

Is Democracy Irreversible in Ukraine?

Political Reconfiguration on the Eve of the March 2006 Parliamentary Elections

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The Orange Revolution in November-December 2004 against falsifications of the presidential election was a tremendous step forward in the democratization of Ukraine. Since the election, however, democratically elected President Viktor Yushchenko has faced impediments in implementing his reform policies, supported by a majority of Ukrainians. One of the main impediments arises from the compromise reached in the Ukrainian parliament (*Verkhovna Rada*) on December 8, 2004 (between the fraudulent second round and the run-off). The compromise made possible the December run-off election which Yushchenko ultimately won, although many analysts criticize some of its provisions, including oversight powers granted to the Prosecutor General and the power granted to the Rada to dismiss any minister by a simple majority. Most notably, the constitutional reform (effective January 1, 2006) will reduce the powers of the presidency and increase the role of prime minister and the new parliament which will be elected in March 2006. As a result, growing populism in Ukrainian politics on the eve of new parliamentary elections led to a decline in economic performance and the split between

Yushchenko and Prime Minister Yulia Tymoshenko in September 2005. This split resulted in the formation of a new cabinet under Yuri Yekhanurov, viewed as a more pragmatic politician than the populist Tymoshenko.

After the Revolution: A Broad Coalition in Power

After its inauguration, the new leadership of Ukraine enjoyed a higher level of public support than any Ukrainian government since 1991. Even members of the former pro-Kuchma majority in the Rada (interested in political survival) began to re-brand themselves as supporters of the Orange Revolution. Under the same umbrella, many members of the former *nomenklatura* were included in new power structures at regional and local levels. Such attempts provoked protests from Yushchenko's supporters, and in two oblasts (Khmelnitskiy and Dnipropetrovsk), popular opposition to appointments of new governors forced Yushchenko to cancel his decisions. Some radical groups such as Pora (the student organization that played an important role in the revolution) demanded investigations of those responsible for election fraud and voter intimidation. As a result, a group of former high-ranking officials and tycoons fled the country, some of them to Russia. The former minister of internal affairs and the former minister of transportation both committed suicide.

The absence of effective opposition and high social expectations created a window of opportunity for accelerating reforms. On the other hand, these factors intensified internal disagreements within the broad coalition in power. There were at least four different teams in the coalition, which began to compete for influence.

The most powerful group, and the one closest to the president, consisted of the deputies and businessmen who had supported Yushchenko politically and financially since 2000-2002. A powerful member of this group, Petro Poroshenko, had expected to be nominated as prime minister, but the president decided at the last moment to appoint Tymoshenko. Poroshenko was appointed secretary of the National Security and Defense Council, with the power to advise the president on nominations of high law enforcement officers and judges. Another member of this team, Oleksander Tretyakov, secured the crucial position of first aide to the president, in charge of his daily calendar. Mykola Martynenko led the Our Ukraine faction, the largest one in the Rada. In hopes of securing victory in the 2006 parliamentary election, the faction transformed itself into a new composite party to build mass public support. The new party, People's Union "Our Ukraine," was supported by many Ukrainian businessmen, including not only those who supported Yushchenko's campaign, but also those who had recently decided to join its ranks.

The monopoly of this team's influence over the president was challenged by Prime Minister Tymoshenko. Her energy and image as radical antagonist of Ukraine's former president Leonid Kuchma helped her to persuade the public that she would be the best choice for prime minister. However, after several months in office, she began to act contrary to presidential orders. Tymoshenko developed a reputation as a cunning leader who would win by any means. Her faithful supporter Oleksander Turchynov was appointed the head of the Security Service. She claimed the right to lead the slate of the presidential bloc of parties during the 2006 election campaign. To secure her position, Tymoshenko formed a large parliamentary faction with two smaller associated groups, totaling 60-65 MPs (one-sixth of the whole parliament). As in the case of Our Ukraine, her faction included previous Kuchma supporters.

