

Can Ukraine Still Perform Its Balancing Act?

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Since 2008, Ukraine's status as an "in-between" state has solidified. On the one hand, the country has indicated little willingness to accede to Russian-centered schemes of post-Soviet reintegration, such as the customs union that Belarus and Kazakhstan have signed up for. On the other hand, Ukraine's road toward full integration into Euro-Atlantic institutions has been blocked by the European Union's reluctance to offer a membership perspective to Ukraine, as well as the 2008 decision by the North Atlantic Treaty Organization not to grant the country a Membership Action Plan. This situation emerged as a result of three factors:

- The failure of President Viktor Yushchenko's administration to implement domestic reforms and win popular support for Ukraine's NATO membership bid.
- Moscow's new policy of using economic pressure and even military force to remind the West about the risks that would emerge in the case of crossing certain "red lines."
- A readiness among several leading European states to make a deal with Moscow on the basis that their vital security interests in the East had already been accommodated during previous rounds of EU and NATO enlargement.

The election of Viktor Yanukovich in February 2010 brought Kyiv to reassess the situation it has found itself in. The reality as such, however, emerged prior to his arrival. True, Yanukovich's preferred choice might have anyway been a revision of the foreign policy course of the previous administration – abandoning NATO membership in favor of a so-called "non-bloc" status and viewing cooperation with Russia as no less important than relations with the EU. Yet, in the current situation, his logic has looked a lot more understandable and compelling. Instead of knocking on the essentially closed doors of the EU and NATO while facing an increasingly antagonistic Russia, Kyiv has chosen (to borrow from one scholar of contemporary Ukraine, Andrew Wilson) to return to the game it knows best – which is the balancing act between East and West.

The question, however, is not the name of the game but whether Yanukovich's Ukraine can really play it. In this context, I argue the following. First, in the near future, performing this balancing act will be more difficult for Ukraine than in the past. Second,

somewhat paradoxically, forthcoming recognition of this fact may create new opportunities for a policy aimed at stimulating reform in Ukraine and eventually bringing it closer to the West. These opportunities should not be missed.

Dimensions of the Challenge

Three sets of issues can be raised to illustrate the first point: the general context of relations between the West and Russia, changes in the bilateral relationship between Russia and Ukraine, and domestic dynamics within Ukraine after Yanukovich's election.

First, Ukraine's ability to pursue a so-called "multivector" foreign policy, to lean on either Russia or the West when encountering strong pressure from the other side, was traditionally linked to the West's recognition of Ukraine's "pivotal" role to European security, which, in turn, stemmed from an explicit concern about having to face a potentially resurgent Russia. This premise is currently under revision. At a time of reset in U.S.-Russian relations and a hoped-for Partnership for Modernization between Russia and the EU, it would be naïve not to consider a scenario whereby new mutual understandings lead to tacit concessions by the West concerning earlier "contested territories."

Ukraine might seem to be a particularly "suitable" candidate for such concessions. After Yushchenko's administration failed to live up to its promises, "Ukraine fatigue" is a natural reaction in the West and especially in Europe. Short of membership, much was offered to Ukraine to promote incremental integration with the EU. However, Europe is no longer willing to convince Kyiv that Ukraine's task was – and remains – to make the most out of the offer. Even less is the EU eager to have this kind of dialogue with Yanukovich, whose reputation as a pro-Russian politician, despite the rhetoric of European integration still heard from Kyiv, may be used as a pretext to justify inaction. Furthermore, many in Europe are tired of Russian-Ukrainian disputes, not least in the energy sector, and they will be happy to see another bilateral rapprochement at any price, even when it comes at Ukraine's expense.

Second, Yanukovich's administration lost the opening round of its new chess game with Moscow. The April 2010 "gas-for-fleet" agreement in which Ukraine traded a lease extension for the Russian Black Sea Fleet until 2042 for discounts in gas pricing amounting to \$40 billion over ten years, was disadvantageous to Ukraine. Of course, it might well have seemed profitable to sell an asset for which there was no other buyer. And by agreeing to such a deal, leaders in Kyiv could secure a break for the country's economy, which shrunk by 15 per cent in 2009, and, more importantly, for the big business groups sponsoring Yanukovich's team.

But a brief analysis demonstrates that Russia did not pay all that much for such a geopolitical prize. First, the money will constitute a debt write-off only after 2017, which will make it difficult for future Ukrainian governments to withdraw from the agreement, otherwise the debt will have to be paid back some other way. Second, the discounted price is set at the 2009 level, which Ukraine had difficulty in paying; this price is also likely to increase following the rise of global energy prices. Third, Russia's monopoly of gas supplies potentially makes the discount virtual, since in reality, the

price level can be established arbitrarily, and in a non-transparent way, which has already resulted in the fact that Ukraine was paying a higher price for fuel than Germany. Finally, Russia did not assume any obligation to transit fixed amounts of gas through Ukraine. This is disadvantageous for Ukraine, as Russia may build bypass pipelines while the former is obliged to import higher amounts of gas than it may need and is given no clear right of re-export. All this makes Ukraine more vulnerable; if it fails to honor current commitments, Russian demands to pay for gas with national assets will be harder to resist.

