

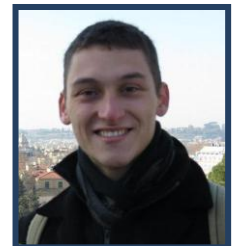


## UKRAINE'S STRUGGLE FOR DEMOCRACY: SEVERE CHALLENGES AHEAD

By Adrian A Basora and Aleksandr Fisher



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### CAN POROSHENKO BEAT THE ODDS?

On May 25, 2014, Petro Poroshenko was elected president of Ukraine with 54.7 percent of the vote. President Vladimir Putin said he would respect the election results, despite having previously stated that he would consider any Ukrainian election illegitimate. Thus, when Poroshenko was inaugurated on June 7, many perceived this as a de-escalation of the confrontation between Moscow and Kiev, with potential for the emergence of an independent, democratic Ukraine. Unfortunately, the problems facing Ukraine are not that simple.

Since the June 7 inauguration, each passing week provides further evidence that Putin's promises of cooperation are consistently belied by Russian actions on the ground. Moscow has clearly instigated the separatist movement in Donetsk and Luhansk and continues to provide political and propaganda backing, heavy armaments, financial support and even highly visible Russian "volunteers" to lead the rebellion. Putin will do all in his power to ensure that Ukraine cannot address its domestic issues unless Russia retains de-facto control over Ukraine's foreign policy, and very likely its eastern provinces as well.

Furthermore, the Crimea annexation crisis and the separatist incursions in Eastern Ukraine have diverted attention away from the deep economic and political problems – both internal and external – that will continue to plague Ukraine over the coming months. Internally, Poroshenko faces a daunting set of challenges: Ukraine's near-bankrupt fiscal situation and its rapidly deteriorating economy, dysfunctional political institutions, and a deeply rooted culture of corruption.

All of Ukraine's challenges are strongly interconnected. Economic reform is dependent on Poroshenko's ability to create an effective system of governance and to sharply decrease corruption. The success of both economic and political reform is dependent, in turn, on Poroshenko's ability to secure Ukraine's eastern provinces and to resolve Kiev's gas pricing disputes with Russia.

Russia's proximity and power, combined with Ukraine's severe internal challenges, make it clear that Poroshenko cannot succeed without strong Western financial and political support. Moscow will continue to raise the stakes militarily unless Western sanctions are ratcheted up substantially beyond the levels announced by the U.S. and the EU on July 16. And Poroshenko will also need very substantial financial, technical and political support from the

West to address Ukraine's looming domestic challenges. Unless the West becomes more united and steadfast in helping Ukraine to deter Russian destabilization and to resolve its domestic challenges, the future of Ukraine as an independent, democratic nation could well be in severe jeopardy.

### UKRAINE'S SPIRALING ECONOMY

Despite the urgency of the secessionist turmoil in his eastern provinces, Poroshenko cannot wait for peace with Russia to begin tackling his first major domestic challenge: a bankrupt and declining economy.<sup>1</sup> Russia's decision of cut off gas to Ukraine, supposedly due to an \$4.5 billion unpaid gas bill, is another significant obstacle to sustaining economic growth since Ukraine imports over 60 percent of its natural gas from Russia.<sup>2</sup> While the previous two points are widely understood, less frequently discussed in policy circles is Ukraine's extremely poor economic and financial situation, which is a legacy of decades of poor governance and rampant corruption.<sup>3</sup>



There also remains a debate on the economic impact of Ukraine's loss of Donetsk and Luhansk. The loss of these regions, which make up over 20 percent of Ukraine's industrial production, might seem severely damaging to the Ukrainian economy, but some argue that their inefficient coal industries and their reliance on Russian gas actually make Donetsk and Luhansk a net economic liability.<sup>4</sup> Regardless of the long-term profitability of these regions to Ukraine, however, a continuation of the current conflict in the Donbas region will no doubt scare away foreign investors and impede Ukraine's overall economic growth.

### RUSSIAN GAS

While Putin's decision to cut off gas to Ukraine seems a dramatic obstacle, Ukraine may end up in better shape than some analysts have predicted. Ukraine has already survived Russia cutting off gas in the winter of 2006 and 2009, and June is the least damaging time for Russia to cut off gas due to lower demand in the summer. The country is now more prepared and less dependent on Russian gas, with an established energy reserve and the prospect of

<sup>1</sup> Ukraine's GDP is expected to [contract by 4.7 percent this year](#). Failure to make a credible start on turning the economy around over the next few months would no doubt begin to undercut Poroshenko's ability to maintain support for his political reforms and foreign policy initiatives.

