



Biden Reassures Kyiv

US Vice President Joseph Biden swept into Kyiv on Tuesday, with a strong message to the Ukrainian people that US moves to reset relations with Russia “will not come at Ukraine’s expense.” During his whistle-stop visit Mr Biden met the four main presidential candidates and had a tête-à-tête meeting with Prime Minister Yulia Tymoshenko lasting more than an hour.



▲ Reassuring messages from US Vice President Joseph Biden as he meets Prime Minister Yulia Tymoshenko.

Mr Biden’s visit to Ukraine and Georgia – two prospective candidates for NATO membership – follows the visit earlier this month by US President Barack Obama to Moscow. The new White House administration’s desire to reset relations with the Kremlin raised concerns that Ukraine could become sidelined as both superpowers tried to patch up their differences. The unfulfilled position of US ambassador to Ukraine appeared to some to confirm a shift in attitude. But not so, according to Mr Biden who said that the US would continue to support Ukraine’s push to integrate with the West.

Following talks with President Viktor Yushchenko, Mr Biden was both emphatic and upbeat. “We’re working, as you know, Mr President, to reset our relationship with Russia. But I assure you and all the Ukrainian people that it will not come at Ukraine’s expense. To the contrary, I believe it can actually benefit Ukraine.”

The US Vice President backed strongly the right for Ukraine to choose its own allies and expressed support for Ukraine’s accession to NATO. And in what was clearly a reference to Russia exerting its influence in the region, he emphasised that the US does “not recognise any sphere of influence.” He drove home the point by saying. “We do not recognise anyone else’s right to dictate to you or any other country what alliance you will seek to belong to or what relationships, bilateral relationships, you have.”

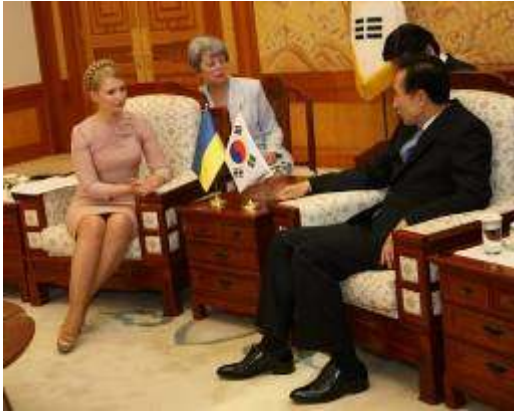
Yesterday afternoon Prime Minister Tymoshenko had a productive meeting with Mr Biden in the Club of the Cabinet of Ministers. They discussed the economic situation in Ukraine, energy, bi-lateral trade and Euro-Atlantic integration issues. This was the second meeting between the two leaders who first met at the 48th Munich Security Conference last February.

Following their tête-à-tête there was a meeting between Ukrainian and US delegations led on the Ukrainian side by Deputy Prime Minister Hryhoriy Nemyria. “Vice President Biden imparted a reassuring message during his visit,” said Mr Nemyria. “We see new opportunity for bilateral cooperation and – just like the US – we too seek to improve relations with our largest neighbour. While our European trajectory is not in question, good relations founded upon equality, respect and trust are important.”

Tymoshenko Seeks to Boost Trade with Korea

First Visit by a Ukrainian PM to Korea

With Ukraine in the grip of a deep recession Prime Minister Yulia Tymoshenko has embarked upon a number of foreign visits aimed at attracting investment into the country. Last week she became the first Ukrainian prime minister to visit South Korea, where she met with Korea's president, prime minister and business leaders, to discuss strengthening bilateral trade.



▲ Getting down to business. Prime Minister Yulia Tymoshenko meets with the President of the Republic of South Korea Lee Myung-bak.

Ms Tymoshenko's visit to Korea follows recent visits to Libya and Japan, where again the emphasis was on boosting trade links. In Seoul, the premier met her Korean counterpart Prime Minister Han Seung-soo. The two leaders signed agreements for future collaboration between their state-funded export-import banks and discussed ways to boost trade. Bilateral trade with Korea has nearly doubled in the past three years to \$2.6 billion in 2008, making Ukraine Korea's second largest trading partner in the CIS after Russia.

