

The Paradoxes of Kuchma's Russian Policy

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Since 1991, Kyiv has followed what has been termed a multi-vector approach in its foreign policy by trying to play a delicate balancing act between the United States and the European Union, on the one hand, and Russia on the other hand. In turn, all three have recognized Kyiv as a strategic partner. The “tapegate scandal” in the fall of 2000, however, shook President Leonid Kuchma's position, both internally and externally, and his support eroded dramatically in the West. Despite concerns of subordination, Kuchma looked to Russia to bolster his position and the Putin administration was eager to welcome Kuchma in such circumstances. Russian influence in Ukraine, however, could limit the power of the Ukrainian elite, so the elite resisted any scenarios that would strengthen supranational institutions—controlled largely by Russia—in post-Soviet space. By summer 2001 Ukrainian diplomacy had done away with the term ‘multi-vector policy’ and Ukraine's top priority became full-scale participation in the process of European integration.

Given Russian-Western rapprochement after September 11, Kuchma took measures to prevent Ukraine from being overshadowed, or even ignored, as the West's relations with Russia became increasingly important. In February 2002, he presented a schedule for Kyiv to meet the EU accession criteria by 2011, and on May 23, the Security and Defense Council of Ukraine noted the necessity for Ukraine to “start practical implementation of the course to join NATO,” although an official application has not been submitted.

The ‘Russian Factor’ in the 2004 Ukrainian Presidential Campaign

Kuchma is constitutionally barred from seeking a third presidential term. Facing pressure from the opposition, Kuchma wants amnesty guarantees for him and his family. Consequently, Kuchma has a significant personal stake in election results that would be favorable for his post-presidential status. Close ties with Russia, in the form of business relations, emotional kinship, and the shared Soviet experience, suggest Kuchma will seek out Russian support in the form of loans, tacit investments in friendly (i.e. oligarchic-controlled) companies and election funds, involvement of Russian public relations and electoral technologies experts and, above all, favorable election coverage in the Russian

media, which still has a large audience in Ukraine's populous eastern and southern regions.

The Russian factor thus continues to play an important role in Ukraine's domestic politics, although its importance has decreased compared to what it was in the 1994 campaign when Kuchma was elected. It is also evident that even though the economic interests of Ukrainian oligarchic groups are concentrated mainly in the post-Soviet space, they do not desire to come under Moscow's control again as they are unable to compete directly against Russia's more powerful oligarchs.

Aside from economic leverage, Russian authorities may seek to sustain Russian influence in Ukraine in the political and social arenas by exploiting Ukraine's domestic divisions and appealing to a so-called 'shared Russian-Ukrainian identity'. Sergei Markov, director of the Moscow-based Institute for Political Studies, stresses that Moscow has a set of demands for any Ukrainian politician. According to Markov, these demands include provision for the elections of the governors in oblasts (as Russia's experience demonstrated, governors' elections could lead to centrifugal trends in Ukraine), granting official status to the Russian language, freedom of religion, and the unimpeded circulation of Russian media in Ukraine. Also, according to Markov, Ukraine's insistence on joining the EU will be "a catastrophic mistake" for Ukraine.

These demands are either calling for already existing practices (such as freedom of religion or free circulation of Russian media) or address identity matters (such as language) that during the course of an electoral campaign could cause interethnic tensions in Ukraine. These divisive questions may well create schisms among the democratic forces. One of the paradoxes of Putin's policy, in fact, is the combination of declarations of rapprochement with the West and support of anti-democratic forces in the Commonwealth of Independent States (CIS). An example of this occurred on the eve of the March 2002 parliamentary election in Ukraine when Oleksandr Voloshin, Putin's chief of staff, declared that Russia supported those forces that favored friendship with Russia, which, according to Voloshin, included two oligarchic pro-presidential forces (with meager results on party ballots) and the Communist Party.

