

## **President Yanukovich's Policies and Tendencies**

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### **Summary**

It is doubtful that President Yanukovich believes in democracy, or that he is interested in economic reform. To avoid reform of the gas sector, he has signed agreements with Russia which, while giving him a better gas price, constrain Ukrainian freedom of action. The further agreements that Russia is proposing could threaten Ukrainian independence. Regardless of the accords with Russia, Yanukovich does need further credit from the IMF. For this, he has to get his economic house in order. Yanukovich is also interested in free trade with the EU. For this democratic and even more extensive economic reforms are required. While Ukraine can be infuriating in the persistent gap between its promises and its performance, it is in the West's interests to remain engaged.

### **Analysis**

During his election campaign, Viktor Yanukovich conveyed divergent messages to the Ukrainians and the West. To Ukrainians, he declared he wanted closer relations with Russia, together with free trade and eventual membership in the EU. He also wanted to see Ukraine join the Moscow-led customs union, the Common Economic Space (CES), provided it was allowed by the WTO. He promised to negotiate a more favourable gas price with Russia. He supported extending the Russian Black Sea Fleet's lease of its base at Sevastopol beyond its expiry date in 2017.

At the same time, Mr. Yanukovich's aides informed The Wall Street Journal that he and his Party of the Regions accepted the democratic rules of the game. Furthermore, the oligarchs around Yanukovich saw that their economic prosperity was linked to a reduction in corruption, the expansion of free market po



interests in favour of certain elements of the status quo. The Prime Minister, Nikolai Azarov, while a solid manager, is not

a formidable opponent. She is probably the most intelligent politician in the country. She is well capable of rallying public opinion against questionable policies.

While political calculation would suggest that Yanukovych should work with the opposition, compromise does not come naturally to him. In any case, the initial measures taken by the government, including the agreement extending the lease on the Russian naval base, have sufficiently infuriated the opposition that it is unlikely for the foreseeable future to work with the government on other issues. Unless the two sides can co-operate, Yanukovych may be tempted to adopt more repressive measures.

The adoption of more authoritarian politics will not help the government achieve its aim of free trade with the EU. During President Yanukovych's visit to Brussels in early March, EU officials offered to conclude a free trade agreement in twelve

The requirement on Ukraine to increase substantially its purchase of Russian gas will act as a disincentive for Ukraine to become more efficient in its use of gas, and to diversify its supply. Ukraine is one of the most inefficient users of energy in the industrial world. Ukraine's own resources are underdeveloped. It has shale deposits.<sup>xxiii xxiv</sup> Besides this, there are other foreign sources of gas available at comparable prices.

A cheaper supply of gas, coupled with the possibility of Russian credits for the modernization of the pipeline, will not encourage Ukraine to run its gas sector in accordance with market principles in order to get Western support.

Ukraine has had to make a major concession - the extension of the lease on the Russian naval base - in order to obtain a gas price which is about what Western European countries are paying for Russian gas after the transportation cost is removed.<sup>xxv</sup>

The West has every interest therefore to remain involved in Ukraine. Should Ukraine revert to authoritarianism, it should not surprise us. It is almost a rite of passage for countries evolving towards pluralism. It does not necessarily predict the future. Under President Yushchenko, Ukraine had become, according to Freedom House, completely free, and indeed ahead of Turkey in its rights and freedoms. Although Ukraine has moved closer to Russia, there are still strong economic interests pulling it in the opposite direction: Ukraine strongly needs an understanding with the IMF. It wants free trade with the EU. For this reason, Ukraine rejected, during its initial negotiations with Russia, the idea of joining the Russian-led common market, the Common Economic Space (CES). It is important, therefore, that the IMF, the EU, and the West in general, should resist surrendering to Ukraine fatigue. It still is in our interest to support democracy and economic reform in Ukraine.

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<sup>i</sup> Vide Karatnycky, Adrian, **Reintroducing Victor Yanukovich**, Wall Street Journal Europe, 8 February, 2010, Johnson's Russia List, 2010-26 # 23

<sup>ii</sup> BBC Monitoring, **Russian Opposition criticizes gas-for-fleet deal with Ukraine**, Echo Moskvy Radio, 29 April, 2010, Johnson's Russia List, 2010-86 # 27

<sup>iii</sup> Mostavaya, Yuliya and others, **Back to the U\$\$R**, Zerkalo Nedeli