<sup>2</sup> Macfarquhar, Neil. "Gazprom Cuts Russia's Natural Gas Supply to Ukraine." The New York Times. <http://www.nytimes.com/2014/06/17/world/europe/russia-gazprom-increases-pressure-on-ukraine-in-gas-dispute.html> (accessed July 3, 2014).

<sup>3</sup> Ukraine experienced intense output declines after the collapse of the Soviet Union, witnessing a 47 percent drop in GDP from 1990-1995 and hyperinflation reaching over [10,000 percent in 1993](#). Although Ukraine recovered in the 2000s due to high commodity prices, cheap foreign loans, abundance of capital and the delayed effects of the partial economic reforms of the 1990s, much of its industry remains [backward and uncompetitive](#). At the end of the communist period, Ukraine's GDP per capita was on a par with Poland's. In the intervening two-plus decades of serious reforms in Poland, (and a decade of EU membership) side-by-side with oligarchic asset-stripping and overall economic mismanagement in Ukraine, that ratio now favors Poland three to one.

<sup>4</sup> According to Ukrainian studies, Kyiv spends between [12 and 14 billion hryvnia](#) (around \$1 billion-\$1.5 billion) annually to subsidize these coal mines.<sup>4</sup> Motyl, Alexander J. "Is Losing Crimea a Loss?" Foreign Affairs. <http://www.foreignaffairs.com/articles/141020/alexander-j-motyl/is-losing-crimea-a-loss> (accessed July 14, 2014); Danik, Boris. "Boris Danik: Ukraine would be better off without Donetsk, Luhansk oblasts." Kiev Post. <http://www.kyivpost.com/opinion/op-ed/boris-danik-ukraine-would-be-better-off-without-donetsk-luhansk-oblasts-344830.html> (accessed July 14, 2014).

reversed gas flows from Western Europe if needed this upcoming winter.<sup>5</sup> To combat Russia's stranglehold on energy in Ukraine, Poroshenko must diversify his country's energy sources. In the short term, Ukraine can look to Poland and Slovakia as potential suppliers.<sup>6</sup>

According to the U.S. Department of Energy, there have been recent discovery of shale gas deposits in the Ukraine, which will allow it lessen its energy dependency on Russia. Shell estimates that there are over 4 trillion cubic feet of shale natural gas in reserves in Ukraine, which they plan to develop for domestic consumption and export to Western Europe by 2020.<sup>7</sup> While shale gas may be a source of domestic production, many of these shale fields are located in separatist occupied region of Sloviansk.<sup>8</sup>



