

ECEAP analysis: Political and Economic Developments in Ukraine on the Eve of Presidential Elections in Spring 2019

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Abstract

Ukraine has since Euromaidan revolution five years ago been going through difficult period of its development, as the Russian aggression against Ukraine continues. Nevertheless the twin shocks of the Euromaidan revolution and the Russian invasion have produced the Ukrainian government committed to liberal democracy and a market-based economy. Ukraine's irreversible course toward European and Euro-Atlantic integration has now become written into Constitution along with the confirmation of European identity of the Ukrainian people.

The country is developing a functional state apparatus, both nationally and locally. Democracy and human rights have become more firmly established. Ukraine has further advanced in its reform process, which is closely connected to the implementation of the Association Agreement with EU. During the five years since Euromaidan revolution Ukraine has built up functioning public administration and strong armed forces. There has been number of reforms in the field of public administration, decentralizing local government and improving regulation of economic activities. As a result also the economic situation has significantly improved.

Significant challenges remain. The protracted conflict with Russia-backed forces in eastern Ukraine is still draining the economy. The promised structural reforms are not going smoothly. Especially in the field of fighting corruption there are for example delays in establishing Anti-Corruption Court and overturning critical provisions of Ukraine's Anti-Corruption Law by Constitutional Court. Also limiting undue influence of big business interests over political decision making remains a serious problem for Ukraine. Energy provision for country remains problematic due to dependency from Russian gas deliveries and Russian gas transit fees.

Coming presidential elections will probably feature three-way competition between political novice frontrunner Zelensky and veterans of Ukrainian politics, incumbent president Poroshenko and opposition leader Tymoshenko. Importantly all frontrunners in presidential race support strengthening relations with EU and NATO and pro-Russian alternative does not enjoy significant support.

In longer perspective however Ukraine's future development remains heavily dependent on ending Russian aggression and restoring country's territorial integrity in peaceful manner – a task Ukraine could hope to solve successfully if it is determined to find peaceful solution to conflict and if the support from the EU and USA remains forthcoming and the sanctions regime against Russia remains in place.

Political situation in Ukraine

Ukraine is the biggest and most important Eastern neighborhood country of the European Union. It made decisive turn towards Western integration after Euromaidan revolution on 2014 and has since then been conducting reforms to make closer integration with EU and NATO possible. 2019 will be important watershed in Ukraine's political development as both elections taking place in March–April and parliamentary elections taking place in October of this year.

Michel Mandelbaum has pointed out that the twin shocks of the Euromaidan revolution and the Russian invasion have produced a Ukrainian government committed, at least rhetorically, to liberal democracy and a market-based economy. Although it has made some progress, the country remains far from achieving either. Success will depend principally on the efforts of the Ukrainians themselves. Still other countries can provide economic support for the reformist government in Kiev.¹

Ukraine signed Association Agreement with EU in 2014 and Agreement came formally into force on 1 September 2017 following ratification of the Agreement by all signatories. In 2018, Ukraine further advanced in its reform process, which is closely connected to the implementation of the Association Agreement (AA). Ukraine continued to set up inter-institutional mechanisms to further the Association Agreement implementation, including the Deep and Comprehensive Free Trade Area (DCFTA), and demonstrated additional efforts to streamline the process. The alignment of Ukraine's Government and Parliament was underpinned by their joint Roadmap for implementation of the AA adopted in February 2018 and updated in September 2018.²

To further confirm Ukraine's EU and NATO course, the Parliament adopted on February 7 2019 a law amending the Constitution regarding the strategic course of the state. Ukraine's irreversible course toward European and Euro-Atlantic integration was stipulated in the preamble of the Constitution along with the confirmation of European identity of the Ukrainian people. New articles of Constitution establish how

¹ Michael Mandelbaum, Pay up, Europe. – Foreign Affairs, September/October 2018, pp. 112–113.

² Association Implementation Report on Ukraine. – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 1. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/far-future/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

the Euroatlantic course is realized. Article 85 defines that the powers of the Verkhovna Rada include determining the foundations of domestic and foreign policy, implementing the state's strategic course for obtaining full membership of Ukraine in the European Union and NATO. Article 102 is supplemented with the provision that "the president of Ukraine is the guarantor of the implementation of the state's strategic course for obtaining Ukraine's full membership in the European Union and the North Atlantic Treaty Organization." Article 116 is amended with a new clause, according to which the Cabinet of Ministers "ensures the implementation of the state's strategic course for obtaining Ukraine's full membership in the European Union and the North Atlantic Treaty Organization."³ On 21 February 2019 amendments to the Ukrainian Constitution came into force, establishing "the European identity of the Ukrainian people and the irreversibility of the European and Euro-Atlantic course of Ukraine" and confirming the Ukraine's aspiration to become a full member of the European Union and NATO.⁴

Crimean peninsula remains occupied and illegally annexed to Russia and conflict continues in Eastern Ukraine, where Russia supported separatists have established so called Donetsk and Luhansk "people's republics". USA and EU countries have established sanctions regime against Russia for convincing it to change course and for supporting Ukraine. So far Russia has not agreed to return to pre-conflict situation.

Not satisfied with only controlling strategically vital Crimean peninsula, Moscow has fomented separatist rebellion in the eastern Ukrainian provinces of Donetsk and Luhansk. Russia has sent military equipment, advisers and ultimately thousands of troops to the area in order to prevent Ukraine from securing control over its own territory. Since the beginning of the war in Ukraine Russia has sent additional brigades to the Ukrainian border and has announced about creation of three new divisions that will face southwest strategic direction, in other words Ukraine. In addition to deploying 30 000 troops in Crimea, Moscow has positioned 30 combat ships, 5 submarines, more than 100 combat aircraft, more than 50 combat helicopters, as well as long range anti-ship and antiaircraft missile and radar systems on the strategically vital peninsula. It has also deployed thousands of troops to occupied areas in Eastern Ukraine.⁵

The Office of the UN High Commissioner for Human Rights (OHCHR) estimates that more than 10 250 people have been killed and 24 600 injured since the start of hostili-

³ Anastasia Zaremba, Ukraine's path toward EU and NATO: Point of no return. – UNIAN, 8 February 2019. <https://www.unian.info/politics/10439406-ukraine-s-path-toward-eu-and-nato-point-of-no-return.html>

⁴ Constitutional amendments confirming Ukraine's path toward EU, NATO enter into force. – UNIAN, 21 February 2019. <https://www.unian.info/politics/10454316-constitutional-amendments-confirming-ukraine-s-path-toward-eu-nato-enter-into-force.html>

⁵ Ivo H. Daalder, Responding to Russian Resurgence. – Foreign Affairs, November/December 2017, pp. 32–34.