Areas earmarked for special collaboration are the energy sector (particularly oil and gas extraction, energy saving technologies, renewable power and energy transportation); agriculture and development of infrastructure and logistics, such as road, railways and the construction of ports.

Deputy Prime Minister Hryhoriy Nemyria accompanied Ms Tymoshenko on her visit to the South Korean capital. On his return to Kyiv he will establish a special group aimed at stimulating inward investment and facilitating joint projects between the two nations.



"We will establish a special government-led group to foster greater cooperation and promote specifically your investments in joint projects," said Ms Tymoshenko. "By boosting economic ties, we hope to share Seoul's experience and know-how on successful economic developments."

During her visit, Ms Tymoshenko met business leaders and President Lee Myung-bak. The former chairman of Hyundai Construction and president of the country since February 2008 said, "Korea sees Ukraine as an important centre of Korean investments in Central and Eastern Europe."

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The president praised Ms Tymoshenko's professionalism and expressed confidence that under her leadership Ukraine would not just overcome the challenges of the global financial downturn, but would quickly achieve dynamic growth.

Party Congress Sets Tone for Future Referendum on Constitution Pledged if Tymoshenko Elected President

The Batkivshchyna party founded by Prime Minister Yulia Tymoshenko celebrated its tenth anniversary this month. At its congress held last week a number of key policy directions were aired that are of importance to the country and to the forthcoming presidential election.



▲ Celebrating 10 years but looking to the future, Prime Minister Yulia Tymoshenko.

The party congress, which was held only two months before the launch of the presidential election campaign, was heralded by a detailed analytical speech by the premier. Her speech pointed to developments in four key areas.

Firstly, she talked about the need to be more attentive towards who is permitted to join the lists of potential lawmakers put forward in elections by the Bloc of Yulia Tymoshenko (BYuT), of which Batkivshchyna is the largest party. Prime Minister Tymoshenko said that the party's ranks had been largely filled by "honest people" as well as by a small number of people who had joined "by chance," whose presence has served to denigrate the party. It was time for a clean out of those from Batkivshchyna whose behavior had damaged the party's good name, she said.

Secondly, Ms Tymoshenko claimed credit for Batkivshchyna and BYuT being the only political force that is unafraid of taking responsibility for battling the impact of the global financial crisis upon Ukraine. This had been in the face of a negative prognosis and obstacles put forward by the president and the blockading of parliament by the opposition.

The president's pessimistic forecast of Ukraine set to default did not materialise because "our team was powerful, creative, intellectual and decisive," Ms Tymoshenko told the congress. "Our team took and will take upon itself responsibility for the crisis and alone will overcome this crisis, however difficult this will be for us."

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Thirdly, Prime Minister Tymoshenko promised to hold a referendum on the constitution in the event that she is elected president next year. She reminded the congress that in 2006-2007 it was BYuT that had campaigned for a referendum, which was opposed by the president. Indeed, the Constitutional Court had ruled in October 2005 that the constitutional reforms set to go into effect the following year required an endorsement through a referendum.

Prime Minister Tymoshenko pointed to the need for the constitution – whether of a parliamentary or presidential type – to provide a clear division of power between parliament, government and president with a "clear structure of what constitutes executive power." Ms Tymoshenko was alluding to the need to prevent five further years of political instability and crises arising from leaving the badly crafted 2006 constitution in place.



Fourthly, Prime Minister Tymoshenko told the congress that Ukraine should deal with Russia from a position of strength based on national interests, national identity and equality of relations. If the “most powerful country in the world (a reference to the USA) has declared a policy of re-setting its relations with Russia” then Ukraine should also seek to secure friendly relations with that country. Relations with Russia, Ms Tymoshenko told Batkivshchyna delegates, should be undertaken in a “harmonious, balanced, honest and transparent manner.”