The Socialist Party (SPU) with its long-time leader Oleksander Moroz, and the People's Party led by Parliamentary Speaker Volodymyr Lytvyn, both approached Yushchenko at the close of presidential elections. Although Moroz and Lytvyn have different backgrounds and had been political enemies, they both became engineers of the constitutional reform and did much to peacefully resolve the Orange Revolution. Yushchenko agreed to appoint three Socialist ministers, including minister of internal affairs. An SPU member was also selected to head the State Property Fund, responsible for the privatization process. Contrary to expectations that Socialists would clash quickly with the liberal presidential camp, it was instead Tymoshenko who became their main rival. As lobbyists of domestic producers, the Socialists objected to Tymoshenko's open-door trade policy, which reduced trade barriers and led to a rapid growth of imports. They also feared that Tymoshenko's social policies would be attractive to traditional SPU voters.

Lytvyn's People's Party was formed by businessmen, bureaucrats, and regional elites who found themselves between the new opposition and the new party of power. The party pragmatically decided to support most of the new president's initiatives in exchange for security guarantees for their businesses. Thus, Lytvyn secured a middle-of-the-road position. He was warmly greeted in Moscow; in contrast, Russia's attorney general continued to charge Tymoshenko with bribery and she never visited Moscow as prime minister.

Economic Reasons for the Yushchenko–Tymoshenko Divorce

The most difficult task for Yushchenko was to harmonize into a unified vision the competing variants of reforms represented in Ukraine's coalition leadership. The second task was to accomplish urgent reforms, given the government's limited resources and time.

Although the Kuchma government benefited from 12 percent economic growth in its last year, its populist measures of increasing salaries and pensions created a deficit of 19 billion hryvnia (\$3.7 billion) for the 2005 budget. The Tymoshenko cabinet ordered a new draft of the state budget. However, by increasing social payments itself, her cabinet increased the deficit to 32 billion hryvnia (\$6.3 billion). After nearly all parliamentary factions approved it, Yushchenko agreed to sign, on the grounds that the deficits were justified by the population's low incomes. At the same time, the president demanded that the cabinet find new ways to ease the administrative and fiscal burden on businesses and to stimulate the legitimate economy at the expense of Ukraine's shadow economy.

Instead, Tymoshenko implemented strong administrative remedies. These brought stunning success in the beginning but almost complete failure at the end of the day. One of the greatest successes was a program to stop smuggling, which increased paid duties by 200 percent. The government also succeeded in collecting more taxes from businesses, while increasing the fiscal pressure on small and medium enterprises. Businesses waited in vain for a promised economic amnesty to entrepreneurs who had been forced to work in the shadow economy. Government actions shocked a business community that had expected more liberal treatment. They felt deceived and returned to old schemes of avoiding taxation. Administrative pressures increased prices for meat and sugar, while a massive flow of social spending accelerated the growth of consumer prices. Tymoshenko tried to force oil companies to sell fuel at fixed prices, but Russian giants (including Lukoil, TNK-BP, and Tatneft) warned Yushchenko that such a policy could end in an energy crisis, and the president canceled Tymoshenko's decisions. Moreover, revaluation of the national currency by 6 percent in April, aimed at cutting inflation, led to a loss of about \$1 billion for millions of citizens who had their savings in U.S. dollars. In addition, with the revaluation exporters faced disincentives to invest. All these missteps resulted in a slowing of economic growth from 6 percent at the beginning of the year to minus 1.6 percent in August.

During the 2004 campaign, Yushchenko had promised to reconsider the privatization deals done under dubious and sometimes illegal conditions, especially that of the metallurgical giant Kryvorizhstal, obtained at a very low price by Donetsk oligarch Rinat Akhmetov (who supported Viktor Yanukovich, Kuchma's candidate for presidency) and Viktor Pinchuk, Kuchma's son-in-law. After the election, Yushchenko supported the idea of re-privatizing 20-30 enterprises of strategic importance to the country. Tymoshenko, however, suggested the potential re-privatization of 3,000 firms. She also canceled special economic zones and declared a war on tax avoidance arrangements. As a result, investment in Ukraine declined. Owners of large companies and banks

began to look for foreign buyers, often in Russia, which played to the Kremlin's ambition to extend control over the Ukrainian economy. The Kryvorizhstal re-privatization case was ultimately more or less transparent, but this has been an exception rather than a common practice.