ties in Donbas in 2014. Furthermore, according to the United Nations Office in Ukraine, over 3 000 civilians have been killed and more than 9 000 injured in eastern Ukraine over the same period.⁶ The humanitarian situation in eastern Ukraine remains of serious concern and continues to present a challenge to the country. According to various international interlocutors, including the United Nations, the humanitarian situation has even worsened throughout 2018, due to the continued indiscriminate shelling of civilian infrastructure, the deterioration of the economic situation in the area as a result of the conflict, and decreasing international assistance.⁷

The Law on Reintegration of the Donbas entered into force in February 2018 and defines Russia as “an occupying force” which should assume responsibility for ensuring the rights of civilians living in the “occupied area”. In line with this new law, in May 2018 the Ukrainian Armed Forces formally took over the responsibility for the strategic coordination over the operations in the east from the Security Service of Ukraine.⁸

The Kerch Strait incident occurred on 25 November 2018 when the Russian Federal Security Service (FSB) coast guard fired upon and captured three Ukrainian Navy vessels attempting to pass from the Black Sea into the Sea of Azov through the Kerch Strait on their way to the port of Mariupol. Captured Ukrainian seamen remain in Russian custody till today. As reaction to the incident Ukraine established martial law for short period of time.⁹ Russian move was condemned by EU and NATO and additional sanctions were established against Russia.¹⁰

The truce between Government forces and Russia backed separatist continues to be monitored by the OSCE Special Monitoring Mission to Ukraine (SMM), which was deployed on March 2014, following a request to the OSCE by Ukraine’s government and a consensus decision by all 57 OSCE participating States. The SMM is an unarmed, civilian mission, present on the ground in all regions of Ukraine. Its main tasks are to observe

⁶ On World Humanitarian Day, United Nations calls for the protection of civilians in eastern Ukraine. – United Nations Ukraine. 19 August 2018. <http://www.un.org.ua/en/information-centre/news/4406-on-world-humanitarian-day-united-nations-calls-for-the-protection-of-civilians-in-eastern-ukraine>

⁷ Association Implementation Report on Ukraine. – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 3. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁸ Association Implementation Report on Ukraine. – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 5. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁹ The Kerch Strait incident. – IISS, December 2018. <https://www.iiss.org/publications/strategic-comments/2018/the-kerch-strait-incident>

¹⁰ EU ambassadors agree to slap sanctions on eight Russians over Kerch Strait incident. – UNIAN, 20 February 2019. <https://www.unian.info/politics/10454121-eu-ambassadors-agree-to-slap-sanctions-on-eight-russians-over-kerch-strait-incident.html>

and report in an impartial and objective way on the situation in Ukraine; and to facilitate dialogue among all parties to the crisis.¹¹

The efforts to end conflict through Minsk process are ongoing and negotiations between foreign ministers of Germany, France, Russia, and Ukraine in the so-called Normandy format continue. However the implementations of the Minsk Agreements aimed at resolving the situation in the Donbas have not been fully successful beyond stopping the establishing uncertain truce between warring sides. Efforts continue to reach a lasting truce, withdrawal of heavy weapons and improvement in the humanitarian situation in the Donbas. During the June 2018 meeting one of the main topics for discussion between the parties was the possible deployment of a UN peacekeeping mission to Eastern Ukraine, but here also Russian and Ukrainian views differ regarding the mandate of such force.¹²

However it is of critical importance to Ukraine that the support from the EU and USA for country's territorial integrity and achieving peaceful solution to conflict remains forthcoming and sanctions regime against Russia remains in place.

Forthcoming Presidential and Parliamentary elections in Ukraine 2019

First round of presidential elections in Ukraine will be held in Ukraine on 31 March 2019. If no candidate receives an absolute majority of the vote, a second round will be held on 21 April 2019. According to Ukrainian law a presidential candidate must be a citizen of Ukraine who is at least 35 years old, can speak the Ukrainian language and has lived in Ukraine for the last ten years prior to Election Day. Ukraine's electoral Commission registered 44 presidential candidates, (now left 39), which sets new record of political activism.¹³ It now seems improbable that any politician will win in the first round, as according to the opinion polls all the contenders have relatively low public support. In Ukraine there seems to be in those elections a great demand for new faces and people who have not been compromised by participating in politics.

The main contenders, apart from less popular pro-Russian candidates, basically do not differ much in their declared views concerning the country's strategic development. Each of them has declared their support for Ukraine's integration with the EU and NATO, for continuing the reforms and modernizing Ukraine's political-economic model along Western lines, and for the reintegration of occupied Crimea and parts of the Donbas. It is worth emphasizing that since 2014, as a result of the conflict with Russia and the de

¹¹ OSCE Special Monitoring Mission to Ukraine <https://www.osce.org/special-monitoring-mission-to-ukraine>

¹² Natalia Pushkaruk, How to get the Minsk process going? – Den, 14 June 2018. <https://day.kyiv.ua/en/article/day-after-day/how-get-minsk-process-going>

¹³ EC registers 44 candidates in Ukraine's presidential election. – Ukrinform, 8 February 2019. <https://www.ukrinform.net/rubric-elections/2636844-cec-registers-44-candidates-in-ukraines-presidential-election.html>

facto loss of these territories, the pro-Russian option, while still strong in southern and eastern regions, has been substantially weakened on the national level, and can only rely on about maximum 15–20% of the vote.¹⁴

Latest opinion polls, conducted in in the beginning of March 2019,¹⁵ show that actor Volodymyr Zelenskiy is the frontrunner in Ukraine's presidential election race (having support of 25%-28% of decided voters) with incumbent President Petro Poroshenko (having support of 13%-19% of decided voters) and opposition leader Yulia Tymoshenko (having support of 15%-18% of decided voters) in tight competition for the second place. However the number of yet undecided voters is high, so the support numbers could change when elections day comes closer. Yuriy Boiko (having support of around 10% of voters) holds fourth place.

Therefore it could be said that only few candidates have significant support among Ukrainian population, including popular actor Volodymyr Zelensky, current President Petro Poroshenko, opposition leader Yulia Tymoshenko and hold chance to reach second round of presidential elections. The second round of presidential elections will therefore probably feature Zelensky versus either Poroshenko or Tymoshenko. Leader of pro-Russian opposition bloc Yuriy Boiko clearly trails in popularity behind the first three.

At the moment the frontrunner candidate is Volodymyr Oleksandrovych Zelensky, politician, screenwriter, actor and director of Ukrainian film studio Kvartal 95. Before he announced his candidacy on 31 December 2018, he was already one of the frontrunners in opinion polls for the election. Zelensky's popularity is based on the role of President of Ukraine in the hugely popular 2015 television series "Servant of the People". To support Zelensky, the political party Servant of the People was created in March 2018 by people from the same TV production company Kvartal 95. The TV station belongs to businessman Ihor Kolomoisky, who is probably main financial supporter and influencer of the Zelensky, although Zelensky himself denies this connection.