BYuT Lawmakers Overcome Blockade Plan to Dismiss Parliament Foiled

"A cynical attempt by lawmakers from the Party of Regions (PoR) to block parliament and give the president grounds to for its dismissal and call elections, backfired spectacularly last week.

The plan went astray when canny lawmakers from the Bloc of Yulia Tymoshenko (BYuT) sneaked into the session hall at 7.00 am. With the help of Verkhovna Rada Chairman, Volodymyr Lytvyn, a parliamentary session was opened then closed before lawmakers from the Party of Regions (PoR) could resume their blockade of the session hall.

The move effectively stopped the clock on the timetable which gives the president the right to dismiss parliament if no session has been held in 30 days. Such a move could have triggered pre-term parliamentary elections, which is the last thing the country needs as it grapples with the worst global recession since the 1930s.

The official reason for the blockade was a demand for the government to spend an extra UAH 50 billion on raising the minimum wage and pensions. This has given rise to accusations that the PoR is engaged in “cynical populism” as the government is forced to maintain a tight grip on public spending under conditions stipulated by the International Monetary Fund (IMF).

A statement from the PoR said it “will not back down from the intentions to improve people's lives. In future we will stand for increasing the wages and pensions for the poorest citizens. And we will make the Government do this.”

“Ukrainians understand what's happening and they understand why the PoR is making these claims now.”

Commenting on the statement, one emerging markets analyst said wryly, “Anyone would think it was an election year.”

Tammy Lynch, an expert on Ukraine and Senior Research Fellow, Boston University, told *Inform*:

“To suggest raising pensions in the current environment is clearly aimed at the PoR's voters in the East, but personally, I think they're underestimating the intelligence of their voters. Ukrainians understand what's happening and they understand why the PoR is making these claims now. They, and all political parties, would do better to work constructively to support the reforms the country so desperately needs.”

An extraordinary session of the Verkhovna Rada is scheduled for 24 July to consider amending the law on the presidential elections.



▲ An all too familiar scene: Party of Regions lawmakers blockade parliament.

Tough Decisions Secured IMF Third Tranche

The International Monetary Fund (IMF) has given its initial approval to release the third tranche of the \$16.4 billion stand-by loan facility agreed with Ukraine last October. The payment of \$3.3 billion is expected in about two weeks time once the initial approval has been ratified by the IMF executive board.



▲ Seeing eye to eye. Head of the IMF Mission Ceyla Pazarbasioglu and Prime Minister Yulia Tymoshenko.

Prime Minister Yulia Tymoshenko said that securing the tranche “wasn’t easy” but that the negotiations had been concluded with the government agreeing to pass banking laws, address the finances of Naftohaz Ukraine – the state run gas company, and promising to keep spending within programme targets.

Ms Ceyla Pazarbasioglu, the IMF Mission Chief noted good progress made by the government, particularly in relation to stabilising the country’s banking sector. “The authorities have made good

progress in the resolution of the systemic problem banks and in preparing associated legislative amendments.” Last week lawmakers sent for the second reading a bill outlining the recapitalisation of banks, and ratified a lending agreement with the European Bank for Reconstruction and Development.

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Talking about the government’s commitment to tackling the economic recession and meeting the IMF’s conditions, Ms Tymoshenko said that her ministers have put in place a revised anti-crisis programme. “On the one hand, this is not very popular for politicians, as it foresees a reduction in government expenditures ... but on the other hand it’s the only way out of the crisis for Ukraine,” she said. Unpopular measures include expenditure cuts and raising tariffs for hot water and household heating – gradually bringing them in line with market rates.

The premier went on to say that \$1.9 billion of the third tranche payment would be applied to repaying sovereign debt, so as to remove any doubt about Ukraine defaulting on foreign debt which matures this year.

Revised Forecasts

The IMF also revised its forecast for the budget deficit this year from 4 to 6 percent. This mainly accounts for shoring up the finances of Naftohaz, which has struggled with higher prices for imported natural gas from Russia.