Economic (Dis)integration

Although Russia remains Ukraine's main trading partner, the exchange of goods and services between the two countries is declining. According to the Ukrainian State Committee on Statistics, in 1994 trade with Russia equaled \$17.8 billion, or 47.5 percent of Ukrainian foreign trade. In 2001, Russia accounted for 32 percent of Ukrainian foreign trade, and in 2002, about 30 percent, or \$6.6 billion.

Ukraine's total exports to Russia declined from 37.4 percent of Ukraine's total exports in 1994 to 29 percent in 2001; imports from Russia fell from 58.1 percent of Ukraine's total to 35.5 percent during this period. In 2002, Ukrainian exports to Russia fell even further to 17.8 percent, while imports rose to 37.2 percent. Particularly affected were the traditional spheres of Ukrainian exports: metallurgy where exports fell by 42 percent, the chemical industry that saw a decline of 28 percent, and in agriculture—a 9.1 percent drop. The 1993 free trade agreement (FTA) between the two countries actually

was nullified through numerous exemptions, and the 1994 CIS FTA was not ratified by Russia.

Putin proclaimed 2002 “the Year of Ukraine in Russia” and, in return, Kuchma proclaimed 2003 “the Year of Russia in Ukraine.” In this way, both sides planned to intensify contacts in the economic and cultural spheres. The beginning of “the Year of Ukraine in Russia” was marked by trade wars between the two states that led to declining trade (as evidenced above) and that ended only in August 2002. Many issues relevant to economic cooperation remain unresolved. Perhaps the most striking example of the problems in Russian-Ukrainian economic cooperation is the inability to proceed effectively with the joint production of the Antonov-70 (or AN-70, a short takeoff and landing tactical military transport), which caused sharp criticism of Russia’s policy from President Kuchma.

As of April 1, 2003, official foreign direct investment (FDI) by Russian enterprises in Ukraine was only \$334.8 million—6 percent of Ukraine’s total FDI. Russian businessmen are, however, actively present in various Ukrainian industries and commercial activities, including oil refineries, non-ferrous metals, infrastructure, communications, recreation, and media markets. According to numerous press publications (especially those published after the privatization scandals of 2001 and 2002), despite comparatively low open investments in enterprise shares, Russian businesses actively use Ukrainian-registered firms to engage in tacit investments, influence financial and banking institutions to control the monetary flow of the enterprises of interest, and engage in lobbying at the highest political level.

At the beginning of 2003, Ukrainian debt to Russia had grown to \$1.8 billion (22.5 percent of total Ukrainian foreign debt). Ukraine’s vast dependence on Russian oil and especially gas remains the key contributor to Ukraine’s debt. Although Russia and Ukraine have negotiated an agreement on restructuring the debt and on Russian payments for transporting gas through Ukrainian territory, these arrangements will likely change after the gas-transporting consortium begins operating; some Ukrainian experts predict an annual loss of about \$1.1 billion in forsaken transit fees.

Although the consortium was originally planned as a trilateral (to include Germany), the agreement was signed on October 7, 2002, only by the Ukrainian and Russian governments, followed by agreement between Gazprom and Naftogas Ukrainy. In December 2002, the representatives of German Ruhrgas rejoined the negotiations, yet the conditions of their involvement remain unclear because trilateral meetings were not held in time, and the level of representatives was downgraded. Similarly unclear is the possibility of including other interested parties in the consortium. Some Ukrainian experts believe that Ruhrgas would cooperate with Gazprom in pressuring Ukraine to lower its transit tariffs, which are the main Ukrainian stake in the gas policies. Thus, the Ukrainian government tried to invite other parties—from France and Italy to Greece and Poland—to join the consortium and to counter its vulnerability to German and Russian pressure.

Other paramount issues such as property rights, structures of management, and accountability, also are to be determined. Negotiations are not transparent, however, even

for experts in the field. The technical and economic basis for the agreement, due to be prepared by the end of August 2003, has been postponed until December 2003.