Finally, developments in Ukraine after Yanukovich's arrival to power raise concerns that the political process in the country will not remain as democratic as it has been. Legal manipulations that allowed Yanukovich to easily form a governing coalition, self-censorship of journalists and media owners, and cases of alleged intimidation or bribery involving opposition politicians indicate that Ukraine's political system has not overcome the risk of reverting to a so-called "managed democracy." It is too early and too dramatic to say that the quality of the 2012 parliamentary elections is in jeopardy, but it would be equally wrong to believe that it will be inherently free and fair. And if elections are held that adhere to post-Soviet norms rather than democratic transparent ones, Russia's ability to affect the outcome and influence individual politicians will grow. Arguably, this ability did not reach beyond a critical threshold in the time of Leonid Kuchma, Ukraine's president from 1994-2004 and a master of "manual management," but Kuchma was dealing with a much less assertive Moscow.

Without taking the comparison too far, one can imagine Ukraine's new balancing act displaying certain elements of the "classical" Belarusian one: one-sided energy dependence instead of interdependence, limited possibilities to rely on Western support, and a growing affinity with the Russian political process.

Building a Response

However, the weight categories of Belarus and Ukraine are still different. Moreover, if Russian-Belarusian relations do not resemble a happy marriage, even less will Russian-Ukrainian relations. President Dmitry Medvedev's official visit to Kyiv in May 2010 provided good cause to revise evaluations of these relations based on the "gas for fleet" deal, which suggested that Ukraine's return to the Russian orbit was inevitable. During the visit, Ukraine rejected Moscow's proposal to merge two national gas companies that would give Russia control over its transit pipelines and access to the country's retail gas trade. A much-rumored transfer of assets in the aircraft industry and transport infrastructure did not take place. As well, a dispute over the countries' maritime border in the Strait of Kerch remained unresolved, with Ukraine showing no inclination to concede control over its navigable part. Even a joint statement on Transdniestria did not reveal a readiness by Ukraine to accept a further increase of Russian regional influence. True, the atmosphere of the relationship has changed; both sides now disagree in a friendly way. Yet, they still often disagree.

Yanukovich's team evidently realized that with the "gas for fleet" deal it had conceded as much as was politically feasible. Additional "compromises" implying transfers of property to Russian companies would threaten the vital economic interests

of powerful Ukrainian business empires, weaken the fiscal clout of the government, and, most importantly, force the new government to directly confront a powerful national tradition. For Yanukovich, who became the first president of Ukraine without majority support, this all constitutes an unacceptable risk.

Kyiv can rely on a certain understanding in Moscow, whereby Russian leaders continue to demonstrate that they make a distinction between Yushchenko and Yanukovich. But this positive attitude may not last forever. Both Gazprom and the Russian government are in need of export revenues, whereas the Russian interest to gain control over Ukraine's "crown jewels," starting with its gas transportation system, remains as strong as ever.

In these circumstances, a renewed interest to cooperate with the West is likely. Successful negotiations with the International Monetary Fund, in the course of which Kyiv accepted painful conditions in order to receive a credit of \$15 billion over 2.5 years, is evidence of that interest.

What Can the West Do?

The West should respond to this interest pragmatically. Ukraine may or may not be "pivotal" to European security. However, unless it successfully completes its transition to democracy, becomes a functioning market economy, and eliminates the opacity of its energy trading system, then Europe will have to continue dealing with the soft security challenges posed by Ukraine, including disruptions of gas supplies and a wealth gap on its borders, rather than use the opportunities of this vast country. The arrival of the new Ukrainian administration should thus be a reason to re-confirm rather than revise the West's commitment to achieving and consolidating democratic change in Ukraine.

Ukraine's "balancing act" can serve as no less advantageous a paradigm for conducting this kind of Western policy than did its largely rhetorical "Euro-Atlantic integration." Conditionality policy may be made stricter, and sticks can come into play with the same transparency as carrots. Western taxpayers cannot be expected to contribute directly or indirectly to a policy that perpetuates economic inefficiency and corruption and enriches "friends" at the expense of the entire country. Most importantly, democracy promotion should continue. It ought to be made clear that backtracking from the standards achieved earlier will have consequences for relations with the West. At the same time, it is essential to continue interacting with Ukrainian civil society in order to prevent a strengthening of the sentiment that Europe and the United States no longer care about Ukraine.

Ultimately, addressing the long-term issue of Ukraine's integration into Europe cannot be avoided. Integration does not have to equate to EU membership, but a promise concerning both the potential forms of integration and their timeframe should be properly defined and conveyed.

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