/100
Bulgaria	.816	72.4	1.2	14.27	217/92

decision-making cultures. Despite this common heritage, all three countries have embarked on distinctly different paths.

Among the polities of the new Eastern Europe, Ukraine is the most democratic. The Ukrainian people have obtained civil freedoms thus far denied to their Belarusian neighbors. Yet democratization is still at an early stage; neither the constitutional framework nor political society have been consolidated. Politics are utterly personalized. Institutions and formalized decision-making are still quite weak. Rules are often either undefined or ignored, not yet defined or not abided by. Political life is not being played according to the rules. In fact, political actors are still playing with the rules. Ukraine still lacks constitutional liberalism, which is the very basis of consolidated liberal democracy.²¹

Ukraine still suffers from a grave lack of mature and professional elites; this makes co-operation with transatlantic institutions extremely difficult. This is valid for both the executive and the parliament. President Yushchenko does indeed have a sense of political vision, but it remains largely undefined. He lacks strategy, tactical abilities and decisiveness. He is cautious, insecure and vacillating. At the other end of the bipolar executive, the government seems less com-

²¹J.C. Sharman and Roger E. Kanet, "The challenge of democratic consolidation in post-communist Europe," in *International Politics*, Vol. 35, 1998, pp. 333–351. Andreas Schedler, "How Should We Study Democratic Consolidation?" in *Democratization* Vol. 4, 1998, p. 1-19.

mitted to a modernization programme for Ukraine and continues to focus on the business interests of those financial-industrial holdings linked with their executive patrons. In many cases these business tycoons are even part of Ukraine's executive and legislative institutions. The standards for parliamentarians are even lower: blockades of the rostrum, fist fights and aggressive shouting are common features of the Ukrainian parliament. The situation is aptly portrayed in this description of a row between lawmakers of the ruling coalition and the opposition: "pro-government deputies blocked the parliamentary rostrum and held control over the electronic voting system, while opposition deputies were in control of the electric system and some other parliamentary facilities, including toilets. The opposition switched off electricity in the parliament building during the afternoon session."²²

It could be argued that personal characteristics of politicians do not matter that much in a rule-based liberal democracy. This might be a valid argument if Ukraine were a liberal democracy. But as most post-Soviet countries the issue is not so much how institutions are shaping the political process, binding politicians' actions or framing political activity. The major challenge is much more how individuals and their networks are either using or disregarding institutions to advance their own personal goals and interests.

Belarus certainly constitutes what Linz has called a "sultanistic regime."²³ Riding on strong anti-establishment sentiment and on mostly accurate allegations of corruption and graft against the ruling class, Lukashenko was elected president in free and fair elections—though those turned out to have been the last that were free and fair. Lukashenko's regime is not based on a political party or on a distinct ideology, nor does Lukashenko particularly seek to mobilize society in organized and state-controlled social groups. Thus, it is not possible to consider Belarus as a totalitarian state. It is not. It is a specific variant of authoritarianism—sultanism. The ruler personally grants privileges and perks, it is he who decides about influence, careers and personal wealth. He elevates those he favors into positions of power and

²² RFE/RL Newline, Vol. 11, No. 35, February 23, 2007.

²³ Juan J. Linz, "Totalitarian and Authoritarian Regimes," in: Fred I. Greenstein and Nelson W. Polsby (ed.), *Handbook of Political Science*, Vol. III (Reading, Massachusetts: Addison-Wesley 1975), pp. 182–183.

dismisses those he considers either as potential challengers or too successful in dealing with the tasks to which they are assigned. Belarus, therefore, is not at all an institutionalized polity. In fact, it is highly personalized, partially corporate in design, backward in leadership style, and heavily bureaucratized. The regime is still somewhat popular, particularly among rural inhabitants, even if we have to take into account that information is under absolute control of the ruling leader and his cronies.

Furthermore, this limited amount of societal support is based on economic and social benefits distributed on the basis of direct and indirect subsidies from Russia. Due to the lack of economic reform, the Lukashenko regime has really survived thus far only due to massive direct and indirect Russian subsidies. Moscow has continued its financial support because of the assumed relevance of Belarus for Russia's strategic military policies. As Russia's recent actions indicate, however, such interests no longer seem sufficient to sacrifice for economic interests. Russian subsidies can evaporate quickly—as evidenced by the gas and oil disputes and the public wrangling over export and import tariffs between Russia and Belarus at the start of 2007. Deteriorating trade relations with Russia have put the Belarusian economy in dire straits. Belarus registered a record trade deficit of \$2.5 billion in 2006,²⁴ which forced the government to ask Russia for a stabilization loan of \$1 billion.²⁵ Belarus is likely to ask China for further financial assistance.²⁶ In addition, the government is about to initiate a moderate privatization program, which is supposed to bring in foreign direct investment.

However, there are still large segments of the population—although no longer a majority—who consider Lukashenko to be an effective leader and patron. Civil and political society in Belarus is extremely weak. To a *very* large extent this is due not only to state harassment of independent societal activity, but to a regime inclined to use brute force and even death squads to silence the opposition. If this were not enough, the opposition has failed to overcome its fragmentation and its personal and ideological strains, and thus poses a weak challenge to the current sultanistic regime.