As suited to comedian, Zelensky has suggested that the reason Poroshenko running for a second term is to avoid a first term in jail.¹⁶ Zelensky has said that said Ukrainian voters simply want "an honest," uncorrupted leader¹⁷. Zelensky has also supported criticism of Poroshenko by Tymoshenko and some other opposition politicians, who have

¹⁴ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates. – OSW Report, September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

¹⁵ Opinion polling for the 2019 Ukrainian presidential election: https://en.wikipedia.org/wiki/Opinion_polling_for_the_2019_Ukrainian_presidential_election

¹⁶ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

¹⁷ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

recently accused Poroshenko in treason.¹⁸ Zelensky has previously stated that he wants to stop the war in Eastern Ukraine. Zelensky has expressed support for both EU and NATO integration as long-term goals, but questioned why the EU and NATO were not giving Ukraine clear-cut membership perspectives.¹⁹ Zelensky has also said that that joining EU and NATO should be endorsed by the public in a referendum.²⁰

Zelensky has said that he's ready to negotiate with Russian President Vladimir Putin to end the war in eastern Ukraine, but he has offered few specifics on how he would accomplish that without ceding any territory to Russia.²¹ Zelensky has also said in an interview last year that he was ready "to negotiate with the devil himself as long as not a single life is lost."²² At the same time his adviser, Dmytro Razumkov, has said that Zelensky is not ready to bargain with Ukrainian territory or Ukrainian lives.²³ Razumkov has also called for the US and UK to play a bigger role in talks with Russia on ending the war. "Zelensky does not have an answer on how to end the war tomorrow, and this is an honest position," said Mr Razumkov. "For the war to end we need the desire of the Russian Federation."²⁴

Zelensky's approach to electoral campaign has been unorthodox; he doesn't hold rallies, instead of it he is traveling around the country selling tickets to gigs at which he parodies many of the politicians he is running against. Zelensky also regularly communicates with supporters through behind-the-scenes campaign videos he posts on Facebook and YouTube.²⁵ Polls suggest his strongest bases of support are the young and those in Russian-speaking south-eastern regions.²⁶

¹⁸ Weeks Ahead Of Ukraine Vote, Poroshenko Under Fire Over Smuggling Claim. – RFE/RL, 26 February 2019. <https://www.rferl.org/a/weeks-ahead-of-ukraine-vote-poroshenko-under-fire-over-smuggling-claim/29791859.html>

¹⁹ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

²⁰ Anton Troianovski, Parallel universe: The front-runner seeking to be Ukraine's president plays one on TV. – Washington Post, 9 March 2019. https://www.washingtonpost.com/world/europe/parallel-universe-the-front-runner-seeking-to-be-ukraines-president-plays-one-on-tv/2019/03/09/2a4cc22e-3a8c-11e9-b10b-f05a22e75865_story.html?noredirect=on&utm_term=.dc87bd17530f

²¹ Anton Troianovski, Parallel universe: The front-runner seeking to be Ukraine's president plays one on TV. – Washington Post, 9 March 2019. https://www.washingtonpost.com/world/europe/parallel-universe-the-front-runner-seeking-to-be-ukraines-president-plays-one-on-tv/2019/03/09/2a4cc22e-3a8c-11e9-b10b-f05a22e75865_story.html?noredirect=on&utm_term=.dc87bd17530f

²² Comedian Volodymyr Zelensky leads polls in Ukraine's presidential race. – NBC News, 22 February 2019. <https://www.nbcnews.com/news/world/comedian-volodymyr-zelensky-leads-polls-ukraine-s-presidential-race-n973811>

²³ Comedian Volodymyr Zelensky leads polls in Ukraine's presidential race. – NBC News, 22 February 2019. <https://www.nbcnews.com/news/world/comedian-volodymyr-zelensky-leads-polls-ukraine-s-presidential-race-n973811>

²⁴ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

²⁵ Comedian Volodymyr Zelensky leads polls in Ukraine's presidential race. – NBC News, 22 February 2019. <https://www.nbcnews.com/news/world/comedian-volodymyr-zelensky-leads-polls-ukraine-s-presidential-race-n973811>

²⁶ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

Petro Oleksiyovych Poroshenko is the fifth and current President of Ukraine and has been in the office since 2014. He was elected president on 25 May 2014, capturing more than 54% of the vote in the first round, thereby winning outright and avoiding a run-off. He served earlier as the Minister of Foreign Affairs from 2009 to 2010 and as the Minister of Trade and Economic Development in 2012. From 2007 until 2012, Poroshenko headed the Council of Ukraine's National Bank.

Just before the parliamentary elections in October 2014 Poroshenko party was established under the name of the Petro Poroshenko Bloc (now Solidarity Bloc), which won 21.8% of the votes. After the resignation of Prime Minister Arseniy Yatsenyuk, Poroshenko's party formed a government with the National Front party led by Volodymyr Hroysman (Prime Minister since 2016), which has been responsible for implementing reform programme.

Poroshenko main achievements of his five-year term according to most measurements include: the reinforcing of the Ukrainian army amid ongoing conflict and containment of the conflict with Russia to avoid a full-scale war. The ratification of the Association Agreement with the European Union – the document that ousted President Viktor Yanukovych refused to sign after years of negotiations between the two sides. Visa-free access for Ukrainian citizens for short stays in all EU countries. Achieving independence for Ukraine's Orthodox Church from its Russian counterpart.²⁷

The main theme for Poroshenko's presidential campaign has been strengthening of Ukraine's sovereignty. As mentioned above, Poroshenko supported changes in Ukrainian constitution that established EU and NATO membership as strategic goal for Ukraine. Poroshenko's campaign slogan is "Army, Language, Faith!" and important part of his campaign has been to show the strengthening of armed forces and state government as his achievement as well as supporting a new language law (that has caused criticism not only from Russia, but also from Hungary).

Poroshenko has strived for and achieved the merger of the Ukraine's three Orthodox churches into a single, canonical structure. On January 6, 2019, the ceremony to hand over a tomos of autocephaly to the united Orthodox Church of Ukraine took place in Istanbul, when Ecumenical Patriarch Bartholomew gave the document to Metropolitan of Kyiv and All Ukraine Epiphanius. Poroshenko undoubtedly presents this not only national, but also his personal success, although it is far from certain that this will provide him with the increased support needed to guarantee his victory in the elections. Poroshenko has described the creation of a new independent national Orthodox church as a move vital to the country's security and independence.

