Ukraine: four crises, one country

by Nicu Popescu

For most of the last two decades, virtually every Ukrainian election or opinion poll has hinted at the existence of two Ukraines – one Western-leaning and another looking to Moscow; one voting Timoshenko or Yushchenko and another pro Yanukovich; one against Putin and another in favour of him. Unsurprisingly, many feared that the ousting of Yanukovich, the Russian annexation of Crimea, and the infiltration of eastern Ukraine by Russian military intelligence would cause Ukraine to split in two or collapse altogether like a house of cards.

Ukraine still faces four interconnected existential crises: economic, political, territorial, and diplomatic (with Russia). It is also clear that even if the country manages to overcome these challenges, it will not be left unscathed. The past three months, however, have shown that Ukraine was not a powder keg waiting to explode, despite the many attempts to ignite it.

The country's resilience has proven stronger than many assumed (both in Russia and the rest of Europe), and while its blend of problems might be poisonous, they are not insurmountable. Petro Poroshenko's unexpectedly smooth popular election – with support drawn evenly across Ukraine – represents a potential turning point in the spiral of overlapping crises that have characterised its recent past.

One Ukraine, not two

Both Sunday's election results and the localised nature of the armed insurgency in the east suggest there is neither two Ukraines nor a distinct entity waiting to emerge in 'southeastern' Ukraine. Although electoral preferences in Ukraine may have differed in the past, there is overwhelming popular and elite support for maintaining Ukraine as one state in the majority of its regions.

For all the worrying images of what looks like a descent into civil war, the armed insurgency is affecting just parts of two Ukrainian regions, or *oblasts* – Donetsk and Luhansk. The other regions of the 'southeast' – Dnipropetrovsk, Zaporizhia, Mykolaiv, Odessa, Kharkiv and Kherson – have remained more or less stable. None of these regions witnessed the overnight implosion of the state apparatus that occurred in Crimea or parts of Donetsk and Luhansk – although it is not inconceivable that Russian inroads could destabilise the situation further.

This relative stability is partly due to attempts by Ukrainian elites – in Kiev and in the east – to find a new post-Yanukovich *modus vivendi*. But the wider public also seems to be on a similar path: an opinion poll conducted last month by the Kiev

International Institute of Sociology revealed that over 70% of people in the south and east of the country no longer consider Yanukovich their legitimate president; 79% do not support secession from Kiev (only 25% support federalisation); and 45% would be happy with decentralisation. Although in the regions of Donetsk and Luhansk there are greater levels of support for Yanukovich, for the armed insurgency, and for joining Russia, even there it is confined to 20%-30% of the population (in the other regions it is under 10%). In short, there is no popular backing for either the armed separatists or a Russian intervention.

Finally, the recent election results are indicative of a country that has significant regional variations but is, nonetheless, *one* country. Poroshenko, who was born in south Ukraine not far from Odessa, came first in the presidential elections in every single region of Ukraine (see map).

Localising the armed insurgency

In response to the takeover of public buildings in parts of eastern Ukraine, the government deployed military and police units in an attempt to quash the armed challenge to state authority. The start of the operation was, however, a disaster. Local police and intelligence units in the Donetsk and Luhansk area either refused to obey orders or simply disbanded: in one instance, a group of soldiers surrendered several armed personnel carriers to a protesting crowd. In Mariupol, the army, not trained in the ways of managing large, mostly unarmed crowds in urban settings, opened fire on civilians. Now several weeks into the operation, several towns in the two regions remain outside governmental control.

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Yet in another sense, the operation has been a qualified success. Although its maximalist goal of quickly defeating the separatists was not achieved, its minimalist goal – containing the insurgency, preventing its geographical spread, and holding the 25 May presidential elections in most parts of Ukraine – has been achieved. Elections were properly organised and carried out in 22 out of 25 regions (people were denied the opportunity to vote only in Donbas and Luhansk, as well as in annexed Crimea). Despite the intensified fighting and additional bloodshed since the elections, the chances that Kiev can prevent the contamination of other parts of Ukrainian territory look reasonable.

A key player in containing and even rolling back the insurgency is one of Ukraine's most prominent oligarchs: Igor Kolomoisky. Upon being appointed governor of the Dnipropetrovsk region in March, he quickly stabilised the situation by (re)asserting control over the law enforcement agencies. Parts of the Donetsk region, unhappy with the descent into separatist chaos, are now seeking protection from the Kolomoisky-led Dnipropetrovsk administration. And when clashes in Odessa between pro-Russian and pro-Ukrainian activists left around 40 people dead, a Kolomoisky protégé was quickly appointed local governor.