²⁴RIA Novosti, February 22th, 2007.

²⁵ITAR Tass, February 25th, 2007.

²⁶RFE/RL Newline Vo.11, No. 43, March 7, 2007 (electronic version).

All three NEE countries are ruled by post-communist elites, but in significantly different ways. Ukraine is democratizing and enjoys a vibrant civil society and the most independent media in the entire post-Soviet region, but suffers from weak institutions and largely irresponsible elites who continue to bend the constitutional rules of the game. Ukraine is unique in the post-Soviet region, but in terms of democratic consolidation and rule-based politics it is still far behind any of the governments in central Europe. Alexander Lukashenko's sultanistic regime in Belarus shares more similarities with central Asian regimes such as Uzbekistan and Turkmenistan than it does with its neighbors. Moldova is ruled by a party that still calls itself communist, that has shown itself to be an inept administrator of poverty and backwardness, and that allied itself with western countries and institutions only after having been mistreated by the Russians.

In sum, very different political regimes exist within the NEE. There is little cohesiveness in terms of politics and polities. The region is very distinct politically from central Europe, however, and a variety of political features in the NEE countries appear closer to those in Russia than in "mainstream" Europe.

In conclusion we can argue that the new Eastern Europe can neither be construed on the basis of social and economic indicators nor on the basis of political or socio-cultural variables. As there are no significant objective reasons for defining Belarus, Ukraine and Moldova as a distinct region—different both from central Europe *and* Russia—the whole concept of the NEE is based on subjective interpretations or constructed reality. The question to be raised, then, is whether the use of the concept of the NEE in Western political discourse is the result of ignorance or a lack of knowledge of these three countries or whether it is deliberately designed to establish dividing lines in the post-Soviet space? Is Russia, on the other hand, overemphasizing commonalities with the countries on its western borders? These pertinent questions cannot be fully addressed in this paper. The next sections therefore will focus on Russia's view of the NEE and how it perceives U.S., EU and NATO efforts to penetrate the region, making use of political, economic and cultural levers (various other chapters in this volume address western approaches to the NEE).

The NEE is What Geopolitical Considerations Make of It

What then, makes the NEE a region? If we were to delve into history, language, and cultural heritage, we'd find many arguments for and against a regional identity. Politically, socially and—as Havlik and Astrov have pointed out—economically, however, these countries share few common features. These countries comprise a region not in and of themselves, but as a function of the geopolitical engagement of other nations in their far and near abroad: Russia, the U.S. and the EU. The new Eastern Europe has no distinct structures; it does not exist per se. The new Eastern Europe is what outside players make of it in pursuing strategic and geopolitical interests.

Let us, then deal with the NEE as a region from a strategic political view. The basic question is whether outside players will develop a cooperative and inclusive approach or a competitive geopolitical struggle for influence in the NEE countries. Will we see a zero-sum-approach unfold, with the EU and the U.S. pitted against Russia as each side seeks to stake its claim in this in-between-region?

Is the NEE a battleground where EU, U.S. and Russian interests clash? Some seem to believe so. Bruce Jackson, for instance, argues that “What is underway in and around the former Soviet Union is a struggle between the soft power of Russia and the soft power of the Western democracies... for the political orientation of the countries in Europe’s East, for economic influence in these regions and for the extension of their respective alliance systems and multilateral institutions.”²⁷ Russophobes tend to see this as an epic struggle between the forces of democratic good and Russian autocratic evil.²⁸ Jackson goes as far as to demand a program of “geopolitical revisionism.”²⁹

It would be detrimental to continental security, however, if the NEE countries were either to become the new eastern frontiers of Euroatlantic institutions or the western border of a renewed Russian hegemonial area. The NEE countries should seek neither of these options, as they would either develop artificial western identities or

²⁷ Bruce Jackson, “The Soft War for Europe’s East,” in Ronald D. Asmus, *Next Steps in Forging a Euroatlantic Strategy for the Wider Black Sea* (Washington, DC: The German Marshall Fund of the United States 2006), pp. 101–112, here: p. 102.

²⁸ *Ibid.*, pp. 103–104.

²⁹ *Ibid.*, p. 105.

marginalize their post-Soviet identity. Multiple identities, endorsed by broad majorities of these societies, are more the norm in this region than an exclusive eastern or western orientation. This mix of identity can be an opportunity for building bridges rather than barriers.

What has emerged over the past few years, however, is indeed a highly conflictual and competitive integration effort in this region by Russia and the EU. Russia views the EU's initiatives within the European neighborhood policy as undermining Russian efforts to build an economic integration scheme, starting with a Customs Union involving Russia, Belarus and Ukraine as well as Kazakhstan that might eventually lead to a Common Market. The U.S.—both within NATO and on a bilateral basis—does encroach on interests Russia considers vital, particularly by its effort to bring Ukraine into NATO. The EU as a whole does not pursue an agenda designed to hurt Russian interests at its core, but aims to include Russia in its effort to build a ring of 'friends' along its eastern borders. Nonetheless, individual EU members, particularly Poland, Lithuania and Latvia, push for an approach that would identify the NEE as distinct from Russia that therefore to be pulled from Russia's orbit. These policies are fostered by both valid security concerns of these central European countries as well as what seem to be utterly Russophobic sentiments.