“The mission revised the general government deficit target in 2009 from 4 to 6 percent of GDP, in addition to a Naftohaz deficit of 2.6 percent of GDP,” said Ms Pazarbasioglu. “To achieve this, the authorities have committed to corrective fiscal measures in 2009. They have committed to quarterly increases in gas tariffs, complemented by an effective social safety net, as well as to measures to eliminate the structural imbalances of Naftohaz finances and improvements in the governance of the company.”



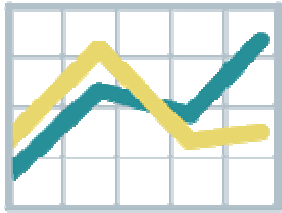
The IMF also revised its forecast for the contraction of GDP from 8 percent to 14 percent this year. This follows a strong contraction of 20.3 percent in the first quarter.

Despite pressure on her to raise public expenditure, Ms Tymoshenko confirmed that the government intends to keep fiscal developments in line with IMF programme targets and make progress on tax and pension reforms. She praised the IMF for its support and said that its funds would help "minimise losses during the crisis period."

"This is not a time for faint-hearted management," said Ms Tymoshenko, "difficult decisions have been made to safeguard this nation."

Recession Still Biting

Official figures from the National Statistics Office reveal that Ukraine's economy shrank 20.3 percent in the first three months of this year. The latest figures, combined with the depth of the recession, has caused both the International Monetary Fund (IMF) and World Bank to revise their forecasts for Ukraine's economic fortunes in 2009.



Figures from the National Statistics Office made gloomy reading when compared with the first quarter of 2008, the biggest falls came in the construction industry, down an eye watering 54 percent. The processing industry sector – including oil refining and food processing – contracted 36.5 percent, while the energy sector slumped by 19 percent.

It was not all doom and gloom though. The agricultural sector showed modest growth of 1.3 percent, while the financial services sector showed an upturn of 27 percent. In fact the overall GDP headline figure came in under the estimates of the Accounting Chamber, which predicted a contraction of 21.2 percent, and below the 25-30 percent drop predicted by President Viktor Yushchenko in April.

Nevertheless, the figures confirm that Ukraine has one of the worst recession ravaged economies in Eastern Europe. But the contraction, although bleak, did not match the hard times following the collapse of the Soviet Union which saw a 22.9 percent GDP fall recorded in 1994.

Commodities Based Economy

The severity of the downturn is largely due to Ukraine's dependence on steel making and refining chemicals, sectors that have been hit hard by the global slowdown. "It is a commodities-based economy," remarked Tim Ash, Head of Research for Central and Eastern Europe, Middle East and Africa at the Royal Bank of Scotland. In the first half of 2008, steel accounted for 42 percent of the country's exports. Today, steel output is 60 percent of what it was a year ago.

Compounding the situation, the country's banks, which for years enjoyed a credit boom, were hit hard by the withdrawal of international credit, high inflation and a strong dollar that caused currency speculation and a banking crisis.

But there is evidence that things are stabilising and, according to the Labour and Social Policy Minister Liudmyla Denysova, the number of unemployed fell by 11 percent in June.



Prompt Intervention

Thankfully, prompt intervention from the government has shored up the national currency which has levelled off at about UAH 7.5 to the dollar. Indeed, the improved health of the financial services sector owes much to support from the IMF, the European Bank for Reconstruction and Development and the World Bank. Their assistance helped the government to execute a bank recapitalisation programme which restored confidence in the sector.

Meanwhile, little improvement in the overall health of the economy is expected this year. The World Bank, which had predicted the economy would shrink 9 percent this year has revised its forecast to 15 percent. It anticipates a gradual recovery starting early next year. Similarly, the IMF has forecast that Ukraine's economy will shrink by 14 percent this year.

Predictably, President Viktor Yushchenko has used the economic downturn to criticise the government and particularly Prime Minister Yulia Tymoshenko.