New Symbolic Initiatives in the CIS

During the March 2002 trilateral meeting of the Russian, Ukrainian, and Moldovan presidents in Odessa, Kuchma spoke in favor of full membership in the Eurasian Economic Community (EAEC); however, faced with strong protests, Kuchma changed his support from full membership to observer status, and by December 2002, refused full membership altogether. A pragmatic argument finally prevailed during the discussion; ironically, the regions of Ukraine that most emotionally support the idea of closer integration with Russia will suffer the most if Ukraine joins the EAEC. Lifting all trade barriers will mean that most of Ukraine's heavy industries, which are situated mainly in the east and south, will find themselves in unfavorable competition with Russian counterparts.

Besides the EAEC, Russia has other issues to interest the Ukrainian establishment (many of whom share emotional, life-experience, and business proximity with their Russian counterparts).

One of these includes symbolic gestures toward Kuchma. On January 27–29, 2003, President Putin visited Kyiv to officially kick-off “the Year of Russia in Ukraine.” The year 2003 coincides with the 70th anniversary of the 1933 famine that was artificially created by Stalin's regime and resulted in the deaths of 5 to 7 million Ukrainians. Putin declined to apologize to the Ukrainians for that tragedy, arguing that it was Soviet, not Russian, policy. In contrast, Gleb Pavlovsky, one of the Kremlin's image-makers, mentioned at the January 2003 Freedom Houses conference in Budapest, that he would recommend that Putin to go to Afghanistan to apologize for the Soviet invasion. On the eve of this visit, Moscow offered Kuchma the position as head of the Council of CIS Leaders even though Ukraine has still not signed the CIS Charter. Throughout the 1990s, the Ukrainian government stressed that although Ukraine was one of the CIS founders, it was not formally a full member. As late as December 2002, Kuchma stated that the CIS was an outdated institution, and yet, in January 2003 he agreed to formally lead the organization.

Less than a week after becoming head of the CIS, Kuchma assured the Ukrainian public that he remains a protagonist of the “European choice” and approved the founding regulations of the State Council on European and Euro-Atlantic Integration, which he heads.

On February 23, 2003, the Russian, Ukrainian, Belarusian, and Kazakh presidents celebrated “The Day of Motherland's Defenders” in Moscow, with February 23 previously having been Soviet Army Day. The four presidents issued a statement about starting negotiations to form a joint economic space and plans to develop, by September 2003, an agreement on joint economic policies, harmonized legislation, creation of an interstate commission on trade and tariffs (which took 30 years for the EU to accomplish), and, finally, creation of a new organization, which is open to other CIS states. It was a sudden decision for Ukraine's government and one in which neither the minister of foreign affairs nor the secretary of the Council for National Security and

Defense were involved. The decision was strongly criticized by many analysts in Ukraine. Volodymyr Malenkovych, a liberal Ukrainian analyst well-known for his staunch support for granting the Russian language official status in Ukraine and promoting ties to Russia, stressed that this initiative was dangerous for the Ukrainian economy and democracy, and it would serve only Kuchma's personal interests and opponents of Viktor Yushchenko, leader of the main oppositional force, Our Ukraine block, who is leading in the polls for the 2004 presidential election.

Given the stated differences in Ukrainian and Russian business interests, it is likely that the last initiative may also remain the routine work of endless coordinating committees. It is not surprising that, according to a poll by the Razumkov Center held in early June 2003, 52 percent of Ukrainian respondents consider Ukrainian-Russian relations to be unstable. Also, in 2002, Kazakhstan experienced a 12 percent decrease in trade with Russia and a 23 percent drop in trade with Ukraine, demonstrating that the free trade area in the CIS does not function properly. Thus, the new initiative seems to be mostly for domestic consumption in all the states involved, especially for Putin and Kuchma. On the eve of the December 2003 Russian parliamentary elections and 2004 presidential elections in both Russia and Ukraine, two presidents would like to demonstrate at least some successes in this field.

In his relations with Ukraine, Putin is showing signs of returning to Yeltsin-style personalized diplomacy, characterized by sudden proposals and a lack of transparency. In early May, Putin and Kuchma met without advisers in an unprecedented five-day meeting. On May 19, *kolegias* (the main consultative bodies within the MFAs) of the Russian and Ukrainian foreign ministries held an unprecedented joint session in Kyiv.