The next two sections aim to outline *Russian* perspectives on the comprehensive engagement schemes of the U.S. (with the U.S. sometimes acting within NATO, on various occasions however leaving it aside), NATO and the EU in the western part of the post-Soviet region. To a very large extent, these sections do not seek to address EU, NATO or U.S. perspectives on the region, their respective initiatives and engagement, their main motives and interests. These aspects are dealt with in other chapters of this volume. Instead these sections seek to outline how Russia *interprets* Western activities in the region as geopolitical and geoeconomic efforts to undermine and wreck Russia's own aspirations to rebuild its hegemony over the NEE. Whether or not this is actually intended, Russia objects to what it considers a deliberate effort to create new dividing lines and exclude Russia. Russia considers Ukraine and Belarus, less so Moldova, as countries naturally belonging to the post-Soviet space and regards western efforts to identify the NEE as something distinct and different from Russia as threatening. Conceptualizing the NEE as something essentially differ-

ent from Russia is understood as a deliberate effort to push Russia further to the east.

Russian Perspectives on U.S. Objectives in the NEE

This section seeks to outline *Russian* perceptions of the role of the U.S. and/or NATO in the post-Soviet arena to the west of Russia. It does not aim to balance Russian perceptions by explaining U.S. or NATO motives and approaches in the region. This is basically provided for in other chapters of this volume.

U.S. and EU options regarding Ukraine's western orientation are very different. U.S. support for Ukraine's accession to NATO—albeit tempered after Yanukovych became Prime Minister—risks alienating Russia even further. U.S.-Russian relations have soured over the past few years. Immediately after 9/11 relations improved strongly, with both countries committed to cooperation in the field of counter-terrorism, intelligence sharing, and common action against WMD proliferation. In the interim, however, Russia has changed its commitments due to several U.S. actions perceived to be harmful to Russia's national interests. The most important, according to the Russian perspective, have been the U.S. reluctance regarding detailed arms control treaties with extensive verification schemes; the U.S. missile shield program, particularly its decision to base anti-missile radars in the Czech Republic and interceptor missiles in Poland; U.S. and NATO refusal to ratify the CFE (Conventional Forces in Europe) Treaty;³⁰ the increased presence of U.S. military forces in Georgia and, allegedly, also in Azerbaijan; U.S. basing agreements with Bulgaria and Romania; U.S. meddling in Russia's energy plans in the Caspian Basin and in Central Asia; the prolonged stalling of the U.S. against Russian WTO accession, failure to rescind the Jackson-Vanik Amendment, and threat of sanctions against Russian companies doing business with Iran. The February 27, 2007 announcement by U.S. Assistant Secretary of Defense John Rood that Ukraine was considered a partner in the deployment of U.S. missile defense components³¹ contributed to further U.S.-Russian dissonance in the region.

³⁰ It is troubling to see NATO demanding Russia's withdrawal from Transnistria as a precondition for NATO ratification of the revised CFE, while at the same time Romania refuses to sign a border treaty with Moldova and undermines its statehood by offering citizenship to large numbers of Moldovans. Moldova thus seems to be torn apart by Russia and the West.

³¹ Simon Saradzhyan, "A Dangerous Game in Russia's Backyard," ISN Security Watch, March 7, 2007 (electronic version).

Given the strained nature of U.S.-Russian relations, enlargement of NATO to former Soviet soil is considered by Russia as encroaching on its vital security interests.³² If the U.S. were to foster Ukraine's accession to NATO, Russia would perceive this as further proof of hostile U.S. intentions towards Russia. Ukraine's NATO accession would have negative consequences for the Russian presence in Ukraine. The most damaging effects would be on the Russian Black Sea Fleet's basing in the Crimea (Sevastopol), military-technological cooperation between Russia and Ukraine in missile production (Jushmash) and the production of large transport aircraft at the Antonov production site. Russia's military is also afraid of the Ukrainian military sharing military secrets with NATO allies. At the same time, Ukraine's membership in NATO is extremely unpopular with the Ukrainian public. In February 2006 only 16 percent of Ukraine's population supported membership in NATO; 61.4 percent were opposed.³³

Furthermore, NATO at its core is still about collective defense; Article 5 of the Washington Treaty is at the very heart of the alliance. From a Russian perspective, this raises a legitimate question: what security threats does Ukraine face that requires it to ask for NATO's defensive umbrella? Even if one were to accept the notion that the North Atlantic Alliance has transformed into a multifunctional security agency with a global agenda, it still is a pertinent question whether Ukraine could be a serious contributor to NATO by enhancing the Alliance's capabilities to perform these new functions. If on the one hand Ukraine does not contribute to the overall security of NATO allies, and on the other hand cannot describe plausible threats to Ukrainian security, the whole question of Ukrainian accession to NATO boils down to a geopolitical realignment and an ideological blunder.