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First Deputy Prime Minister Oleksandr Turchynov said, “We appreciate the challenge and have been industrious in our efforts to garner international support to lessen the severity of the global economic and financial crisis. We again call on all political factions to set aside their differences and work together for the common good of the country. That is our focus and that should be the focus of all lawmakers and both branches of power in the country.”

You Can't Have Your Cake and Eat It

President Viktor Yushchenko's long standing inability to make a decision, one way or another, has become legendary in Ukraine and abroad. Leonid Kuchma became famous for many things, but above all for his vacuous multi-vector foreign policies. Mr Yushchenko has added to this his own multi-vector domestic policies.

Multi-vectorism, whether foreign or domestic, always includes some aspect of fantasy-land. On 22 May, the president declared for example that “his faction” no longer was a member of the democratic coalition. “I repeat – my faction does not belong in the coalition,” Mr Yushchenko reiterated.

Perhaps the president had not realised that “his faction” had long ago ebbed away from him, many now supporting the Bloc of Yulia Tymoshenko (BYuT). Indeed, a majority of Our Ukraine-People's Self-Defence (OU-PSD) lawmakers (deputies) voted to re-join the democratic coalition in December 2008, followed by the Lytvyn bloc. Only 27 out of 72 deputies refused to join – these being Vyacheslav Kyrylenko's For Ukraine and Viktor Baloha's United Centre. Of these only Mr Kyrylenko's group has remained loyal to the president following the resignation of Mr Baloha as presidential chief of staff on 19 May.



▲ President Viktor Yushchenko.



How then can OU-PSD be defined in any shape or form as “my faction” by the president if he only controls 17 out of 72 deputies? More importantly still, why is the president not respecting the wishes of a democratic majority vote within the OU-PSD faction to re-join the coalition? Autocrats always deny the validity of majority votes and the president should respect the wishes of his faction.

Perhaps the president has not realised that practically all of his former senior allies have deserted him with most aligning themselves with BYuT. The list is far too long to name here. A member of the political council of the president's Our Ukraine party, Yevhen Chervonenko (no other than his bodyguard in the 2004 elections), asked the party's congress on 27 June: “Do you remember our first five (in the 2007 elections)? Who is still with us now?”

Of the five only Mr Kyrylenko remains loyal to the president. Meanwhile, of the four “defectors” three – Yuriy Lutsenko, Anatoliy Hrytsenko and Mykola Katerynychuk – are now aligned with Ms Tymoshenko. The fourth – Arseniy Yatseniuk – is standing as a candidate in the January 2010 presidential elections.

Kyiv Branch Turns its Back on the Congress

The president must also be painfully aware that one of the largest branches of his Our Ukraine party – Kyiv – refused to attend the congress and declared its withdrawal from the party. The head of the Kyiv branch of Our Ukraine is also the head of the OU-PSD faction, Mykola Martynenko. “The party has completely taken on board unpleasant tendencies that are ruining its democratic basis, transforming our political force into a closed business concern,” the Kyiv branch of Our Ukraine said in a pre-congress statement (Ukrayinska Pravda).

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At the Our Ukraine congress on 27 June, the president's multi-vector domestic policies were on full show. President Yushchenko called on OU-PSD to withdraw from the coalition. But Our Ukraine is only one out of nine parties in OU-PSD and therefore the president's advice was hardly likely to be heeded.

At the same time, the president (and his new chief of staff Vera Ulianchenko) advised OU-PSD members to stay in the government. This was not the right time to leave the government, the president explained to Channel 5 on 29 June.

Ms Ulianchenko explained that OU-PSD members added a “pro-Ukrainian” voice to the government. Such a claim is nothing other than pure condescension and disrespect to other government members. Does this mean, for example, that the president and his chief of staff believe that firstly, the voters who gave 31 percent support in the 2007 elections to BYuT are not “patriotic”? Secondly, that BYuT and Lytvyn bloc members of the government are not “patriotic”?