²⁷ Ukraine presidential election: all you need to know to understand key polls. – Euronews, 14 March 2019. <https://www.euronews.com/2019/03/12/ukraine-presidential-election-all-you-need-to-know-to-understand-key-poll>

President Petro Poroshenko's real power also lies in the formal and informal influences arising from the office he holds. The head of state, at least at this stage, has the support of the most powerful Ukrainian oligarchs and the media they control (mainly television stations, which are the primary source of information for 90% of the population). During the active phase of the campaign, his result may also be influenced by local government at the provincial and district levels, as well as by some of the mayors of the largest cities, and parliamentary deputies from single-mandate constituencies, to whom Poroshenko will propose beneficial cooperation for the post-electoral period. The current low public support for the president derives partly from overly inflated social expectations after Euromaidan, and partly from unrealised promises and the corruption scandals in which his closest business partners are implicated.²⁸

Poroshenko's signs of weakness have not gone unnoticed by his political partners or the oligarchs, whose support for him is not unconditional, and who could choose to support the campaign of a more promising candidate. Another challenge for the President is retaining the support of the West, which has been an important source of his legitimacy since the revolution. Although Poroshenko has been trying to convince the US and the EU that he is the best guarantor of the pro-reform course, his credibility has been evaporating, and the Western partners' tone towards Kiev is becoming tougher. Finally, another problem for the President is his high negative rating (over 50% at its highest), and if he were to reach the second round of the elections, there is possibility that he could lose to any other opponent apart from those who are explicitly pro-Russian.²⁹

Outside government, Poroshenko has been a prominent businessman with a lucrative career in acquiring and building assets. His most recognized brands are Roshen, the large-scale confectionery company and the TV channel Number 5, an all-news national TV broadcaster. Due to the scale of his business holdings in the manufacturing, agriculture and financial sectors, his political influence that included several stints at government prior to his presidency, and ownership of an influential mass-media outlet, Poroshenko has long been considered one of the prominent Ukrainian businessmen even though not the most influential among them. When he started his political activity, Poroshenko made over his shares in the company to a trust fund, Prime Assets Capital. Forbes magazine has estimated his assets' value at US\$1 billion.³⁰

Yulia Volodymyrivna Tymoshenko is the leader of the opposition All-Ukrainian Union Fatherland (Batkivshchyna) political party. She strives for Ukraine's integration into the EU

²⁸ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates. – OSW Report, September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

²⁹ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates. – OSW Report, September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

³⁰ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates. – OSW Report, September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

and supports NATO membership for Ukraine. Tymoshenko co-led the Orange Revolution and was the first woman appointed Prime Minister of Ukraine, serving from January to September 2005, and again from December 2007 to March 2010. She finished second in the Ukrainian presidential election of 2010 runoff. In 2011, she was convicted of embezzlement and abuse of power, and sentenced to seven years in prison. The prosecution and conviction are widely regarded as politically motivated. She was released in 2014, in the concluding days of the Euromaidan revolution, and then rehabilitated. In the 2014 Ukrainian presidential election, she received 12.8% of the vote, coming in second place after Petro Poroshenko who won the election.

Yulia Tymoshenko benefits from the fact that her political party Fatherland has the most extensive network of local structures. This party is one of the oldest and most active in Ukraine, has high recognition, and is well rooted in the voters' consciousness, so the former Prime Minister can appeal to her core electorate, mainly in small towns. She is the beneficiary of the errors, omissions and painful changes made by the government since the revolution.

If there is a low turnout and a large, uniform dispersal of votes among the other candidates, Tymoshenko could gain an advantage which will make her entry into the second round more probable.³¹ To strengthen his position Tymoshenko has in February 2019 called for the impeachment of President Petro Poroshenko, accusing him of treason after a media outlet aired a program alleging that people close to the incumbent enriched themselves by smuggling spare parts for military equipment from Russia.³² Tymoshenko has been promising Ukrainians a new constitution, cheaper energy tariffs, a reformed army and peace while vowing to make Russia pay for any damage it has done to the country.³³

At the same time, Tymoshenko has many limitations that may prevent her from winning. First, she is one of the longest-standing politicians on the Ukrainian political scene, and the Ukrainian public has turned against existing political elite. Secondly, although it has been difficult to prove her participation in corruption scandals, it has been equally difficult to estimate the size or establish the origin of her undoubtedly large assets. Tymoshenko is also the subject of many allegations of corruption and reaping the benefits of obscure financial schemes from as far back as the late 1990s, when she became the head of the United Energy System of Ukraine. Thirdly, she has a significant negative rating of nearly 30 percent of voters who would not vote for her under any circumstances, effectively

³¹ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates. – OSW Report September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

³² Weeks Ahead Of Ukraine Vote, Poroshenko Under Fire Over Smuggling Claim. – RFE/RL, 26 February 2019. <https://www.rferl.org/a/weeks-ahead-of-ukraine-vote-poroshenko-under-fire-over-smuggling-claim/29791859.html>

³³ Ukraine presidential election: all you need to know to understand key polls – Euronews, 14 March 2019. <https://www.euronews.com/2019/03/12/ukraine-presidential-election-all-you-need-to-know-to-understand-key-poll>

making it difficult to broaden her electoral base beyond her core electorate. Fourthly, Tymoshenko also suffers from the odium of her obscure relationship with Vladimir Putin, both from the election campaign in 2009-2010, and from behind the scenes of the gas agreement she concluded which proved unfavourable for Ukraine, not to mention her long-time collaboration with Viktor Medvedchuk, a close associate of Putin.³⁴

Ukrainian descended American professor of political science at Rutgers University Alexander J. Motyl has recently characterized the coming presidential elections proposing that populist appeals are not without resonance and could affect the outcome of the forthcoming elections.³⁵ Motyl finds that a Poroshenko victory could mean a continuation of Ukraine's ongoing positive trends. A Tymoshenko victory could be destabilizing, especially if she decides to attack the "establishment" and seek a quick deal with Russia. A Zelenskiy victory could change "everything," especially if he adopts incompetent policies that enable the oligarchs to retake control of the economy, fuels inflation by raising wages and pensions, and invites Russian invasion by neglecting security and defense.³⁶ Adrian Karatnycky, a fellow at the Atlantic Council in the US, claims that he still believes Mr Poroshenko has a strong chance of overcoming his comic critic and being re-elected. Mr Zelensky's appeal, is a temporary "release" for a population pained by five years of war and economic hardships.³⁷

The next Ukrainian parliamentary elections will be held in October 2019. Due to the March 2014 annexation of Crimea by Russia and the occupation of parts of Donetsk Oblast and Luhansk Oblast by separatists (since April 2014), only 423 of 450 seats in Verkhovna Rada can currently be elected under current election laws and roughly 12 percent of eligible voters cannot participate in the elections. Under current election laws 50% or 225 members of the Verkhovna Rada are elected by open party-list proportional representation with 5% electoral election threshold and the other 50% of the seats elected in 225 constituencies with a first-past-the-post electoral system in one round (candidate with the highest vote total wins). Latest opinion polls conducted in in the beginning of March 2019³⁸ show highest support for Zelensky's Servant of the People Party (20%-25%), followed by Tymoshenko Fatherland Party (14%-19%) and Poroshenkos Solidarity Bloc (10%-16%), however it is too early to forecast who will be serious contenders in October.