Russian concerns about NATO and/or U.S. military engagement in the NEE are justified, given recent announcements about U.S. negotiations with the Polish and Czech governments about installing components of U.S. ballistic missile defense (BMD). Why should Russia not be worried that this BMD network will some day include

³²Jakob Hedenskog, "Filling 'the gap'. Russian security policy towards Belarus, Ukraine and Moldova under Putin," in Jakob Hedenskog, et. al. (eds.), *Russia as a Great Power. Dimensions of Security under Putin* (London/New York, 2005), pp. 130–155.

³³The poll was done by the Razumkov Center on Economic and Political Research. Data provided by RIA Novosti, February 27, 2006.

Ukraine? Russian concerns about a long term threat to its second strike capabilities are not unfounded.³⁴ Russian concerns are based on the "... assumption that there is a strong probability that the planned missile system will expand and become so sophisticated that it will eventually undermine the Russian strategic nuclear triad's capabilities and tilt the balance"³⁵ between the U.S. and Russia. Russia is about to revise both its Military Doctrine and its National Security Concept in light of the recent worsening of relations between the U.S. and Russia.

In the wider area of the Black Sea and the Caspian the U.S. seeks to link the gas and oil fields of the Caspian Basin and Central Asia with maritime outlets on the Mediterranean, using the southern Caucasian countries as a transit zone and Turkey as a key energy hub. The countries to be excluded by definition from this objective are both Russia and Iran. U.S. engagement is both about diversification of energy export routes and about weakening the hegemony of Russia in the field of gas and oil transport to European markets. While this might make sense from a U.S. geopolitical perspective, it further strengthens Russian distrust of U.S. objectives in the NEE and the southern Caucasus.

In sum, according to Russian perspectives, U.S. engagement policies with Ukraine, the intensified dialogue between NATO and Ukraine and the U.S. interest in Ukrainian accession to NATO will further strain already chilly relations between the U.S., NATO and Russia. A sober and pragmatic analysis should seriously evaluate the cost-benefit ratio for the U.S. in promoting its current attitude towards Ukraine.

Russian Perspectives on EU Objectives in the NEE

The EU's neighborhood policy, designed for Northern Africa and the Levante, as well as for the post-Soviet countries in eastern Europe and the southern Caucasus, is of lesser immediate concern to the Russian elite than are U.S. efforts. Russia itself seeks a partnership with the EU, and has successfully demanded its own distinct relationship, rather than be included in this general policy approach of the "New Neighborhood." The EU and Ukraine are now in the process

³⁴ See: Gerhard Mangott, "Nuklearer Frost. Russland und die USA am Rande nuklearen Wettrüstens," in *Russland-Analysen* 129, (9.3.) 2007, S. 2–5.

³⁵ Saradzhyan, fn 25.

of negotiating a new Partnership and Cooperation Agreement, which may include the prospect of a free trade zone between the two sides. Both Moldova and Ukraine have already signed individual Action Plans with the EU and are in the process of implementing them. Both are aiming for an Association and Stabilization Agreement with the EU, similar to those signed between the EU and most countries in the western Balkans. Due to its authoritarian domestic politics Belarus has failed to develop any real relationship with the EU.

So far, EU engagement in the region has not overly strained Russia's relations with the EU. First of all, the consequences for Russia's security interests of deeper EU engagement in the NEE are seen in Moscow as serious, but not threatening. Russia is reluctant, to say the least, to let the EU take over the role of conflict mediation and resolution in Moldova's Transnistria or in the secession conflicts in Abkhazia and South Ossetia. The EU is perceived by many in the Russian elite, particularly in the military, as being overtly partial and biased. In addition, Russia still views the post-Soviet region first and foremost as Russia's security arena and glacis, where it is to defend its vital interests and shape the security alliances of all the other countries in the region.

Russia considers the economic impact of the accession by its immediate western neighbors to an extended European Economic Space to be much more important than the security dimension. Russia has stated more than once that it does not intend to accede to the EU. All that it is aiming for is the creation of an EU-Russian free trade zone over the medium term. Russia, though, sees itself as an economic center of gravity in the post-Soviet region. It therefore has launched several initiatives of economic cooperation and even integration in the past several years. An early approach was the creation in 2000 of the Eurasian Economic Community, comprised of Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. A far more ambitious initiative, however, was Moscow's February 2003 effort to establish the Single Economic area (*Edinoe ekonomicheskoe prostranstvo, EEP*) comprising Russia, Ukraine, Kazakhstan and Belarus. The Orange Revolution and the subsequent withdrawal of Ukraine from this integration scheme dealt a serious blow to Russian economic interests in the eastern European region. Ukraine declared that it was no longer interested in joining a Common Market, and preferred the creation of a free trade area

with Russia.³⁶ The Ukrainian defection has led to speculation that the Russian leadership is no longer interested in the creation of the EEP.