Calling for the OU-PSD faction to leave the coalition while ordering OU-PSD members to stay in the government can only be undertaken by those who have little understanding of politics and no basic notion of the accountability of officials. It continues the disrespectful tradition in parliament of deputies withdrawing from factions but refusing to give up their seats, a step that ignores the fact that the party or bloc was elected in a proportional system and not as individuals.



If OU-PSD heeded the president's advice – which it won't – the coalition and therefore the government would likely fall. This would mean that OU-PSD members would be out of a job – just like BYuT and Lytvyn bloc ministers.

The resultant paralysis could lead to pre-term parliamentary elections which would destabilise the country during the worst economic crisis the world has seen since the 1930s. No government could function in a full and competent manner during such a destabilised



period. The Kyiv branch of Our Ukraine stated its strong disagreement with the strategy of “realising the principle of “the worse the better” for Ukraine's economy in the hope of harming Ms Tymoshenko's presidential ratings. The Our Ukraine congress is to be used, the Kyiv branch statement said, for “the destruction of the democratic parliamentary coalition and in this way the destabilisation of the situation in the state” (Ukrayinska Pravda, 26 June).

Three Aspects of Multi-vectorism

There are three additional important aspects to the president's domestic multi-vectorism.

Firstly, it is nothing new. President Yushchenko has never – and will never – be able to make a decision. Ukraine needs decisive leadership at presidential and governmental levels.

During the four years of anti-presidential protests, from 2000-2003, Mr Yushchenko – whether as prime minister or so-called “leader of the opposition” – could never decide if he was in an alliance with the opposition (i.e. BYuT, Ukraine Without Kuchma, Arise Ukraine!) or supporting President Kuchma. During the 2000-2001 Kuchmagate crisis, Prime Minister Yushchenko condemned the opposition rather than join it. During the 2002-2003 Arise Ukraine protests, “opposition leader” Yushchenko spent as much time seeking to return as prime minister in a pro-Kuchma coalition than he did in supporting BYuT and the real opposition.

After the 2006 elections the president sent Roman Bezsmertny to negotiate an orange coalition and Yuriy Yekhanurov to negotiate a grand coalition (with the result that neither materialised). After the 2007 crisis the president negotiated a compromise with the Party of Regions where they agreed to pre-term elections and the president to form a grand coalition. The president then campaigned for a democratic coalition and, after it was formed, sought to undermine it at every turn.



▲ Yulia Tymoshenko and Roman Bezsmertny. After the 2006 parliamentary election he was tasked with negotiating a coalition with BYuT.

Having Your Cake and Eating It

Secondly, having your cake and eating it; in other words, being in government while at the same time being in “opposition,” remains a central component of the president's domestic multi-vectorism. After his August 2006 round-table, Our Ukraine members joined the Viktor Yanukovich government. Three months later Our Ukraine stated it was in opposition to the government, but its members refused to leave the government. Eventually, Prime Minister Yanukovich forced Our Ukraine members to leave. Nevertheless, it still took three more months before Our Ukraine re-formed an orange alliance with BYuT, destroyed eighteen months earlier when the president had dismissed Ms Tymoshenko's government.



Thirdly, the president was responsible for negotiating the semi-parliamentary constitution and Our Ukraine (unlike BYuT) voted for it on 8 December 2004. But, he has never accepted its provisions. President Yushchenko said that of the four governments under him the Yekhanurov government was best.

The president had poor relations with two Tymoshenko and one Yanukovych government and clearly has a preference for a technocratic government, such as Mr Yekhanurov's. The president fails to understand two issues. Firstly, that the prime minister is likely to be leader of a party under the 2006 constitution. Secondly, that the president needs to respect the wishes of voters who placed Our Ukraine in third place in 2006 and 2007. In both cases, in the event of an orange coalition because BYuT had won more votes than Our Ukraine, Ms Tymoshenko had the right to become prime minister.

The message is clear although unheeded: vacillation is not good enough and you can't have your cake and eat it.

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