³⁴ Tadeusz Iwanski, Krzysztof Nieczypor, Ukraine's presidential elections, 2019. The main candidates – OSW Report, September 2018. https://www.osw.waw.pl/sites/default/files/report_ukraine-presidential-elections-2019_net_0.pdf

³⁵ Alexander J. Motyl, Putin's Dream Scenario for Ukraine.– Atlantic Council, 16 January 2019. <https://www.atlanticcouncil.org/blogs/ukrainealert/putin-s-dream-scenario-for-ukraine>

³⁶ Alexander J. Motyl, Putin's Dream Scenario for Ukraine.– Atlantic Council, 16 January 2019. <https://www.atlanticcouncil.org/blogs/ukrainealert/putin-s-dream-scenario-for-ukraine>

³⁷ Roman Olearchyk, Ukraine comic gets serious about presidential bid. – Financial Times, 26 February 2019. <https://www.ft.com/content/d3d319c6-338c-11e9-bd3a-8b2a211d90d5>

³⁸ Opinion polling for the 2019 Ukrainian parliamentary election. https://en.wikipedia.org/wiki/Opinion_polling_for_the_2019_Ukrainian_parliamentary_election

Political reforms

Since 2014 Ukraine has conducted numerous political and economic reforms to rebuild country in political, administrative and economic spheres and bring it closer to Europe.

In general context, analysts Adrian Karatnycky and Alexander Motyl point out,³⁹ that in almost every sphere, there is evidence of remarkably successful reforms and development in Ukraine. The country is also finally developing a functional state apparatus, both nationally and locally. The government has trimmed its bureaucracies, increased its salaries, and clearly defined various functional authorities. The days of a bloated apparatus prone only to bribe-taking and indolence are gone. Decentralization of authority has proceeded apace, and local budgets have doubled within the last two years, leading to improved roads, schools, and cultural centers.⁴⁰ Adrian Karatnycky and Alexander Motyl find that in military sphere, which is utmost importance to country involved in military conflict, for the first time since independence in 1991, Ukraine possesses a genuine army capable of defending the country. At the time of the Russian invasion in 2014, the country had some 6,000 battle-ready troops. Now it has one of the best armies in Europe, numbering over 200,000 volunteers and professionals. It has refurbished formerly out-of-service tanks and armored personnel carriers, developed new missiles, and produced new heavy artillery. Ukraine also possesses a combat-ready national guard of 60,000, a reformed police force, and a revamped security service that has successfully interdicted a number of Russian-financed efforts at promoting terrorism on Ukraine-controlled territory.⁴¹

It has been pointed out problems remain in Ukraine and any new president will face a lengthy to-do list. The protracted conflict with Russia-backed forces in eastern Ukraine is still draining the economy. 64% of Ukrainians think that peace is what their country needs most. The promised structural reforms are not going smoothly.

The European Union has accused officials in Kiev of slowing them down. The fight against corruption has impressed no one, inside the country or outside. Many Ukrainians agree that the reforms are needed, but not all, and one survey shows that the way in which reforms are being implemented is not popular. Areas under review include the judiciary, land reform and the health sector. Justice is a particularly sensitive issue.

In social welfare a drastic increase in household expenditure is another problem facing Ukrainians. The government is moving away from subsidising gas prices following demands from the International Monetary Fund. Ukrainians will not start paying for

³⁹ A. Karatnycky, A. Motyl, Ukraine's Promising Path to Reform. – Foreign Affairs, July 16, 2018. https://www.realclearworld.com/2018/07/16/ukraine039s_promising_path_to_reform_193152.html

⁴⁰ A. Karatnycky, A. Motyl, Ukraine's Promising Path to Reform – Foreign Affairs, July 16, 2018. https://www.realclearworld.com/2018/07/16/ukraine039s_promising_path_to_reform_193152.html

⁴¹ A. Karatnycky A. Motyl – Ukraine's Promising Path to Reform – Foreign Affairs, July 16, 2018. https://www.realclearworld.com/2018/07/16/ukraine039s_promising_path_to_reform_193152.html

gas based on market prices until 2020, but already energy tariffs have turned out to be unmanageable for many.

The wider economy also faces significant challenges. A debt default has been avoided so far and some economic growth achieved. But the climate for entrepreneurs is far from ideal. A promise to replace corporate tax with a tax on withdrawn capital was never fulfilled. Oligarchs still reign over key industries and members of parliament still enjoy immunity despite the generations of politicians promising to change the status quo.⁴²

The EU Association Implementation Report on Ukraine similarly brings out both successes and shortcomings of Ukrainian reforms so far:

Ukrainian electoral legislation still remains to be harmonised and aligned with international recommendations. A new draft electoral code, which could provide the basis for the electoral reform, passed first reading in November 2017. At the same time, more than 1.6 million internally displaced persons (IDPs) remain deprived of parts of their voting rights in the absence of dedicated legislation.⁴³

The implementation of the 2015-2020 National Strategy and Action Plan on Human Rights is ongoing. A new ombudsperson (Parliamentary Commissioner for Human Rights) was elected in March 2018.⁴⁴ In April 2018, a State Social Programme on Equal Rights and Opportunities for 2018-2021 was approved. The programme looks at strengthening the institutional mechanisms and an integrated approach for enhancing gender equality in all areas of public life in Ukraine.⁴⁵

The human rights situation in the illegally annexed Crimea continued to deteriorate in 2018. The systematic repression of individuals and groups who refuse to align themselves with the de-facto “authorities” continued unabated, with an increasing number of

⁴² Ukraine presidential election: all you need to know to understand key polls – Euronews, 14 March 2019. <https://www.euronews.com/2019/03/12/ukraine-presidential-election-all-you-need-to-know-to-understand-key-poll>

⁴³ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, pp. 2–3. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁴⁴ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 3. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁴⁵ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 4. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

human rights abuses including arbitrary arrest, torture and ill treatment.⁴⁶ Human rights and fundamental freedoms, such as freedom of opinion and of expression, continue to be severely curtailed by armed groups in the Non-Government Controlled Areas of eastern Ukraine, including via targeted killings, arbitrary and incommunicado detention, sexual and gender-based violence, torture, and arbitrary violation of property rights.⁴⁷

Following the December 2017 Venice Commission opinion on the language provisions of the new framework law on education, the Ukrainian authorities took a number of steps taking into account these recommendations. In early 2018, a roadmap for the implementation of the article in question was drawn up and consultations with representatives of minorities started in June-July 2018 with a view to further legislative steps regarding implementation. The Parliament has yet to adopt the legislative amendments proposed by the Government to extend the transitional period of the law on education, in line with recommendations by the Venice Commission.⁴⁸ However this law remains criticized not only by Russia, but also by the some EU member states, notably Hungary.