Given these disappointments, Russia has watched Ukraine's economic rapprochement with the European Union with considerable hostility. It deprives Russia of economic primacy in the eastern European region. Soft economic penetration of the post-Soviet region is one of the most important goals of Russia's own neighborhood policy.³⁷ Rapprochement with the European Union allows both Ukraine and Moldova (less so Belarus, for obvious reasons) to increase their exports to the EU and lessen their dependence on the Russian market. Moreover, as Ukraine and Moldova move closer to the EU, European direct investment in Ukraine is likely to increase, thus making it harder for Russian companies to buy up Ukraine's most valuable economic assets. Currently, the largest investor in Ukraine is Germany.

As regards Belarus, its most valuable economic assets have so far been closed to Russian companies; the most visible struggle to open up the Belarusian economy was the effort by Gazprom to buy a majority stake in the Belarus' gas distribution network owned by Bel-TransGaz. With Russian economic and financial pressure increasing by late 2006, Belarus in fact had no choice but to bow to Russian pressure, which appeared to target Lukashenko. Moscow is interested in replacing him with a technocratic leader who is both pro-Russian and committed to gradual economic reform and modernization. Russia's has realized that it must not stick too long with Lukashenko, as this might alienate the growing number of Belarusians dissatisfied with Lukashenko's performance.

Russia also has strong military interests in Belarus. So far Russia is not in a competition with transatlantic institutions over Belarus. Given the political isolation of the current Lukashenko regime, it will take a long time and serious political liberalization before any Western player could start engaging Belarus.³⁸

³⁶ Deputy Prime Minister Azarov still leads a faction within the governing Party of the Regions which still supports the idea of Ukraine joining the EEP.

³⁷ Andrei P. Tsygankov, "If not by Tanks, then by Banks? The Role of Soft Power in Putin's Foreign Policy," in *Europe-Asia Studies*, Vol. 58, No. 7, 2006, pp. 1079–1099.

³⁸ Thomas Ambrosio, "The Political Success of Russia-Belarus Relations: Insulating Minsk from Color Revolution," in *Demokratizatsiya*, Vol. 13, No. 3, 2006, pp. 407–434.

Further activities alienating Russia from the EU include the latter's use of the neighborhood policy as an instrument for democratization and good governance. This approach is seconded by U.S. support for grassroots democracy building. To the extent that Russia perceives such policies to be directed against Russia by 'westernizing' the political and economic elites of the NEE countries and undermining Russian primacy, Moscow vehemently opposes these activities.³⁹

Despite all the areas of contention, there are indeed several sectors of common interests between Russia, the NEE and the EU. Most relevant is energy—including supply, transit and demand. Russia is interested in long-term contracts with European consumers, at least in the gas sector, as tanker-based oil exports can be redirected quite easily. The EU-27 are interested in having some of their growing demand for oil, and particularly gas, satisfied by Russian supplies. Ukraine and Belarus, for that matter, are crucial for reliable supply lines as energy transit corridors; they stand to profit financially and strategically by this very role. Alienating any one of these three partners would seriously undermine a cooperative effort from which all three could greatly benefit. Therefore, all parties should stick to a pragmatic approach and pursue inclusive strategies that take the interests of all actors into consideration. They should avoid initiatives that could be interpreted by any of the others as hostile or at least detrimental to its interests.

This does not mean, however, that the EU should refrain from making use of Ukraine as an energy corridor for Caspian (Azeri and Kazakh) oil shipped via the Odessa-Brody pipeline—designed to be expanded to Plock (Poland), allowing for shipping oil to Gdansk.

Besides the energy field, the EU, Russia and the NEE countries should cooperate closely in the various fields of human development: fighting unacceptably high death rates; low average life expectancies; infant mortality; the spread of infectious diseases, first and foremost of HIV/AIDS; and promoting programs against drug, alcohol and tobacco addiction and initiatives to improve the public health sector. It is in these areas that common interests, common initiatives and common solutions tie all the countries concerned together and avoid fostering new mental or physical dividing lines.

³⁹Judith Kelley, "Promoting Political Reforms through the ENP," in *Journal of Common Market Studies*, Vol. 44, No. 1, pp. 29–56.

Russia's Serious Lack of Soft Power and Attraction

Large segments of the Russian elite, particularly within the military and security forces, perceive Western democracy support as a vehicle of expanding the Western sphere of influence. This Russian position is revealing in two aspects.

First, it shows that Russia is closely interconnected with post-Soviet elite networks that wield clannish rule over their societies. It has not, however, reached out to societal and political initiatives promoting democratization. Russia is not interconnected with the forces in the NEE countries furthering these ideas. Russia is perceived by the democratic forces in the post-Soviet region—and to a large extent actually is—the patron of old networks, but not engaged with progressive societal actors.

Secondly, this vehement Russian position unmasks its lack of soft power and cultural and political attractiveness. Russia is utterly unattractive for the NEE and is aware of it. Russia resorts to direct and indirect economic pressure, crude business expansion strategies and arrogant postures. As long as Russia does not establish incentives for cooperation and equally beneficial engagement, it will push NEE societies further to the West. Russia is alienating its neighbors to the west. Instead of bullish behavior, Russia should invest in its soft skills, turning it into a force of attraction.

