

## **What will the new year bring? Sketching Ukrainian – Russian relations**

### RESEARCH UPDATE

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The end of 2002 in Ukrainian politics will be remembered not only due to domestic political turmoil, including the protracted crisis in the Ukrainian parliament, re-distribution of parliamentary committees and scandalous substitution of the national bank governor. December 2002 was the time of a new rapprochement between Ukraine and Russia, reflected in intensified exchange of visits between leaders of different ranks of the two countries. It would be incorrect, though, to refer to those visits as determining the context of the bilateral relations, although the Ukrainian president and his Russian counterpart met 10 times within the year compared to eight times in 2001. Needless to say, the exchange of visits between members of the governments, the parliaments and other officials were also quite a few. The meetings became seen as traditional, their frequency in direct correlation with processes of further intensification of the Ukrainian-Russian relations.

### **Setting Priorities**

On December 9, Ukrainian president Leonid Kuchma and newly-appointed Prime Minister Viktor Yanukovich paid visits to Moscow. This time, the peculiar feature of the visits was in metaphors and characteristics that were used by the top officials to describe the events. According to Russian RIA Novosti, president Kuchma called Russia “the very most strategic partner” of Ukraine. Vladimir Putin responded that Ukraine was also the priority partner for Russia, “the most important and the main” one. Meanwhile, analysts believe the praise “looked more like a tribute to diplomatic politeness”, for “nowadays Ukraine can hardly be seen seriously as an equal partner to Russia; secondly, the main attention of the international community and the Moscow press was on the visit of NATO Secretary General Lord George Robertson to Moscow, at which equal cooperation for global security was discussed (Den, December 11, 2002).

Viktor Yanukovich came to Moscow in his new capacity of the Prime Minister of Ukraine for the first time. Hence, unofficially the purpose of the visit was to give the Russian leadership a chance to have a look at Ukraine’s new Premier. Given Yanukovich’s statements on Russia there was no need to worry, for almost immediately after being appointed the new head of the Ukrainian government announced that the Russian vector of Ukraine’s foreign economic activities would be strengthened. Yet, when speaking to his Russian counterpart Kasianov, Yanukovich carefully avoided comments on the integration theme. “It was important to meet each other, to look each other in the eyes,” said the head of the Russian government, commenting on the meeting with his new Ukrainian colleague.

It was decided that the Ukrainian representative to the leadership of the newly-established gas consortium would be Vice Prime Minister Vitaly Haiduk, and the representative of the Russian party would be First Vice Prime Minister of Russian Viktor Khrystenko. The gas consortium is expected to be formally registered in January 2003, when the bilateral supervisory board begins its work.

Another issue is the incentive to create a free trade area between Russia and Ukraine. Viktor Yanukovich spoke in favor of signing a bilateral agreement on that issue as soon as possible: “That is the issue on which serious steps have been made. We will strengthen our common actions, and today [we] will adopt a decision on how to speed-up the work.” Russia, however, has a different view on prospects of a Russian-Ukrainian free trade zone. According to Russian Prime Minister Mikhail Kasianov, Ukraine’s membership in the Eurasian Economic Commonwealth would be a prerequisite for Russia’s ratification of the free trade area agreement that Kyiv wants to get.

On December 16 the issue was discussed again, when the bilateral relations were being built by means of a visit of the Russian Duma Speaker Gennadiy Selezniyov to the parliament of Ukraine. According to Selezniyov, the issues discussed in Kyiv included delimitation of the state border, the status of the Russian language in Ukraine, Ukraine’s possible membership in the Eurasian Economic Commonwealth (EurAsES) that the Russian Speaker linked to the possibility of signing the free trade agreement. Currently Ukraine is an observer at the EurAsES, formed at a CIS summit in Minsk in May 2001. The EurAsES is a successor to the Customs Union formed by Russia, Belarus, Tajikistan, Kazakhstan and Kyrgyzstan in 1995. The informal leader of the EurAsES is Russia. In a sense, the EurAsES may be seen as Russia’s response to disintegration and disorganization processes in the CIS. The trade

ideology of the EurAsES is abolishing any restrictions on trade between the member states, and adoption of a common customs tariff and customs regime.

Noteworthy, while the officials, summing up the results of the “year of Ukraine in Russia” stated that the year was a success, in December 2001 opinion poll showed that 60 percent of Russians had never heard anything about it. Then, more than 50 percent of respondents to the poll conducted by the “Obschestvennoe mnenie” foundation (1,500 persons in 1,000 settlements of 44 regions and republics of the Russian Federation) said they felt rapprochement in the Russian-Ukrainian relations.

The tendency continues. 2003 is the year of Russia in Ukraine. Yet, the previous year was not exclusive for Russia: 2003 in Russia is the year of Kazakhstan. Given the results of the Year of Ukraine in the Russian Federation, one may predict that 2003 will end with a stronger role of Russia in the most promising country of Central Asia to the harm of interests of the west in that region, “Nezavisimaya Gazeta” wrote on December 20, 2002.

### **Deepening and Reinvigoration – 2002**

The Treaty of Friendship, Cooperation and Partnership between Ukraine and the Russian Federation, signed on May 31, 1997, and subsequent difficult ratification of the treaty by the parliament of the two states demonstrated that the stage of mutual accusations and suspicion was slightly going to an end. However, real rapprochement, notwithstanding Boris Yeltsin remarkable question “What have you done for Ukraine?” was well ahead. At the end of 1990s Ukraine and Russia were busy finding agreement as to the amount of Ukraine’s gas debt, and foreign ministries of the two states were exchanging notes about the status of the Russian language in Ukraine and similar things.