While freedom of the media is broadly respected in Ukraine, as of September 2018 the Institute of Mass Media reported that since the beginning of the year, there have been 67 cases registered of impediment to lawful professional activities of journalists, 24 cases of threats, 22 cases of beatings of journalists, and 12 cases of limitation of access to information. The public broadcasting service (PBS) established in 2017 has remained underfinanced in 2018 with only 50% of the budgetary allocation stipulated under Ukrainian law.⁴⁹

On 21 June 2018, Ukraine's Parliament adopted the Law on National Security. This framework law covers definitions, delineations and oversight mechanisms for the whole security sector and includes provisions for the effective subsequent reform of the Security Service of Ukraine (SSU), which would need to be regulated by appropriate secondary legislation. A genuine SSU reform has a potential to strengthen the rule of law, enhance

⁴⁶ Report on the human rights situation in Ukraine 16 February to 15 May 2018. – The Office of the United Nations High Commissioner for Human Rights, https://www.ohchr.org/Documents/Countries/UA/ReportUkraineFev-May2018_EN.pdf

⁴⁷ Report on the human rights situation in Ukraine 16 February to 15 May 2018. – The Office of the United Nations High Commissioner for Human Rights, https://www.ohchr.org/Documents/Countries/UA/ReportUkraineFev-May2018_EN.pdf

⁴⁸ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 4. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/far-future/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁴⁹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 4. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/far-future/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

the business climate and increase trust for the SSU.⁵⁰ A Law on Cybersecurity, adopted in 2017, entered into force in May 2018. It delineates responsibilities and mechanisms for coordination as regards cybersecurity.⁵¹

By September 2018, the National Anticorruption Bureau of Ukraine (NABU), in cooperation with the Specialised Anticorruption Prosecutor's Office (SAPO), had initiated 644 pre-trial investigations in high-level corruption cases, including against public figures in Ukraine. However, the conviction rate of these cases remains very low at 21 cases as the vast majority of cases are blocked in Ukraine's ordinary courts. So far, no high-level official has been convicted of corruption. To address this issue, Ukraine adopted in June 2018 legislation to establish a High Anti-Corruption Court (HACC) that should be staffed with independent judges selected in a competitive process with international participation. Once established, the HACC could consider cases under NABU's jurisdiction.⁵²

At the same time anti-corruption campaigners in Ukraine and Western critics say the government has not yet broken the grip of billionaire oligarchs on governance and economy. The government has been accused of dragging its feet on some key reforms — including creating an independent, anti-corruption court — demanded by the IMF as a condition of its \$17.5 billion bailout programme. While an IMF-approved law to create the court was finally passed in July 2018, the next \$2 billion disbursement of IMF funding is running more than a year behind. Campaigners say the court was vital to ensure that a National Anti-Corruption Bureau could bring cases before genuinely independent judges.⁵³

The anticorruption fight witnessed serious setback in the end of February 2019 when Ukraine's Constitutional Court overturned a law criminalizing illicit enrichment, saying it contravened the presumption of innocence. G7 nations and the World Bank in the beginning of March 2019 denounced Ukraine's annulment of a key anti-corruption law "a serious setback" in the fight against corruption and stressed that, this move has weakened the impact of the whole anti-corruption architecture. The law had only been intro-

⁵⁰ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 8. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁵¹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 7. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁵² Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 7. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁵³ Neil Buckley, Ukraine's painful reforms start to bear fruit. – Financial Times, 12 September 2018. <https://www.ft.com/content/3bfd84d2-9405-11e8-95f8-8640db9060a7>

duced in 2015 under pressure from the International Monetary Fund in exchange for bailout loans for the crisis-hit country. The G7 and World Bank urged Ukraine to step up its fight against corruption.

The court ruling has already forced the National Anticorruption Bureau of Ukraine (NABU) to abandon 65 cases of possible graft by officials. NABU condemned the court ruling as “politically motivated. Anti-corruption group Transparency International also condemned the court ruling, announcing that “Decriminalization of illegal enrichment will mean a complete amnesty for absolutely all public officials with questionable wealth.” As a result, in a bid to head off the row over the Constitutional Court’s ruling, President Poroshenko hurriedly proposed a fresh bill to fix the provisions in the anti-corruption law ruled unconstitutional.^{54 55}

By October 2018, the National Agency for Prevention of Corruption (NAPC), in charge of the electronic asset declaration system for public officials, only managed to verify some 400, out of 2.7 million, e-declarations currently uploaded on the system. In September 2018, NAPC put into operation automated software to verify the very high number of e-declarations and obtained access to some state registers to cross-check information submitted by public officials. Despite this progress, NAPC has not yet produced a convincing track record of effectively verified declarations of high-level officials.⁵⁶

The introduction of transparent online bidding for public procurement contracts has closed off another source of corruption. Ukraine’s Institute for Economic Research and Policy Consulting, a think-tank, calculated that the gas sector, procurement, banking and tax reforms together restored up to \$6bn in annual revenues formerly stolen from the state.⁵⁷

During 2017-2018, the renewal and reform of the judiciary continued. Ukraine’s new Supreme Court became operational in December 2017 through a new recruitment pro-

⁵⁴ Joint Statement of the G7 and the World Bank on Constitutional Court Decision on Illicit Enrichment. – European External Action Service. https://eeas.europa.eu/delegations/ukraine_th/59235/joint%20statement%20of%20the%20G7%20and%20the%20World%20Bank%20on%20Constitutional%20Court%20Decision%20on%20Illicit%20Enrichment

⁵⁵ G7, World Bank decry Ukraine U-turn on corruption law. – AFP/Yahoo News, 4 March 2019. https://news.yahoo.com/g7-world-bank-decry-ukraine-u-turn-corruption-171955869.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAANJRe1ABeDy1Fvo95cluNuqJZB4e1x_Gq-gqTmtOvd65nMhwQyrnrRkb7GSXxAH7QkDoOsO5lRXK_Zee2YNF0Wz8ArtGrXXXZraR3_AaqzjyS6XrkCu2xxa59c95K-OxLc5tbyXqz-AE9R9JH0-K3k4OGZ-4DeM2ncFlJfqNJahmK