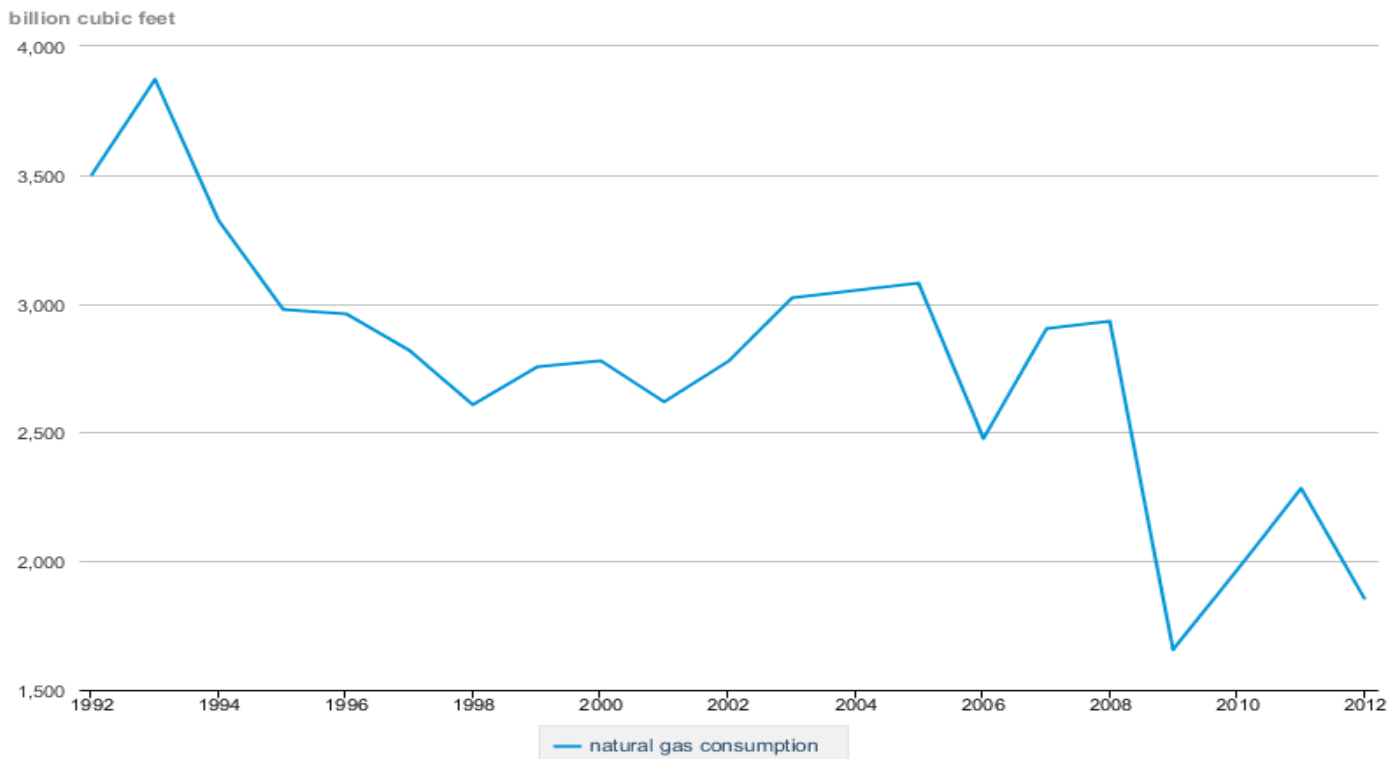
<sup>5</sup> Kinstler, Linda . "Just What Options Do Putin and Ukraine Have Left?." New Republic. <http://www.newrepublic.com/article/118211/ukraine-peace-plan-russian-gas-cut-off-and-options-putin> (accessed July 14, 2014).

<sup>6</sup> Simon Pirani, research fellow at the Oxford Institute for Energy Studies, believes that Ukraine can cut dependence on Russia by lowering gas consumption, by increasing domestic production from 706.29 billion cubic feet to 1130.1 billion cubic feet and adding [494.41 billion cubic feet](#) through a reverse flow from the European Union. This represents 26.6 percent of current consumption (Ukraine consumes approximately 1855 billion cubic feet of natural gas a year).

<sup>7</sup> "Ukraine: Country Analysis Note." U.S. Energy Information Administration (EIA). <http://www.eia.gov/countries/country-data.cfm?fips=up#ng> (accessed July 14, 2014).

<sup>8</sup> Chorvath, Karolina. "Why Ukraine needs Russia—for now, anyway." CNBC. <http://www.cnbc.com/id/101727421> (accessed July 14, 2014).

## Ukraine natural gas consumption (1992-2012)



 Source: U.S. Energy Information Administration

In the longer term, Europe and Ukraine can look into investing into liquefied natural gas (LNG) imports from Qatar and the U.S.,<sup>9</sup> although, the practical prospect for greater LNG exports to Ukraine remains limited.<sup>10 11</sup> However, Poroshenko may not have a long-term horizon if the Ukrainian economy continues to spiral downwards. Therefore, he should not only diversify Ukraine's energy sources and promote domestic production, but he must also promote a pro-business environment in Ukraine to help boost economic growth.

### POOR BUSINESS ENVIRONMENT

One of Ukraine's other major economic issues is its poor business environment, ranking 112 out of 189 worldwide as measured by The World Bank.<sup>12</sup> To improve the environment for investment and higher productivity, Poroshenko will need to reform the laws and regulations that have kept Ukraine uncompetitive, including what *The Economist* calls "burdensome tax rules, low salaries for state employees, complicated and expensive customs regulations, and a non-transparent system of rent payments."<sup>13</sup> Leonid Antonenko, counsel at Sayenko Kharenko law firm and a former EuroMaidan activist, argues that Ukraine must simplify its corporate rules in order to encourage more foreign

<sup>9</sup> Lakshmanan, Indira A.R. and Ewa Krukowska. "Russian Gas Reliance in Europe Skewing Sanctions Debate." Bloomberg. <http://www.bloomberg.com/news/2014-05-26/a-europe-hooked-on-russian-gas-debates-imposing-sanctions.html> (accessed July 14, 2014).