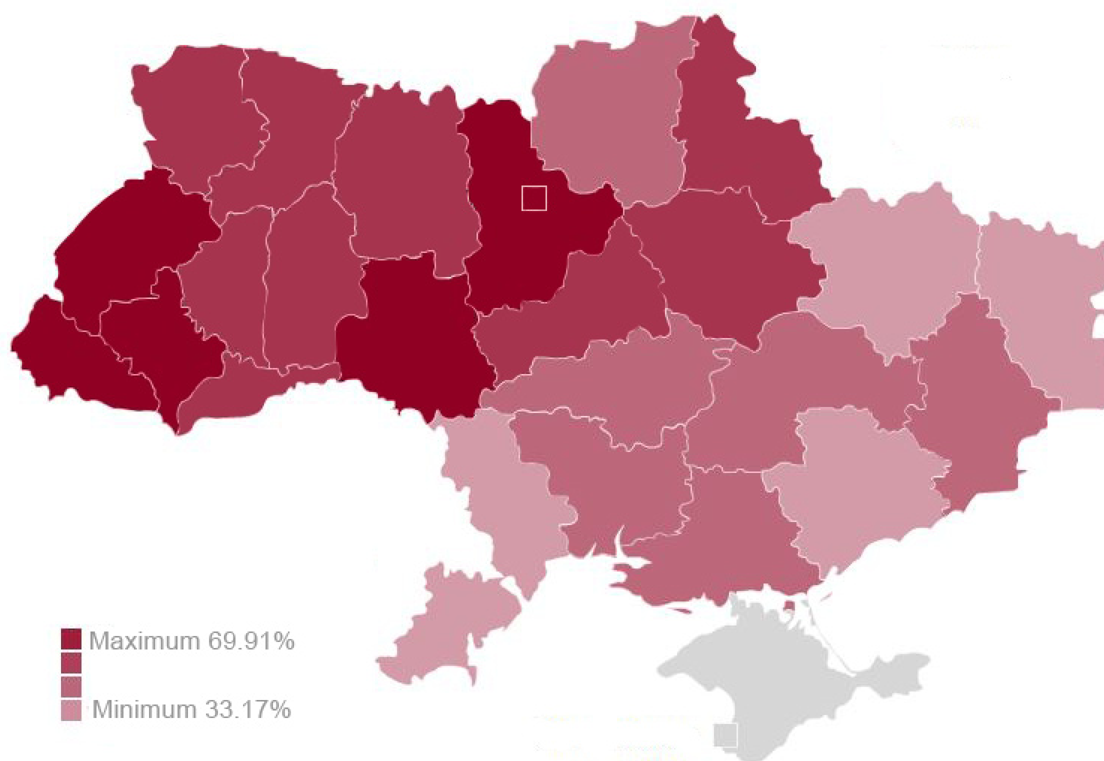
Avoiding an economic crash

Thanks to Western assistance, a total economic collapse seems to have been averted, and the self-styled 'Kamikaze government' led by Yatseniuk has already begun to undertake certain reforms. An all-out assault on vested interests is unlikely, but a lower-key war of attrition against some of the more corrupt elements of the state is underway.

Partly thanks to strong IMF and Western conditionality, some progress is being made. A new, World Bank-approved public procurement law was adopted in parliament (albeit on the second attempt and with a one vote majority) and an anti-discrimination law, paving the way to EU visa liberalisation, has also been passed. The government has increased the cost of hitherto subsidised energy prices, which should help redress some of Ukraine's gas debt. Pavlo Sheremeta, the economy and trade minister (a graduate from Harvard Business School and former advisor to the Malaysian government), boldly aims to bring Ukraine closer to the top 10 countries with the best business environment (according to the Cost of Doing Business report, where Ukraine was ranked 145th in 2013). Admittedly, this is no small task, but setting ambitious goals has the positive knock-on effect of focusing minds in Kiev.

For a government that is only three months old, and has spent most of its time managing an armed challenge to its statehood, localising separatist movements, organising presidential elections and taking steps to deal with the country's economic

Votes for Poroschenko in 2014 Ukrainian presidential election



Source: www.pravda.com.ua

woes, this is a decent start. Yet success is far from assured, since the remedy for one type of crisis often aggravates another. In this respect, the central question for Ukraine in the following months will be how to maintain internal unity while reforming the oligarchic economy that triggered the revolution in the first place.

Disempowering the oligarchs?

Ukrainian oligarchs made their fortunes by looting the state through corrupt public procurement procedures and the exploitation of various subsidies (including gas). Furthermore, the privatisation of law enforcement agencies allowed the most powerful business sharks to take over assets of their competitors through administrative pressure, in what is called '*reiderstvo*'. Reform therefore means conflict – with vested interests, a bloated public sector, and the subsidised sectors of the economy which are driving the whole country to bankruptcy. The system has survived for so long precisely because it has so many stakeholders, with a handful of oligarchs being only the most visible beneficiaries.