In addition, Moscow's wariness of EU-sponsored and/or indigenous democratization is based on the fear that the 'democratic virus' could spread to Russia, thus undermining its model of strict state control over Russian society and state-led economic modernization.

Lacking soft power, Russia's influence in the NEE has long been based primarily on economic and financial instruments. Russian state and private companies have invested significant sums in both Ukraine and Moldova, less so in Belarus (the leadership of which resisted Russian pressure to privatize lucrative state companies). With the exception of Belarus, however, both Ukraine and Moldova have started to redirect foreign trade to the EU. Russian–NEE trade, however, has been declining over the past years. Russian exports to Ukraine as a share of total Russian exports declined from 10.78 percent in 1994 to 5.14 percent in 2005; data for Belarus show a decline from 4.74 percent (1994) to 4.18 percent. In terms of trade value Moldova has

always been negligible for Russia. Export shares shrank from 0.84 percent in 1994 to 0.19 in 2005. In terms of Russian imports, the NEE's share of total Russian trade value is stagnant on a low level (Belarus), decreasing sharply (Ukraine) or had been small from the very start (Moldova). In terms of value, Russian imports from Ukraine made up 11.39 percent in 1994; this share dropped to 7.89 percent in 2005. The respective data remained almost the same in Belarus: 5.42 and 5.80 percent. Moldova's share shrank from 1.23 percent in 1994 to 0.56 percent in 2005.⁴⁰

Table 6. NEE's shares of total Russian exports and imports 1994 and 2005

	EXPORTS		IMPORTS	
	1994	2005	1994	2005
Belarus	4.74	4.18	5.42	5.80
Moldova	0.84	0.19	1.23	0.56
Ukraine	10.78	5.14	11.39	7.89
USA	5.33	2.62	5.35	4.63

Since Russia's economic relevance to the NEE economies is very small, except of course for the energy sector,⁴¹ let us assess the military dimension. Russian military influence in the NEE is significant both in Belarus and in Moldova. In the latter case Russia has considerable military leverage over domestic politics through the Russian troops stationed on the left bank of the Dniestr river. Russian troops in effect bolster the illegitimate regime of semi-criminal 'president' Igor Smirnov in Tiraspol. Russian-Belarusian military cooperation is the closest in the post-Soviet space. Russian military forces, however, wield no influence whatsoever on Belarusian domestic politics. The Belarusian leadership has decided to offer Russia military installations and forward defense deployments; Russia has successfully lobbied Belarus to accept joint air defense and relies heavily on the early warning radar in Baranovich. Besides the importance of Belarus as a transit corridor for Russian oil and gas exports to the EU, this is precisely

⁴⁰Data provided to the author by the Institute for Comparative Economic Studies (wiiw) in Vienna.

⁴¹On the importance of Russian energy supply to the NEE see the chapters by Roland Götz, Peter Havlik and Vasily Astrov in this volume.

why Russia highly values bilateral relations with Belarus. In Ukraine, the Russian navy will keep its base in Simferopol/Crimea at least until 2017 on the basis of a bilateral lease agreement signed back in 1997. It is highly unlikely that this basing agreement will be extended though; Ukrainian acceptance of a renewed fleet base agreement seems highly unlikely and Russia is already in the midst of building an alternative navy base on its Black Sea coast.

It can be argued, therefore, that Russian nervousness about U.S., EU and NATO activities in the western post-Soviet region is to a great extent based on its awareness of being a weak player. Beyond energy, financial, economic and military instruments of influence are declining. Russia does not have decisive leverage to 'force' the NEE into its own orbit (with Belarus still being a somewhat different case). With Russia wielding almost no soft power and only limited means of coercion, Russia is forced to act as a 'spoiler power' in the face of the growing assertiveness of the NEE and the growing inclination of Western powers to respond to the NEE's drift westwards.

Conclusion

As we have seen, the new Eastern Europe is neither a cohesive nor a distinct region. It is comprised of three countries assembled together by virtue of geography and a common past, which is, however not unique to the NEE. All of them share many social, economic, demographic, cultural and—to an extent—political features with Russia. It is, therefore, important to avoid a narrative of the NEE as the eastern border of political and cultural Europe. The NEE countries are part of a wider region bordering the EU to its east. Russia is essentially part of it, albeit reluctantly, as it wants to be treated as a distinct and unique power in the post-Soviet region. Still, promoting a pan-European discourse in the NEE—whether by regional elites themselves by external players—based on anti-Russian sentiment is detrimental both to the EU and the post-Soviet region.