<sup>10</sup> Andreas Goldthau, a visiting scholar with the Geopolitics of Energy Project at Harvard University's Belfer Center for Science and International Affairs and Tim Boersma, a fellow in the Energy Security Initiative in the Foreign Policy program argue that LNG exports will have a minimal effect on Ukraine's energy consumption since most of the LNG exports will be directed towards Asian countries due to higher demand and poorly developed energy infrastructure in Eastern Europe. Goldthau, Andreas, and Tim Boersma. "The 2014 Ukraine-Russia crisis: Implications for energy markets and scholarship." *Energy Research & Social Science* 3 (2014): 13-15.

<sup>11</sup> Goldthau, Andreas, and Tim Boersma. "The 2014 Ukraine-Russia crisis: Implications for energy markets and scholarship." *Energy Research & Social Science* 3 (2014): 13-15.

<sup>12</sup> "Doing Business in Ukraine - World Bank Group." Doing Business. <http://www.doingbusiness.org/data/exploreconomies/ukraine> (accessed July 14, 2014).

<sup>13</sup> "Ostrich zoo and vintage cars." *The Economist*. <http://www.economist.com/news/europe/21604234-fight-against-corruption-steep-uphill-battle-ostrich-zoo-and-vintage-cars> (accessed July 14, 2014).

investment.<sup>14</sup> As a successful businessman, Poroshenko understands these issues and can have a significant impact if he tackles these nonproductive regulations promptly and decisively.



SOURCE: WWW.TRADINGECONOMICS.COM | STATE STATISTICS SERVICE OF UKRAINE

That being said, Ukraine's economy still faces major economic hurdles. According to the State Statistic Service of Ukraine, inflation has drastically increased from 6.9 percent in May 2014 to 12.0 percent in July 2014. Interest rates have increased from 6.5 percent to 9.5 percent to combat the rising inflation. Ukraine's government budget deficit was equal to 4.48 percent of the country's GDP in 2013, and government debt to GDP currently stands at 41 percent. Furthermore, unrest in Eastern Ukraine and a poor business environment have caused unemployment to increase from 8.1 percent in March, 2014 to 9.3 percent in June 2014. These troubling economic statistics point to the sacrifices that Ukrainian citizens must be willing to make in the coming years to ensure a more democratic and economically sustainable country.



SOURCE: WWW.TRADINGECONOMICS.COM | STATE STATISTICS SERVICE OF UKRAINE

<sup>14</sup> Shevchenko, Daryna. "Antonenko: Creating a modern economy on antiquated, unrealistic laws will not work." KyivPost. <http://www.kyivpost.com/content/business/antonenko-creating-a-modern-economy-on-antiquated-unrealistic-laws-will-not-work-352479.html> (accessed July 14, 2014).

In sum, while the recent conflict with Russia has disturbed industrial production and foreign exports, Ukraine's economic problems run far deeper than merely the events of the past six months. Reforming the economy will not be a short-term project, and advertising Ukraine's economic problems as such can have grave political consequences when the Ukrainian people become disillusioned over the lack of immediate results. Poroshenko must adequately prepare Ukrainians for the long road ahead, which will include a temporary fall in GDP, some domestic inflation and currency devaluation, and a decrease in living standards. Just as Churchill told British citizens during World War II "I have nothing to offer but blood, toil, tears and sweat," so must Poroshenko prepare the Ukrainian people for the hardships ahead.

## IMF AND INTERNATIONAL SUPPORT

Given these challenges, what can Poroshenko and the West do to ensure that Ukraine does not suffer an economic collapse that would leave the current administration politically impotent?

First, the U.S. and the EU must actively assist Ukraine during this time of political instability. The United States has already provided some limited help to the Ukrainian government,<sup>15</sup> but these initiatives have been insufficient. Analysts from Forbes Ukraine have calculated that Russia has provided fifty times more military assistance than the U.S. The \$250 million price tag the Forbes analysts have placed on Russia's "shadow war" mostly entails "the fifteen thousand \$300-per-day mercenaries streaming across the border with their lethal weaponry."<sup>16</sup>

Poroshenko must also successfully complete negotiations with the IMF. At the end of April, the [IMF guaranteed a \\$17 billion](#) loan over two years to support an economic reform program focused on exchange rate flexibility, banking stability, fiscal policy, energy policy, and governance.<sup>17</sup> IMF officials – perhaps aided by American and EU technical advisers – should make certain that the Ukrainian government implements these reforms promptly and thoroughly in order to sharply decrease corruption.