⁵⁶ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p.7. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpriQUUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁵⁷ Neil Buckley, Ukraine’s painful reforms start to bear fruit – Financial Times, 12 September 2018. <https://www.ft.com/content/3bfd84d2-9405-11e8-95f8-8640db9060a7>

cess with unprecedented transparency. Nevertheless, the Public Integrity Council (PIC), which consists essentially of civil society experts, expressed doubts about the integrity of 25 of the 113 judges appointed, thereby raising concerns about the perception of the new court.⁵⁸

In the area of law-enforcement, In 2018, the reform of the National Police of Ukraine (NPU) continued to be implemented. The State Bureau of Investigation (SBI) was established with the selection of its leadership in November 2017. Once operational and fully staffed, the SBI will be able to take over most investigative powers from the Prosecutor General's Office and investigate crime committed by public officials outside NABU's exclusive jurisdiction.⁵⁹

Progress has been made in the area of Public Administration Reform (PAR). In 2017-2018, the Government aimed at strengthening its capacity to design policies and legislation, including those stemming from the AA. A centralized, transparent and merit-based recruitment system has been launched through a dedicated web-platform (career.gov.ua) with close to 24 000 applications received between October 2017 and September 2018 for approximately 1010 positions published.⁶⁰

Local self-government has been strengthened by the decentralization reform launched in 2015, which has further advanced in 2018, with 705 new amalgated hromadas (municipalities) established since 2015. The law which allows major cities of a region (Oblast) to become part of the amalgamation process was adopted in May 2018.⁶¹

As of 31 August 2018, citizens of Ukraine have made over 25.9 million trips to EU countries since the visa free regime for short term stays for Ukrainian citizens holding biometric passports entered into force in June 2017. Six million Ukrainian citizens have crossed the border with biometric passports (23% of the total), of which 1.3 million

⁵⁸ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 7. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁵⁹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 8. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁶⁰ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 5. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁶¹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 2. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

without visas. The demand for biometric foreign travel documents remains high and new manufacturing equipment was purchased to improve processing time.⁶²

Economic reforms

Ukraine's macro-economic situation has remained stable, but fragile, due to major repayment obligations over the next years. Ukraine's economy grew by 3.5 percent in the first half of 2018, supported by an early agriculture harvest and strong consumption growth from higher wages, pensions, and remittances, according to the World Bank.⁶³

EU Association Implementation Report on Ukraine of 2018 recognizes that Ukraine has made progress in several areas. Ukraine's economy has continued the recovery started in 2016, following the recession of 2014-2015. Ukraine has made significant progress in consolidating public finances, notably by reducing the fiscal deficit from 4.5% GDP in 2014 to 1.4% in 2017. Inflation has decreased substantially since 2015, down to 13.7% in 2017 and 8.9% by July 2018.⁶⁴

The economic stabilization has been supported by prudent macroeconomic policies and significant international financial and technical assistance, including the macro-financial assistance programme provided by the EU. Despite the stabilization of the economy achieved over recent years, Ukraine continues to rely on international financial assistance (including by the International Monetary Fund (IMF) and EU macro-financial assistance programmes) to preserve its macroeconomic stability.⁶⁵

After almost three years of provisional application of the AA/DCFTA and since entering into force on 1 September 2017, the DCFTA shows positive results. The EU has become Ukraine's largest trade partner by far, representing 42% of total Ukrainian external trade. In 2017, exports from the EU to Ukraine, and imports from Ukraine to the EU increased by respectively 22% and 27.2%. While trade is increasing also with the rest of the world, the pace of increase is much faster with the EU, which demonstrates that the AA/DCFTA is playing a significant role. Since 2018, exports from Ukraine to the EU are

⁶² Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 8. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpriQUUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁶³ Ukraine: Economic Growth Depends on Reforms and Financing – World Bank, 8 October 2018. <https://www.worldbank.org/en/news/press-release/2018/10/04/ukraine-economic-update-october-2018>

⁶⁴ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 9. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpriQUUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁶⁵ On 19 October 2018, the IMF and the Ukrainian authorities reached a staff-level agreement on a new Stand-By Arrangement (SBA) – IMF News, 19 November 2019. <https://www.imf.org/en/News/Articles/2018/10/19/pr18392-imf-and-ukrainian-authorities-reach-staff-level-agreement-on-a-new-stand-by-arrangement>

fully back to the pre-crisis (i.e. 2012) level. Foreign direct investment remains relatively low at USD 2.3 billion in 2017.⁶⁶

Also the World Bank has recognized⁶⁷ Ukrainian Government for undertaking key reforms since 2014 which include: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, stabilizing and restructuring the banking sector, adopting a health reform package, and establishing anti-corruption agencies and asset disclosure for public officials, all the while contending with powerful vested interests in country that continue to oppose reforms. Ukraine has improved its business environment in recent years, though this progress is stalling to some extent. According to the World Bank's Doing Business survey, Ukraine ranks 71th in 2019, which is an improvement from 80th in 2017, and 142nd in 2010.⁶⁸

To create legislative framework for economic reforms in 2018, a number of draft laws from the Roadmap for AA implementation (which includes 50 draft laws) were adopted, related to decentralization, intellectual property rights, environment, company law, food safety and energy. In addition, some progress has been reported in the implementation of certain sectoral commitments under the AA, in particular related to sanitary and phytosanitary issues, competition, trade remedies, transparency, public procurement, technical barriers to trade, environment, climate action, energy (including energy efficiency), financial services, intellectual property rights, customs, accounting and auditing. Economic and sectoral reforms have continued.⁶⁹

In May 2018, Ukraine adopted the Action Plan of the Strategy for the development of Small and Medium Enterprises (SMEs). The Action Plan indicates specific support measures for SMEs, also as a result of the analysis done by the EU-financed Better Regulation Delivery Office.⁷⁰

⁶⁶ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 12. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁶⁷ World Bank in Ukraine. – The World Bank. <http://www.worldbank.org/en/country/ukraine/overview>

⁶⁸ Ease of Doing Business in Ukraine. – The World Bank. Doing Business <http://www.doingbusiness.org/en/data/exploreconomies/ukraine>

⁶⁹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 1. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁷⁰ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, pp. 10–11. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrbQ70ZJtiXaRXV69qTtPI-d-gbCzZxpirQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

On the reform of State Owned Enterprises (SOEs) and privatisation in the last financial reporting period large SOEs have continued increasing profit levels and in 2018 several independent Supervisory boards were established. On privatisation the main success has been the sale of hundreds of small assets with several other hundred expected by the end of the year. The reform of the banking sector continued, with strengthening regulatory and supervisory environment, developing strategies on how to address the high level of non-performing loans and reforming state-owned banks.⁷¹ In the energy sector there has been little progress in the creation of independent gas and electricity transmission system operators. The renewal and unblocking of the Energy Regulator took place in June 2018. In some areas, such as transport, legislative approximation is delayed.⁷²