It is stating the obvious that the principal paths of development of the countries in the region—whether sultanistic, pre-democratic or democratic—will be decided by these societies themselves. To a significant extent, however, external players also define or at least affect how the nature and identity of this geographical area is likely to be

defined. Turning it into a battleground of clashing Western and Russian interests should be avoided at all cost. First and foremost, this requires a different Russian attitude towards the region, one that abandons hegemonial arrogance and 'spoiler strategies' in favor of building mutually advantageous ties in the economic, social, cultural and technological spheres. The EU and particularly the U.S., however, also bear great responsibility not to send confusing signals to the NEE or to pursue policies of dividing the region. Europe as a cultural and economic space should be built on the premise of its borders being extended well to the Urals.

About the Contributors

Vasily Astrov is staff economist at the Vienna Institute for International Economic Studies (wiiw). He is wiiw country economist for Ukraine and other CIS countries. His other areas of expertise including macroeconomics, monetary and exchange rate issues, and energy. He has also worked for the United Nations Economic Commission for Europe in Geneva and the Austrian National Bank. He holds an M.Sc. in economics from Warwick University (UK), a Diploma degree in economics from the University of Münster (Germany) and a B.A. in human geography from the State University of St. Petersburg (Russia).

Michael Emerson is Senior Research Fellow at the Center for European Policy Studies (CEPS), Brussels. His areas of expertise include relations with Russia, Ukraine and the northern dimension, Turkey, Cyprus-EU relations, pan-European institutions, the political economy of the wider Europe, European security, European Monetary Union, the economics of transition to a market economy, the politics of the EU, the enlargement of the EU, democratization in South Eastern Europe, relations with the Caucasus and EU-U.S. relations. He received his M.A. at the University of Oxford and has honorary doctorates at the Universities of Kent and Keele.

Roland Götz is a Researcher in the Russia and the CIS Unit of the Stiftung Wissenschaft und Politik (German Institute for International and Security Affairs or SWP) in Berlin. Between 1986 and 2000 he was a researcher at the Federal Institute for Eastern and International Studies in Cologne. Between 1970 and 1984 he was a researcher at the University of Augsburg. His research interests include CIS economies and transition countries, the development of Russia's energy economy and energy relations between Russia and the European Union.

Daniel Hamilton is the Richard von Weizsäcker Professor and Director of the Center for Transatlantic Relations, Paul H. Nitze School of Advanced International Studies, Johns Hopkins University. He is also Executive Director of the American Consortium on EU Studies, designated by the European Commission as the EU Center of Excellence Washington, DC. He served in a variety of senior positions

in the U.S. Department of State, including Deputy Assistant Secretary for European Affairs; U.S. Special Coordinator for Southeast European Stabilization; and Associate Director of the Policy Planning Staff. He has also taught at the University of Innsbruck and the Free University of Berlin. Recent publications include *The Transatlantic Economy 2006* (2007); *The New Frontiers of Europe* (2005); *Terrorism and International Relations* (2006); *Transatlantic Homeland Security* (2005); *Transatlantic Transformations: Equipping NATO for the 21st Century* (2005); and *Transforming Wider Europe: Ten Lessons from Transatlantic Cooperation* (2005).

Peter Havlik is Deputy Director of the Vienna Institute for International Economic Studies, or wiiw. He was born in Prague, where he studied economic statistics and sociology. After moving to Austria in 1980 he completed post-graduate study of econometrics and computer science at the Institute for Advanced Studies in Vienna. His current research fields include the economic transition in Central and Eastern Europe, European integration, EU neighborhood policies, the Russian economy, and international trade and competitiveness.

The International Crisis Group is an independent, non-profit, non-governmental organization, with nearly 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict. Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world. Crisis Group is co-chaired by the former European Commissioner for External Relations Christopher Patten and former U.S. Ambassador Thomas Pickering. Its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

Elena Kovalova is Professor of National Security Studies at the George C. Marshall European Center for Security Studies in Germany. Before joining the Marshall Center in 2005, she served as the Head of the Foreign Policy Division at the National Institute for

Strategic Studies in Ukraine. Her educational and professional background includes a doctorate in international relations from the Institute of Politics and International Relations, National Academy of Sciences, Ukraine; post-doctoral work in politics at the University of Oxford; Senior Fulbright Scholar at the Center for Russian and East European Studies, University of Kansas; academic expert for a European Commission TACIS and TEMPUS Project on cooperation with the U.S. and Canada; Eastern Scholar Fellow, Civic Education Project, Yale University; and British Academy Visiting Fellow, Oxford-London, UK.

Taras Kuzio is Assistant Professorial Lecturer in International Affairs at the George Washington University Elliot School of International Affairs. He was formerly a Resident Fellow at the Center for Russian & East European Studies, University of Toronto and a Visiting Fellow at the Institute for Security Studies of the European Union, Paris. His other previous positions include Research Associate at the International Institute for Strategic Studies, London; Senior Research Fellow at the Center for Russian & East European Studies, University of Birmingham; Post Doctoral Fellow at Yale University; and a Visiting Fellow at Brown University. He was also Head of Mission of the NATO Information and Documentation Office in Kyiv, Ukraine. He has published extensively on post-Communist and Ukrainian politics, international relations, inter-ethnic relations and nationalism, in book form, scholarly journals and in the media. He received a BA from the University of Sussex, an MA from the University of London and a PhD from the University of Birmingham, UK.