## UKRAINE AND THE EU

A deeper partnership with the EU is Ukraine's greatest hope for economic and political stability. Poroshenko's signing of the EU free trade association on June 27, 2014 is a positive step for Ukraine's integration with Europe, and will allow Ukraine to further diminish the country's economic reliance on Russia. On May 15, the European Union unilaterally opened its market to Ukrainian goods and services by cancelling 98 percent of sales duties in accordance with the Free Trade Agreement (FTA).<sup>18</sup> This initiative alone can save Ukraine's producers nearly EUR 500 million a year.

While there is considerable commentary on Ukraine's excessive reliance on Russia, Ukraine's exports to the EU currently exceed those to Russia by 1.8 times, showing that Ukraine has already been orienting itself towards Europe and away from Russia the past several years. In 2013, Ukraine's exports to the EU totaled 13.8 billion euros - mostly iron, steel, minerals and food.<sup>19</sup> This provides hope that Ukraine will not economically implode should a trade war occur.<sup>20</sup>

Despite this seemingly positive move towards Europe, the Ukrainian economy is still heavily dependent on Russia for its oil and gas, as well as several key heavy industries such as railway locomotives, nuclear reactors, and electrical machinery. The EU free trade agreement is not a panacea for all of Ukraine economic problems, but a closer partnership with Europe will allow Ukraine to better extricate itself from Russia's economic stranglehold. While the proposed initiatives should assist Ukraine in the short term, there are several deep-rooted reforms that Poroshenko must undertake to ensure both economic prosperity and effective governance.

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<sup>15</sup> On June 7, Vice President Joe Biden promised "\$48 million in assistance to help the Ukrainian Government conduct key reforms, build law enforcement capacity, and strengthen national unity." This package is in addition to the "\$1 billion loan guarantee signed on April 14, a \$50 million crisis-response package announced by Vice President Biden on April 21, and [\\$23 million in security assistance](#)."

<sup>16</sup> Gregory, Paul. "Five Compelling Reasons For The U.S. To Offer Lethal Military Assistance to Ukraine." Forbes. <http://www.forbes.com/sites/paulroderickgregory/2014/06/16/five-compelling-reasons-for-the-u-s-to-offer-lethal-military-assistance-to-ukraine/> (accessed July 14, 2014).

<sup>17</sup> Ukraine received \$3.2 billion in May to "shore up depleted foreign currency reserves and support the state budget," and it has already met some of the IMF's stringent requirements, which include raising the price of gas and allowing the hryvnia, [Ukraine's national currency, to float](#).

<sup>18</sup> <http://ukrainianweek.com/Economics/110351>

<sup>19</sup> Peter, Laurence. "EU in bond with eastern neighbours." BBC News. <http://www.bbc.com/news/world-europe-28038725> (accessed July 14, 2014).

<sup>20</sup> Kramar, Oleksandr. "Breaking Away From Eurasia." The Ukraine Week. <http://ukrainianweek.com/Economics/110351> (accessed July 14, 2014).

## TACKLING CORRUPTION

Taking a long term perspective, Poroshenko must begin to alter Ukraine's culture of corruption that has hindered both the effective governance of the state and undermined economic growth. Transparency International has ranked Ukraine 144 out of 177 in the level of corruption.<sup>21</sup> According to Gallup Polls, over one-third of Ukrainians admitted to facing a situation in which they had to pay a bribe, and 80 percent of those individuals asked admitted to paying the bribe.<sup>22</sup>

Year	Ranking	Corruption Perception Index Score
1998	69 of 85	28
1999	75 of 99	26
2001	83 of 91	21
2002	85 of 102	24
2003	106 of 133	23
2004	122 of 146	22
2005	107 of 158	26
2006	99 of 163	28
2007	118 of 179	27
2008	134 of 180	25
2009	146 of 180	22
2010	134 of 178	24
2011	152 of 183	23
2012	144 of 176	26
2013	144 of 175	25

*Corruption perception index: scores range from 0 (very corrupt) to 100 (very clean)*

Corruption not only limits foreign direct investment in the country, but has also allowed the oligarchs to gain de-facto control of Ukrainian politics. In 2012, the legislature attempted to tackle Ukraine's corruption problem by amending the anti-corruption law, *On the Principles of Preventing and Combating Corruption*. Unfortunately, this initiative failed to have any tangible effects due to weak rule of law and inadequate enforcement.<sup>23</sup>