Analysts Adrian Karatnycky and Alexander Motyl point out that the Ukrainian economy is now finally growing. But Ukraine needs to grow at twice that rate to catch up with its neighbors to the west, but the important thing is that it has finally lifted itself up from the depression that followed the Russian invasion. The government has fixed the banking sector and—together with a burgeoning number of Chinese investors—is spending huge amounts to fix roads and railroads, modernize airports, dredge ports, build new highways and tunnels to the West, and invest in renewable energy. Ukraine's IT sector is booming and has become one of the largest and most dynamic in the world. Its agricultural exports (grains and poultry, in particular) are growing steadily and, with large segments of productive land currently fallow, there is further huge upside potential. Next year should see a massive sell-off of remaining state-owned enterprises and, quite possibly, the privatization of land, which would immediately bring hundreds of millions of dollars into state coffers and further reduce the scope for corruption.⁷³

Writing in Financial Times Neil Buckley points out,⁷⁴ that the present government in Kiev can justifiably claim to have made more progress with structural reform in just four years than any administration since the country gained its independence in 1991. In spite of the conflict with Russian-backed separatists, growth is slowly picking up, and investment — though still below the level Ukraine needs — is just starting to flow. However problems remain. One problem is that ordinary Ukrainians do not yet feel many of

⁷¹ Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, pp. 1-2. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpriQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁷² Association Implementation Report on Ukraine – EU COM and High Representative of the Union for Foreign Affairs and Security Policy, 7.11.2018 SWD(2018) 462 final, p. 2. https://cdn3-eeas.fpfis.tech.ec.europa.eu/cdn/farfuture/aZnrBQ70ZJtiXaRXV69qTtPI-d-gbCzZxpriQUpU6EY/mtime:1541749617/sites/eeas/files/2018_association_implementation_report_on_ukraine.pdf

⁷³ A. Karatnycky, A. Motyl, Ukraine's Promising Path to Reform – Foreign Affairs, July 16 2018. https://www.realcworld.com/2018/07/16/ukraine039s_promising_path_to_reform_193152.html

⁷⁴ Neil Buckley, Ukraine's painful reforms start to bear fruit – Financial Times, 12 September 2018. <https://www.ft.com/content/3bfd84d2-9405-11e8-95f8-8640db9060a7>

the changes in their daily lives. They have been hit hard by the slump in the economy and the national currency after the pro-democracy revolution and subsequent conflict in 2014. Ukrainian Government has managed to regain macroeconomic stabilisation after the post-revolution financial crisis. The hryvnia has stabilised, there was a clean-up of the banking sector that cut provider numbers almost by half. The government has also reformed its tax and pension systems, reducing “under-the-table” wage payments and is moving forward with reorganisation of healthcare into a National Health Service of Ukraine.⁷⁵ In the energy sector, increasing what were previously state-subsidised gas prices towards market levels was unpopular with domestic consumers — though targeted welfare payments partially offset its effects. But it removed the basis for huge corruption schemes. The price increases, along with a strategy revamp, also transformed the fortunes of Naftogaz, Ukraine’s natural gas utility. Its losses used to form part of a budget deficit that peaked at 10.1 per cent of gross domestic product in 2014 but has shrunk today to 2.3 per cent. In a sign of the changed relationship with Moscow, Naftogaz has not bought gas directly from Russia since November 2015. Consumption was reduced, while Naftogaz reached agreements to buy gas from neighbouring European countries. However, Ukraine’s government has yet to implement IMF demands for a final increase in gas prices.⁷⁶

Ukraine still remains vulnerable to Russian energy export conditions and possible loss of gas transit profits, especially after Nordstream II pipeline is completed and Russia will be able to export its gas to Western Europe bypassing Ukraine. It has also been argued, that Russian gas in Ukrainian pipelines is “life insurance” for Kiev. As long as Russia needs Ukrainian gas pipelines, Putin will not risk a major war because the Ukrainian gas transit system could be destroyed, he claims. But when Nord Stream 2 starts working, Moscow will no longer need Ukrainian pipelines and could decide to use military force without earlier constraints.⁷⁷

Conclusion

As a conclusion one can assess that Ukraine has been relatively successful in conducting reforms at extremely difficult situation, when part of the country has been occupied by Russia and low level hostilities continue notwithstanding the Minsk truce agreement. During five years since Euromaidan revolution Ukraine has built up a functioning public administration and strong armed forces. There has been number of reforms in the field of public administration, decentralizing local government and improving regulation of

⁷⁵ Neil Buckley, Ukraine’s painful reforms start to bear fruit. – Financial Times, 12 September 2018. <https://www.ft.com/content/3bfd84d2-9405-11e8-95f8-8640db9060a7>

⁷⁶ Neil Buckley, Ukraine’s painful reforms start to bear fruit. – Financial Times, 12 September 2018. <https://www.ft.com/content/3bfd84d2-9405-11e8-95f8-8640db9060a7>

⁷⁷ Nord Stream 2 pipeline is Russian ‘weapon against Ukraine’: opinion. – Radio Poland, 3 December 2018. <http://www.thenews.pl/1/10/Artykul/395137,Nord-Stream-2-pipeline-is-Russian-%E2%80%98weapon-against-Ukraine%E2%80%99-opinion>

economic activities. As a result also the economic situation has improved. Situation with defending of human rights and media freedom has improved, although lot remains to be done to achieve EU compatible levels. Most importantly political system remains competitive and there are reasons to believe that coming presidential and parliamentary elections will be conducted in free and democratic manner.

However, significant challenges remain. Especially in the field of fighting corruption for example there are delays in establishing Anti-Corruption Court and recent overturning critical provisions of Ukraine's Anti-Corruption Law by Constitutional Court. Also limiting undue influence of big business interests over political decision making remains serious problem for Ukraine. Ukraine remains also vulnerable to Russian energy export conditions and possible loss of gas transit profits, especially after Nordstream II pipeline is completed and Russia will be able to export its gas to Western Europe bypassing Ukraine. However, there has been progress in this field also, as Ukraine now receives most of gas through western connections from EU.

Coming presidential elections will probably feature three-way competition between political novice frontrunner Zelensky and veterans of Ukrainian politics, incumbent president Poroshenko and opposition leader Tymoshenko. Importantly from EU relations perspective all frontrunners in presidential race support strengthening relations with EU and NATO and pro-Russian alternative does not enjoy significant support.

In longer perspective, however, Ukraine's future development remains heavily dependent on ending Russian aggression and restoring country's territorial integrity in peaceful manner. This is a task Ukraine could hope to solve successfully only if the support from the EU and USA remains forthcoming and the sanctions regime against Russia remains in place.