F. Stephen Larrabee holds the Corporate Chair in European Security at the RAND Corporation. Previously he was Vice President and Director of Studies at the Institute for East-West Security Studies in New York. His areas of expertise include NATO, Eastern Europe, Turkey, Russia and the Ukraine. He has published extensively on these areas, most recently "Ukraine and the West," *Survival* (Spring 2006); and "Arming Europe" (with Seth G. Jones), *The National Interest* (Winter 2005/2006). He received his PhD in Political Science from Columbia University.

Rainer Lindner is a Researcher in the Russia and the CIS Unit of the Stiftung Wissenschaft und Politik (German Institute for International and Security Affairs or SWP) in Berlin. Prior to this position he

was a Research Associate at the University of Konstanz. He is also a Member of the Board of the German Society for the Study of Eastern Europe and Head of the German-Belarusian Society. His areas of expertise include the domestic politics and foreign policy of Russia, the Ukraine, and Belarus; the relationship between the European Union, Russia and its new neighbours; and legacy within the post-Soviet space. His current research focuses on the four “common spaces” in the relationship between EU and Russia; Ukraine after the “Orange Revolution”; isolation and crisis of the regime in Belarus; Russian policy towards the post-Soviet space; and cultural dimensions of foreign policy.

Gerhard Mangott is Professor of Political Science at the University of Innsbruck and Senior Research Fellow on Eastern Europe and the former USSR at the Austrian Institute for International Affairs (OIIP) in Vienna. He is also a Lecturer at the Diplomatic Academy in Vienna. He wrote his habilitation thesis on “Internal and External Aspects of (democratic) regime change in Eastern Europe and in the Post-Soviet Region.” He studied political science, history and slavonics at the universities of Innsbruck and Salzburg. He is Program Director of the BA in Political Science and the MA in European Politics and Society, Head of the International Security Research Group (ISRG) and Head of the Research Cluster on European Security at the University of Innsbruck. He is Editorial Board Member of *Österreichische Zeitschrift für Politikwissenschaft*.

Angela Stent is Professor of Government and Foreign Service and Director of the Center for Eurasian, Russian and East European Studies at Georgetown University. She previously served as National Intelligence Officer for Russia and Eurasia at the National Intelligence Council and as a member of the Department of State's Office of Policy Planning. An expert on Russian-European relations, her most recent book is *Russia and Germany Reborn: Unification, the Soviet Collapse and the New Europe*.

Dmitri Trenin is a Senior Associate of the Carnegie Endowment for International Peace and Director of Studies at its Moscow Center. His recent books include: *Getting Russia Right* (2007, forthcoming); *Russia's Restless Frontier: The Chechnya Factor in Post-Soviet Russia* (2004); *The End of Eurasia: Russia between Geopolitics and Globalization* (2002). In 2005, he edited, with Steven Miller, *The Russian Military: Power and Policy*.

About the Sponsors

The Center for Transatlantic Relations (CTR) is a university-based think tank addressing the changing nature of transatlantic relations in a globalizing world. CTR is an integral part of Johns Hopkins University's Paul H. Nitze School of Advanced International Studies (SAIS), one of America's leading graduate schools in international relations, with campuses in Washington, DC; Bologna, Italy; and Nanjing, China. Through an active program of publications, policy study groups, seminars, conferences, and web-based educational efforts, CTR addresses contemporary challenges facing Europe and North America. The Center publishes books, reports and monographs by its core faculty and staff, Visiting Fellows and Diplomats/Practitioners in Residence, and a wide network of affiliated authors and experts on both sides of the Atlantic. It facilitates the work of the five-university American Consortium on EU Studies, designated by the European Commission as the EU Center of Excellence Washington, DC.

The Austrian Institute for International Affairs (OIIP) is an independent, non-profit research institute located in Vienna. Through an active program of seminars, conferences, publications and teaching activities OIIP seeks to enhance awareness of international political systems and to define the position of Austria in the international community. OIIP serves as a platform for international academic and political collaboration, and is part of an international network of researchers and experts across the wide spectrum of international affairs. All researchers at OIIP lecture at universities and educational institutions in Austria or abroad. Students are invited to participate in the Institute's international events, and OIIP encourages and supports young researchers applying for funds for research projects in the OIIP's areas of interest.

The Austrian Marshall Plan Foundation is a non-profit endowment established to promote transatlantic exchange of knowledge in the fields of economics and social sciences. The Foundation commissions research work in these areas, guided by an international advisory body. Research projects are carried out in the framework of Austrian guest professorships in the United States; conferences, lectures and symposia in Austria and the U.S.; postgraduate research fellowships;

and awards for scholarly publications. The Austrian Marshall Plan Foundation was created on the occasion of the fiftieth anniversary of the European Recovery Program, popularly known as the Marshall Plan, which was initiated by U.S. Secretary of State George C. Marshall in 1947. The Austrian Marshall Plan Foundation is an expression of gratitude for the Marshall Plan by the people of Austria, who received more support per head from the Marshall Plan than almost any recipient nation.