In order to fundamentally alter Ukraine's culture of corruption, Poroshenko must set an example from the top. He must ensure that his cabinet remains "squeaky clean" by avoiding corruption scandals; this includes appointing individuals with no criminal records. Furthermore, Prosecutor General Vitaly Yarema must punish those that violate the anti-corruption law to set an example. Anders Aslund proposes electoral finance reform, the implementation of right-to-information laws, limiting the regulatory power of the state, decentralization, and a shake-up of the judiciary as possible options to curtail corruption in Ukraine.<sup>24</sup> As the chart below shows, corruption and the closely related lack of a truly independent judiciary are the two most significant factors undercutting Ukraine's democracy score.<sup>25</sup>

<sup>21</sup> "Corruption by Country/Ukraine." Transparency International. <http://www.transparency.org/country#UKR> (accessed July 14, 2014).

<sup>22</sup> Ray, Julie, and Neli Esipova. "Corruption a Major Obstacle for Ukraine's Next President." Gallup. <http://www.gallup.com/poll/170579/corruption-major-obstacle-ukraine-next-president.aspx> (accessed July 14, 2014).

<sup>23</sup> "Ukraine Country Profile." Business Anti-Corruption. <http://www.business-anti-corruption.com/country-profiles/europe-central-asia/ukraine/business-corruption-in-ukraine.aspx> (accessed July 14, 2014).

<sup>24</sup> Aslund, Anders. "Oligarchs, Corruption, and European Integration." *Journal of Democracy* 25, no. 3 (2014): 64-73.

<sup>25</sup> Daria Kaleniuk, executive director of the Anti-Corruption Action Center in Kyiv, [stated that three reforms are necessary](#): "new rules for transparency in public procurement through tenders, a law requiring public registry of immovable property, and a so-called law of beneficial ownership, requiring that corporations list who owns and controls those entities." These reforms may allow Ukraine to limit the widespread corruption in business.

Nations in Transit Ratings and Averaged Scores

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Electoral Process	4.25	3.50	3.25	3.00	3.00	3.50	3.50	3.50	3.75	4.00
Civil Society	3.75	3.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Independent Media	5.50	4.75	3.75	3.75	3.50	3.50	3.50	3.75	4.00	4.00
Governance *	5.25	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	5.00	4.50	4.75	4.75	5.00	5.00	5.50	5.75	5.75
Local Democratic Governance	n/a	5.25	5.25	5.25	5.25	5.25	5.25	5.50	5.50	5.50
Judicial Framework and Independence	4.75	4.25	4.25	4.50	4.75	5.00	5.00	5.50	6.00	6.00
Corruption	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00	6.00
Democracy Score	4.88	4.50	4.21	4.25	4.25	4.39	4.39	4.61	4.82	4.86

*The chart exemplifies Ukraine's deteriorating democratic political institutions over the past decade*

*Source: Freedom House Nations in Transit<sup>26</sup>*

Lastly, the EuroMaidan movement should serve as a civil society counterweight to the Ukrainian government by monitoring for corruption and keeping the country's politicians accountable. EuroMaidan began as an anti-corruption movement, and still believes its goal has not been completely achieved.<sup>27</sup> If Poroshenko stays true to his zero-tolerance for corruption platform, and supports independent civil society groups like EuroMaidan, he can significantly improve both Ukraine's economic future and its political institutions.

## POLITICAL REFORM AND EFFECTIVE GOVERNANCE

Directly interconnected to promoting economic growth is Ukraine's system of governance. Ukraine has a history of poor, corrupt administrations who were more concerned about their own personal wealth than creating effective government institutions. If Poroshenko does not want a repeat of the debacle following the 2004 Orange Revolution - where internal quarreling between President Viktor Yushchenko and Prime Minister Yulia Tymoshenko allowed for the election of Viktor Yanukovich in 2010 - he must dedicate himself to constructing strong political institutions.

## PRESIDENTIAL TEAM

To rectify a historical legacy of incompetent and corrupt leaders, Poroshenko must surround himself with an experienced team of advisors that are both loyal to him and dedicated to the larger goal of a democratic Ukraine.