Though tackling corruption was supposed to be a key priority for the post-Yanukovich government, the focus on internal reform shifted to territorial defence following the armed intervention on its eastern borders. Confronted with a military conflict, Kiev took steps to co-opt (rather than squeeze) the oligarchs – not least because most of them have their power bases in eastern Ukraine – and to offer them a stake in the new political system as a way of maintaining the country's unity. Igor Kolomoisky was appointed as governor of Dnipropetrovsk, and Serhiy Taruta as governor of Donetsk, while other oligarchs such as Dmitri Firtash, or regional 'barons' like Genady Kernes in Kharkiv, positioned themselves as relatively constructive players in order to retain as much (and as many) of their fiefdoms as possible. Petro Poroshenko, the newly elected president, is one of the country's richest individuals and has served in various governments under both presidents Yushchenko and Yanukovich.

Co-opting the oligarchs has yielded success in the short term, helping to confine the armed insurgency in the east to just two regions. Yet this short-term success could turn into a mid-term failure if the oligarchic system remains the same. Since the government is not in a position to launch an all-out Saakashvili-style assault on corruption and vested interests, the best-case scenario would be to embark on a series of 'salami' reforms conducted by technocrats in the government.

This would require as much external support as possible and the imposition of strong conditionality from international donors in order to strengthen the hand of the reformists. While such a piecemeal approach is an arduous task and could easily fail, it appears to be the only real possibility given the current environment.

Federation or separation?

Ukraine's territorial crisis will not be resolved soon. Short of a Chechnya-style, large-scale military assault on urban areas – which would risk massive civilian casualties – Ukraine is not in a position to easily defeat the armed insurgents as long as they receive (tacit) Russian support.

For the time being, two possible models of a 'non-solution' have been floated. One is labelled 'Finlandisation', i.e. the creation of a neutral state which – as the theory goes – would offer credible guarantees that NATO will not grant membership to Ukraine and thus assuage Russia. The other is labelled 'Bosnia-isation', i.e. the creation of a federalised entity with wide-ranging veto powers for its constituent regions. The two models do not appear incompatible, and could even be combined.

On paper, both options have their merits. Much as the term 'Finlandisation' means different things to different people at different times, it is a fact that Finland has done well since the end of the Second World War and is a prosperous and secure nation. And while Bosnia might appear to be a rather dysfunctional federation since 1996, its constituent parts have at least prevented further bloodshed. Unfortunately, neither option is likely for Ukraine.

Should Ukraine become either neutral or federal – or both – it would end up nothing like Bosnia or Finland. Bosnia might be still divided internally, but it sits in the middle of the single most benign international environment on earth. Finland's neutrality throughout the Cold War was agreed upon and respected: neither of these two conditions are likely in Ukraine.

It suffices to look at Moldova, which adopted neutrality in 1994 in the hope of persuading Russia to cease its support for secessionist Transnistria. Not only has Moscow continued to prop up the breakaway region, but Moldova has been put under constant and growing Russian pressure not to move closer to the EU.

Even Ukraine under President Yanukovich – who gave up on efforts to upgrade ties with NATO – was heavily pressured not to sign the Association Agreement with the EU. Similarly, the emergence of a neutral Ukraine would be unlikely to bring about a new era of Russian-Ukrainian-Western cooperation, at least as long as Russia continues to perceive itself to be in direct competition with both NATO and the EU.

Another scenario would be the transformation of the Donetsk and Luhansk regions into a bigger version of Transnistria – a secessionist territory that is not recognised by anyone, but which creates *de facto* state structures with Russian support. Moscow's logic would be that this area could then be used at a later stage as a bargaining chip with the government in Kiev in any negotiations over federalisation and/or neutrality.

These tactics has been employed several times before – in Abkhazia, South Ossetia, and Transnistria itself – but without the desired effect for the Kremlin. The presence of these frozen conflicts made a move away from Russia more, rather than less, likely for both Georgia and Moldova. Despite Russian threats and the risk of further complicating relations with their secessionist regions, both countries are on the verge of signing Association Agreements with the EU. While Georgia and Moldova might lag far behind the EU in political and economic terms, they nevertheless score reasonably well for resource-poor countries manoeuvring in a very difficult geopolitical environment.

There is already a growing sentiment among Kiev elites that, if it comes to it, losing the Donbass would not be catastrophic and might actually lead to a more cohesive and reform-oriented Ukraine. Against all odds, Ukraine is managing to survive as a country: it now needs to build a state.

Nicu Popescu is a Senior Analyst at the EUISS.

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