The general pragmatic tone and architecture of the bilateral relations began to change with the arrival of Vladimir Putin to Russia’s top office. The current stage of deeper and more active bilateral relations is usually linked to the “tapegate” and the “Kolchugas” scandal that have led to de facto isolation of Leonid Kuchma and, with him, of Ukraine. Unlike the western governments, the official Moscow have not commented on the problems experienced by the Ukrainian leadership. Hence, the Ukrainian president sometimes could feel more at home in Moscow than in Ukraine.

One of the recent examples of tense relations between Kuchma and Western leaders was the latter’s explicit unwillingness to see Kuchma at the NATO Prague summit. At the recent EC summit in Copenhagen, where 10 countries, most of them former members of the Warsaw Pact, and three former Soviet republics of the Baltics, were formally announced as countries that had successfully completed the accession negotiations, Ukraine was mentioned in only one paragraph in the context of the “new neighborhood” idea, formulated as the statement that the EU seeks to develop relations with Russia, Ukraine, Moldova and Belarus. Recently, top officials of the European Commission expressed doubt about Ukraine’s chances to ever join the EU.

The development of the Russian-Ukrainian relations shows that the energy with which the west seeks to distance itself from the Ukrainian regime is compensated with the movement of Russia towards Ukraine. The more Ukraine gets under Russia’s shadow, the more distant it becomes from the EU. The Russian leadership plays skillfully on Ukraine’s general political instability for reaching its own strategic objectives. After the beginning of the “tapegate” in late 2000, in February 2001 Kyiv and Moscow struck the Dnipropetrovsk agreements on cooperation in the energy sector and the space industry. The agreements received opposite assessments in Ukraine, ranging from tough criticism (Viktor Pynzenyk, for instance, described them as an effort to “radically turn the vector of the state policy to the other side”) to arguments that “cooperation with Russia will confirm competitiveness of Ukrainian manufacturers and, possibly, will contribute to the change of Ukraine’s image as a state that can supply to the West only agricultural products” (Volodymyr Lanovy). The latter may be seen as an echo of a popular theme of Ukraine’s “multi-vector” policy that was broadly used before the 2002 parliamentary elections by pro-Russian representatives of large business. A similar theme is the slogan “To Europe with Russia”, used by a powerful Ukrainian political-business lobby that prefers to ignore the fact that Russia never made European integration the strategic direction for itself. The push for such statements in Ukraine was made by the changing pattern of relations between Russia and NATO. The theme “To Europe with Russia” is still popular in Ukraine. Speaking at a roundtable some time ago, Deputy Secretary of the National Security and Defense Council Serhiy Pirozhkov announced that “economic cooperation between Ukraine and Russia” is a “basic, backbone element” for bilateral cooperation in the context of

European integration’.

### "Hot Points "

Nowadays Ukraine’s state debt to Russia is US\$ 1,778.9 million. Russia is Ukraine’s third largest creditor. According to the ministry of Economy and European Integration of Ukraine, last year Ukraine received foreign direct investment from 113 countries, totaling about US\$ 813.7 million (or 2.7% more than in 2000). By January 1, 2002, the total FDI attracted by Ukrainian economy since independence had been US\$ \$4,406.2 million. The Russian Federation is one of Ukraine’s five major investors. Officially, Russian FDI in Ukraine is 6.7% of the total FDI in Ukraine (US\$ 295.1 million). The Russian capital is the most active participant of privatization of Ukraine’s strategic property, unlike the western capital that cannot work effectively and adequately in Ukrainian political and economic conditions, with their unstable legislation, contradictory and murky rules of the game. Meanwhile, the readiness of the Russian capital to be involved in the “no-rule fighting”, experience of and access to decision-making and political lobbying bring the desired results. Largely, the situation is assisted by possible announcement of “preliminary political conditions”, as president Kuchma’s economic advisor Anatoly Halchynsky put it. He believes that “politicizing the investment market does not make the process healthier.”

The specific “velvet” expansion of the Russian capital to the Ukrainian economy has its risks – including the risks in the field of production, as Russia today is not a leader in development of new technologies. The integration of Russian capital into the Ukrainian economy may have a negative impact on Ukraine if Russia suffers a new economic crisis.

In the field of economic relations there are a number of “problem points” in the bilateral relations, linked primarily to the “trade wars” between the two states. The year of Ukraine in Russia was marked with increasing duties on imports of Ukrainian sugar and caramel by the Russian government. Later on, a 32-percent duty was introduced for Ukrainian zinc-coated metal sheets, and 21-percent duty was introduced on imports of metal rods for iron-concrete constructions. In April 2001, Russia introduced quotas (650,000 tons) on imports of Ukrainian pipes; the duty remained unchanged in 2002. Ukraine retaliated with adopting a government resolution at the end of March 2002 that imposed a 20-percent duty on imports of 20 kinds of Russian goods, including new cars. In September, however, the government approved a resolution that cancelled the special 20-percent duty on the Russian goods, but the resolution was supposed to come into force as soon as Russia abolished a special duty on Ukrainian pipes. The “trade wars” between the two states resulted in the first half-year of 2002 in the reduction of trade between them by 15.8% down to US\$ 4.2 billion. Ukrainian exports to Russia decreased by 34.2% down to US\$ 1.4 billion. Russian imports to Ukraine dropped by 1.5% down to US\$ 2.8 billion.

Next year is the year of Russia in Ukraine. It is hard to say now how the bilateral relations are likely to develop, including the prospects of establishing of a free trade area, ending the trade wars and involving western partners to the gas consortium. There is only no doubt that Russia will be consistent in pursuing its interests. One can only hope that the Ukrainian leadership will act adequately.