Poroshenko appointed Boris Lozhkin, a former business partner and media mogul, as his chief of staff. Lozhkin is an inexperienced politician, but he does have strong ties with all the oligarchs, as well as a close connection with Russia, which has raised criticism from EuroMaidan activists.<sup>28</sup> Poroshenko has also brought in Pavlo Klimkin as foreign minister, Valeria Gontareva to head the National Bank of Ukraine and Viltaly Yarema as prosecutor general, all of whom are Western-leaning, loyal to Poroshenko, and experienced in their respective fields.<sup>29</sup>

Some have raised concern that some of Poroshenko's team is too closely connected to former Ukrainian president Viktor Yushchenko. The new president's team includes Ihor Hryniv, a previous member of parliament and former

<sup>26</sup> Sushko, Oleksandr, and Olena Prystayko. "Nations in Transit: Ukraine." Freedom House. <http://www.freedomhouse.org/report/nations-transit/2013/ukraine#.U6xjn0A-8TY> (accessed July 14, 2014).

<sup>27</sup> U.S. Agency for International Development. "Public Opinion Survey Residents of Ukraine." International Republican Institute. <http://www.iri.org/sites/default/files/2014%20April%205%20IRI%20Public%20Opinion%20Survey%20of%20Ukraine,%20March%2014-26,%202014.pdf> (accessed June 24, 2014).

<sup>28</sup> Jarábik, Balázs. "Poroshenko's Team: Managers of the Nation?." Carnegie Endowment for International Peace. <http://carnegieendowment.org/2014/06/17/poroshenko-s-team-managers-of-nation/hduo> (accessed July 14, 2014).

<sup>29</sup> Yeroshko, Iryna, and Oksana Grytsenko. "Parliament confirms Poroshenko nominations for foreign minister, central bank, prosecutor general." KyivPost. <http://www.kyivpost.com/content/politics/parliament-confirms-poroshenko-nominations-352516.html> (accessed July 14, 2014).



director of the Kyiv Institute for Strategic Studies; Valeri Chaly, a foreign policy expert and diplomat; Roman Svarych, Yushchenko's former justice minister; and Viktor Baloha, the head of Yushchenko's secretariat during his presidency.<sup>30</sup> Such overlaps are to be expected since Poroshenko was an active supporter of Yushchenko during the Orange Revolution in 2004, but Poroshenko must also be sure to surround himself with capable and loyal individuals if he wishes to enact any meaningful changes. At the same time, the West must be wary that Poroshenko's team does not become a new insider "family"<sup>31</sup> similar to the one in Ukraine under Yanukovich, Russia under Putin, or in Georgia under Mikhail Saakashvili.

## PARLIMENTARY ELECTIONS

In addition to building an effective presidential administration, Ukraine should hold parliamentary elections as soon as possible in order to weed out anti-democratic elements in the government as well as creating greater democratic legitimacy for the Poroshenko's administration. Part of this process should include the institutionalization of a new party system, which includes creating a political party around Poroshenko. Currently, Yulia Tymoshenko's party *Batkivshchina* (Fatherland) holds the most seats in Ukraine's parliament.

Poroshenko has good relations with Prime Minister's Arseniy Yatsenyuk of the *Batkivshchina* (Fatherland) party and *UDAR* (Democratic Alliance for Reform) party. However, Poroshenko's own party, *Solidarity*, failed to register prior to the presidential election, forcing Poroshenko to run as an independent candidate. According to recent polls, "*Solidarity* has seen recent growth thanks to Poroshenko's newfound popularity. Opinion polls show it leads the field with around 17 percent.

Party	Number of Seats in Parliament
<i>Batkivshchina</i> (Fatherland)	86
Ukrainian Democratic Alliance for Reform (UDAR)	41
All-Ukrainian Union "Svoboda"	35
"Economic Development" Group	40
"Sovereign European Ukraine" Group	35
Party of Regions	78
Communist Party of Ukraine	23
For Peace and Stability	34
Non-affiliated	73
<b>Total (5 vacant seats)</b>	<b>445</b>

Source: Verkhovna Rada, July 4, 2014

Poroshenko has said he wants parliamentary elections to be held this year, and he hopes that his party will emerge as the winner of the ballot.<sup>32</sup> A more institutionalized party system will allow for more formal debate and transparency, rather than allowing Ukrainian politics to regress towards informal channels, thereby undermining democratic consolidation. Ukraine cannot have a democracy without a strong parliament.

## DECENTRALIZATION

Decentralization is perhaps the most important political reform Poroshenko must undertake. Currently, the central government in Kiev holds too much authority, leading to corruption, inefficient use of resources, and local frustration and animosity towards Kiev (which helps explain the separatist movements in Donetsk and Luhansk). Opinion polls taken prior to the presidential election revealed that over 45 percent<sup>33</sup> of Ukrainians in Southern and Eastern Ukraine desired a decentralization of power while nearly 25 percent<sup>34</sup> wanted a more federal system.