Tymoshenko's Dismissal and the Formation of Yekhanurov's Government

The split between the liberal Yushchenko and the more populist and state-oriented Tymoshenko was predicted by analysts from the very beginning. In early September, the conflict within the leadership reached a climax with the first high-profile resignation, that of presidential chief of staff Oleksander Zinchenko, who claimed there was massive corruption in Yushchenko's entourage. Following this development, Yushchenko attempted to resolve conflicts between Poroshenko and Tymoshenko, but their split proved insurmountable. In an effort to keep the government from disintegrating entirely, Yushchenko made a difficult, brave, and perhaps only possible decision: he dismissed the entire cabinet, accepted Poroshenko's resignation, and eliminated the position of the first aide to the president.

Simultaneously, Yushchenko appointed his long-time associate Oleh Rybachuk to be his new chief of staff (Rybachuk was vice prime minister for European integration). He appointed his close associate Yuri Yekhanurov as acting prime minister. Yekhanurov failed to gain sufficient support on his first vote of confirmation, but he was confirmed by the Rada on September 23 on a second vote.

Yekhanurov was first vice prime minister in the 1999-2001 cabinet when Yushchenko was prime minister. He is considered to be a pragmatic team player, and analysts believe that relations among the president, his secretariat, and the new cabinet will function more effectively as a result of the new appointments. Yekhanurov's ethnic background is half-Buriat and half-Ukrainian. In response to questions about his attitude towards Russia, he noted that he had been born in Siberia and claimed this would help him have friendly relations with Russia.

For many years, Yekhanurov was the official responsible for privatization and development of small and medium businesses in Ukraine. He promised to stop the re-privatization campaign (with the exception of Kryvorizhstal and the Nikopol ferroalloy mill). Yekhanurov's confirmation as prime minister was supported even by Pinchuk's political group and by the Donetsk-based Party of Regions led by Yanukovych. It is important to stress that Donetsk regional elites are not necessarily anti-Yushchenko. They are not united, and one of the wealthiest industrial groups, the Industrial Union of Donbas, supported Yushchenko even before he was elected president.

As a result of political compromises leading to Yekhanurov's confirmation, Tymoshenko supporters accused Yushchenko of reconciling with former pro-Kuchma factions based on a declaration for stabilization in Ukraine and a special memorandum with Yanukovych. As Tymoshenko's faction did not support Yekhanurov during the confirmation, Yushchenko needed to secure support from other factions. The new cabinet does not include the less savory members of the former regime. Pro-European Borys Tarasyuk (Foreign Minister) and Anatoliy Hrytsenko (Minister of Defense) retained their positions. The new minister of justice is Serhiy Holovatyj, known for his opposition to Kuchma. After his vote in favor of Yekhanurov, Holovatyj was removed from Tymoshenko's faction in the Rada.

Prospects

Barring surprises, on January 1, 2006, constitutional reform will be implemented, and the cabinet will be answerable to the parliament. The new parliamentary election system awards seats solely on the basis of proportional representation (with a 3 percent threshold) that will likely strengthen parties in Ukrainian politics. Both steps were demanded by the anti-Kuchma opposition for many years.

It is likely that Tymoshenko's anti-oligarchic and anti-corruption rhetoric will result in increased electoral support for her party. The old pro-Kuchma guard, primarily Yanukovych's Party of Regions, might benefit from a Yushchenko-Tymoshenko rivalry. However, Tymoshenko may attract not only part of Yushchenko's electorate in the west of the country, but also part of Yanukovych's electorate in the east. All major players will try to improve relations with Russia, and Putin's team might benefit from it. The final electoral results will depend to a great extent on the socioeconomic situation in the country.

Nevertheless, it is clear that no single political force will be able to form a one-party cabinet. Despite the Yushchenko-Tymoshenko split, after the election they may create a new coalition government (with the possible participation of Lytvyn or the Socialists). After the failure of the previous regime's use of administrative resources and falsifications in the 2004 presidential campaign, it is also clear that the next election will basically reflect the preferences of the Ukrainian electorate. The continued support of international organizations for free and fair elections, the building of civil society, and free mass media will further benefit Ukrainian society.

No matter who wins the election, who forms the cabinet, and the exact form of cohabitation between President Yushchenko and the new prime minister, the Ukrainian political system will be less authoritarian, with greater clarity on division of powers, and will thus move closer to European standards.