

# Kiev Can't Manage Without the European Union

By [Anders Aslund](#)

September 27, 2011

**The  Moscow Times**

This year's Yalta European Strategy conference, or YES, organized and largely financed by businessman Viktor Pinchuk, was held from Sept. 15 to 18. This was the sixth YES that I have attended, and Pinchuk seems to make it better each year. This conference is not as large as the St. Petersburg International Economic Forum, but therein lies its advantage. With a maximum 250 participants, you can get a much better feeling about what is going on in Ukraine.

This year's YES focused on the question of whether Ukraine would be able to sign its Association Agreement with the European Union in December. This agreement includes a substantial Deep and Comprehensive Free Trade Agreement, as the official title runs. It would be the most substantial agreement that Ukraine has ever concluded.

For Ukrainian big business, this free trade agreement is of great importance. It could mean new steel and chemicals exports worth hundreds of millions of dollars each year, and Ukraine would outsell Russia on European markets.

The one big problem, as EU Commissioner Stefan Füle put it, are the values that he claimed the EU is not prepared to compromise. While the Ukrainian government tends to look upon the European Association Agreement as a trade agreement, the EU insists on moral values. The crucial value is democracy or political freedom.

At the conference, a Portuguese member of the European Parliament, Mario David, told President Viktor Yanukovych point-blank that he regretted the arrest of former Prime Minister Yulia Tymoshenko — not because she was his friend, but because she was accused of no plausible crime and is the leader of the democratic opposition in Ukraine.

Prominent members of the Ukrainian opposition made the same point, and so did EU officials in private conversations with Yanukovych. When the president visited the United Nations General Assembly in New York a week later, he received the same message from both the EU and U.S. Secretary of State Hillary Clinton.

One strength of Yanukovych is that he becomes calmer and milder when he is attacked. He does not dig himself into a hole but starts thinking more creatively. As the media reported, Yanukovych, who undoubtedly would have liked to lock up Tymoshenko for several years, realized that he could not do that. His first defense was to blame the prosecution of Tymoshenko on his predecessor, Viktor Yushchenko, which did not impress anybody. Yanukovych clearly understood this, then stating that the very legal paragraph according to which Tymoshenko was prosecuted would be abolished through legislation this week.

His ultimate desire was to legally disqualify Tymoshenko from future political activity. Yet both the Europeans and Americans stood firm and denied him this pleasure. As a realistic politician, Yanukovych understands that this is not a tenable position. Füle and Swedish Foreign Minister Carl Bildt made clear that full political rights for the opposition leader were a sine qua non for the EU to sign an Association Agreement with Ukraine in December.

With little doubt, Yanukovych got the message. It is rare to see such a drama in front of an international audience, but we were lucky. Ukraine remains amazingly open. The awed Moscow journalists in attendance said offhand, “This could never have happened in Russia!”

Nor could the contrast between the EU and Russia have been greater. Last year, a large number of prominent Russian officials and businessmen descended on Yalta. This time, one Russian, Igor Yurgens, the head of the liberal Institute for Contemporary Development, attended. Clearly, the others had received stern orders to stay out of Ukraine. If so, why would any Ukrainian bother about the Russians? Indeed, this is the attitude of Yanukovych. In the old days, Ambassador Viktor Chernomyrdin could always be expected to fly the Russian flag, but now he has passed away and nobody is left.

The Ukrainian government seems to be desperate about rising Russian gas prices. After Yanukovych traveled to Moscow on Sept. 24 to discuss gas issues with President Dmitry Medvedev and Prime Minister Vladimir Putin, Russia has agreed to review its gas contract with Ukraine, Ukrainian Prime Minister Mykola Azarov said Monday.

At the same time, however, Putin makes no bones about his vision that no Russian oil and gas should be transited through Ukraine, seemingly regardless of price. When I asked Yanukovych about this situation, he emphasized energy saving, domestic production and alternative

supplies, though I would have added that subsidies need to be abolished and domestic prices should be allowed to rise.

Both in public and private, Yanukovych is adamant that he is not prepared to accept membership in the customs union. Ukraine has had too many unsuccessful free trade arrangements with Russia to believe that anything significant can be accomplished. When Ukrainian exports are successful in Russia — for example, vodka, sugar, chocolate or pork — they provoke abrupt protectionist measures from Russia.

Former President Leonid Kuchma launched his own attack on the customs union, noting that Russia and Kazakhstan had been as incapable of salvaging Belarus from its profound financial crisis as the European Union had from handling the Greek financial crisis, and his comment was right on the mark.

Needless to say, Kiev is by no means innocent. Ukrainian corporate raiding has exceeded even Russian levels. Several major enterprises in Ukraine with large Russian ownership — two big steel companies and one oil refinery — have been raided in the last year alone. The Russian owners are crying foul play, but the Ukrainian culprits are quick to note that similar practices are common in Russia.

We bystanders prefer to stay on the sidelines because if we named the culprits, they would sue us. But the common understanding among these despicable corporate raiders is minimal.

Amid all of this, the United States has an important function to play: It is the valiant defender of human and political rights. It stands with the EU as was evident from a common letter to Yanukovych by Catherine Ashton, the EU high representative for foreign affairs and security policy, and Hillary Clinton, which apparently had a great impact.

At present, the situation in Ukraine does not look pretty, neither politically nor economically. But in contrast to Russia, Ukrainian rulers realize that they cannot manage on their own. Currently, Russia is no plausible alternative, and the United States is simply too far away. Therefore, Ukraine has little choice but to get along with the European Union, and Yanukovych seems to understand this very well.

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