<sup>30</sup> Goncharenko, Roman. "Ukraine's new President Poroshenko leads old team | World | DW.DE | 07.06.2014." Deutsche Welle. <http://www.dw.de/ukraines-new-president-poroshenko-leads-old-team/a-17687907> (accessed July 14, 2014).

<sup>31</sup> Oleksiyenko, Oles. "A Heavy Mace for Mr. Poroshenko." The Ukraine Week. <http://ukrainianweek.com/Politics/110374> (accessed July 14, 2014).

<sup>32</sup> Oleksiyenko, *A Heavy Mace for Mr. Poroshenko*.

<sup>33</sup> Babiak, Mat. "Southeast Statistics." Ukrainian Policy. <http://ukrainianpolicy.com/southeast-statistics-of-ukraine-april-2014/> (accessed July 14, 2014).

<sup>34</sup> U.S. Agency for International Development, *Public Opinion Survey Residents of Ukraine*, 37.

Poroshenko has put decentralization as one of his main priorities due to these popular attitudes. However, Carnegie Center's Senior Associate Richard Young argues that "decentralization cannot in itself be expected to hold a state together in the absence of national democratic identity building" and "there is a fine line between decentralization acting as a healthy pressure valve, on the one hand, and it stoking debilitating fragmentation, on the other."<sup>35</sup> Decentralization, by itself, will not magically fix all of Ukraine's domestic political troubles. To promote democratic consolidation, Poroshenko must protect the use of the Russian language in Ukraine, while avoiding fueling ethnic and historical divides between the Ukrainian people.

Overall, Poroshenko must establish a system of effective governance by appointing a professional cabinet, institutionalizing a new party system, pushing for early parliamentary elections, decentralizing the government, avoiding corruption scandals and cracking down on corruption when it does occur in order to show that corruption is unacceptable.

### THE BATTLE FOR THE EASTERN UKRAINE

However, in order for Poroshenko to implement political and economic reform fully and successfully, he must address Ukraine's conflict with pro-Russian separatists in Donetsk and Luhansk. Russia's actions in supporting these rebel groups are severely hindering Poroshenko's reforms by draining the government's already meager finances, diverting energy and attention away from the essential reforms mentioned above and by dissuading potential foreign investors. The sequencing of internal reform is thus intertwined with the battle for the East. On the one hand, Poroshenko must establish a peaceful relationship with the Eastern regions and with Russia before he can hope to successfully rebuild Ukraine's stagnant economy and reform its weak political institutions. On the other hand, he must get a quick start on these internal reforms if he is to maintain both domestic political credibility and international financial support.



*[‘RSA’ indicates ‘Regional State Administration’, the name for the regional governments of Ukraine and the buildings that house them.]*

<sup>35</sup> Youngs, Richard. "Decentralization: Ukraine's Rub." Carnegie Europe. <http://carnegieeurope.eu/strategieurope/?fa=55612> (accessed July 14, 2014).

## UKRAINIAN AND WESTERN OPTIONS

To provide a realistic chance for a peaceful and independent Ukraine, the West must continue to escalate economic sanctions on Moscow. The U.S. sanctions on selected Russian banks and energy companies announced on July 16 are an important step in the right direction. Although the EU has also announced a few additional sanctions, the net cumulative pain being inflicted on Moscow so far seems unlikely to deter Putin's continued destabilization of the East.

Despite its potentially decisive leverage on the Russian economy, the EU has been an all-too-visibly reluctant player in sanctioning Russia. It has thus not given Putin any compelling incentive to cease his support for pro-Russian separatists in Eastern Ukraine.<sup>36</sup> Unless a united West is prepared to punish Moscow more decisively, including placing serious sanctions on Russia's energy industries, Putin will continue to make it virtually impossible for the Poroshenko government to succeed in dealing with Ukraine's daunting challenges. Ukraine's democracy – and very likely its survival as a united, independent country – are very much at stake.

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<sup>36</sup> Troianovski, Anton. "EU Won't Increase Sanctions on Russia, Official Says." The Wall Street Journal. <http://online.wsj.com/articles/eu-wont-increase-sanctions-on-russia-official-says-1403606188?tesla=y&mg=reno64-wsj> (accessed July 14, 2014).