Many Russian analysts consider Viktor Yanukovych, who has been Ukrainian premier since November 2002, as a possible 'pro-Russian' candidate for the Ukrainian presidency. Nevertheless, his government successfully continues negotiations on joining the WTO, and Ukraine is widely recognised as being ahead of Russia in this process. The Russian side demanded coordination (i.e., disclosure of the Ukrainian documents signed with the WTO countries, which contradicts the WTO practice), and the Ukrainians refused.

Although the West remained critical of Kuchma, Kyiv managed to overcome the isolation in which it found itself after the Kolchuga scandal. No evidence of the alleged Kolchuga sale of an anti-aircraft radar system to Iraq has been found. Moreover, U.S.-Ukrainian relations improved during the spring of 2003 when Kyiv agreed to send a Ukrainian decontamination battalion to Kuwait during the U.S. military operation in Iraq, and contributed to the stabilization forces in postwar Iraq. On June 19, a constitutional majority of the Ukrainian parliament voted overwhelmingly (319 of 450 deputies voted "yes", only 3 "no") for the new Law on the Foundations of Ukraine's National Security, which proclaims the goal of joining NATO. In May 2003, contrary to Russian demands, the EU provided a grant of 2 million Euros to study continuing the Odessa-Brody pipeline to Poland for the transit of Caspian oil to Europe. The Russian reaction was to suddenly propose to pump Russian oil in the reverse direction, from Brody to Odessa. During the celebration of the 300th anniversary of St. Petersburg (May 30 to June 1, 2003), Kuchma not only headed the informal summit of the CIS leaders held in the city,

but also met with Western leaders, including Gerhard Schroeder, Silvio Berlusconi, and for the first time, with Tony Blair. Germany and Italy do not exclude the prospects for Ukraine's associate membership with the EU.

On September 19, 2003, in Yalta, however, the presidents of Russia, Ukraine, Belarus, and Kazakhstan signed an Agreement on the Concept of the Formation of the Joint Economic Space (JES). The documents envisage the creation of a custom and economic union and its concomitant supranational body. Such a union would impede Ukraine's negotiations on joining the WTO and the creation of a free-trade zone with the EU and contradicts the official goal of joining the EU. The Ukrainian Ministries of Foreign Affairs, of Economy and European Integration, and Justice officially voiced their strong reservations concerning the JES. Kuchma did not take these reservations into account, save one: he stated that the mechanism for creating the JES should not contradict the Ukrainian constitution. Also, in the text of the documents there is a clause on the possibility of 'multi-speed integration', which gives Ukrainian opponents of integration the possibility to limit its participation in the JES to the free-trade zone.

As the signed documents limit the sovereignty of the Ukrainian state and, therefore, contradict Ukraine's constitution, they may be substantially modified during the parliamentary ratification process. They have to go through the Constitutional Court as well. Therefore, many analysts suggest that the JFS, in reality, will not be implemented (as has happened to many agreements in post-Soviet space), and it will remain only an attempt by Kuchma to demonstrate his loyalty to Putin and Russian interests, and to split the opposition.

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The ambivalent nature of Ukraine's symbolic steps toward Russia and simultaneous attempts to pursue integration into Euro-Atlantic structures and the WTO demonstrates that Ukraine continues its multi-vector policy, albeit at a new level, under higher and more precisely formulated pressure from Russia.

An active position taken by the political forces and nongovernmental organizations might prevent the secluded compromise of Ukrainian interests. Moreover, it is in Russian long-term interests to have a stable, predictable, and pragmatic Ukrainian government. Russian-Ukrainian relations should not depend on the personal deals concluded behind closed doors. The 2004 presidential campaign in Ukraine will be the test of maturity for both the Ukrainian establishment—by checking its ability to adhere to interests beyond those of the president's narrow circle—and for the opposition—by checking its ability to formulate a plausible alternative and to effectively present it to the Ukrainian public, Russia, and the West.

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