

UKRAINE: A RISK ASSESSMENT REPORT



Brian Kingston, Peter Loveridge, Joe Sterritt
The Norman Paterson School of International Affairs – CIPF
February 2009

Background

Domestic Politics

With the collapse of the Soviet Union, Ukraine declared independence on August 24, 1991. The Ukrainian constitution was adopted in June 1996, providing for a democratic, pluralistic political system with the protection of basic human rights and liberties, including guarantees for freedoms such as religion and speech. These rights have been largely respected. The constitution was amended in 2006, shifting powers from the President to the Prime Minister and Parliament.¹

The Orange Revolution was a peaceful demonstration in support of **Viktor Yushchenko**, responding to democratic violations which benefited **Viktor Yanukovych** in the 2004 Presidential elections (Oct 31) and runoff vote (Nov 21). Following Parliamentary and Supreme Court invalidation of the results, a second runoff (Dec 26), and numerous challenges and appeals, Yushchenko became President in January 2005. He nominated and Parliament approved **Yulia Tymoshenko**, a leader in the Orange Revolution, as PM in early 2005.²

Since 2005, Ukraine has had an unstable domestic political situation, due to conflicts between President Yushchenko and both Tymoshenko and Yanukovych each acting as PM for sequential short-lived governments. In the most recent elections (2007), the coalition *Bloc Yulia Tymoshenko (BYuT)* received just enough support to elect Tymoshenko as PM, despite Yanukovych's *Party of Regions* receiving the most votes.³

In October 2008, following another stalemate with Tymoshenko, President Yushchenko called for early elections, to occur on December 7. Following the onset of the international financial crisis, and thus the need for parliamentary action (including approval of IMF emergency financing) the elections were postponed first to December 14 and then indefinitely.⁴

Ethnic Tensions

In 1992, Ethnic tensions in the Crimean region—with a larger proportion of ethnic Russians than elsewhere in the Ukraine—led to calls for the secession of Crimea and its annexation into Russia. By Ukrainian and Crimean parliamentary decisions, Crimea retains cultural and economic autonomy, but as part of Ukraine.⁵ Crimea is also home to Crimean Tartars, a Muslim people forcibly relocated by the Soviets, but officially welcomed back following independence and forming a very small but ethnically distinct population in Crimea.⁶

Relationship with Russia

Ukraine's poor relationship with Russia includes numerous issues and disagreements:

- Ukraine's **NATO membership** aspirations are strongly opposed by Russia.
- **Ethnic tensions in the Crimea** have largely subsided, but there are occasional assertions (by Russia) of failing to uphold the region's cultural and linguistic autonomy.
- The former Soviet **naval base at Sevastopol** in Crimea has been an issue since independence. A 20 year rental agreement was reached in 1997, and renewed for 10 years in 2008. Ukraine has threatened non-renewal in 2017.
- **Gas Supply:** A payment arrears dispute with the Russian gas monopoly Gazprom led to a brief cut-off of gas supplies in January 2006, and to a 20 day cut-off in January 2009, affecting the supply to numerous European states as well as to Ukrainian customers. An EU brokered agreement was signed on January 20, 2009.
- The **land boundary** between Russia and Ukraine has been delimited and is being demarcated. The **sea boundary** delimitation process (concerning the Kerch Strait and Sea of Azov) remains incomplete.
- Ukraine denounced **Russian military intervention in Georgia** in August 2008.⁷

Key Indicators

History of Armed Conflict (Low)	Stabilizing: <ul style="list-style-type: none">• Since independence, the Ukraine has been involved in no armed conflicts, and there have been no non-state armed conflicts since 2002.⁸• A significant (but decreasing) number of refugees <i>originate</i> in Ukraine, emigrating primarily to large developed countries.⁹ Likely not a destabilizing force in Russian-Ukraine disputes, their emigration may increase domestic stability, by lowering population and providing remittances. Destabilizing: <ul style="list-style-type: none">• At the start of 2008, there were 2,277 asylum seekers in Ukraine. Most have been granted refugee status, but fewer applicants have been recognized as refugees since 2005, while the number of asylum applicants has increased.¹⁰
---	--

<p>Governance and Political Instability (High)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> • Constitutional reforms in 2006, due to compromises reached during the “Orange Revolution,” transferred some of the president’s powers to parliament and the government.¹¹ <p>Destabilizing:</p> <ul style="list-style-type: none"> • World Bank data suggests that Ukraine’s control over corruption continues to drop.¹² Transparency International rates Ukraine 134th out of 180 in their 2008 corruption perceptions index. • Increasing restrictions on free press since the 2004 Orange Revolution and civil libel suits against news sources that were overly critical of Government officials.¹³ • Recent years have witnessed moderate levels of domestic political turbulence; likely to continue until the January 2010 presidential elections.
<p>Militarization (Low)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> • Ukraine’s high level of militarization, in terms of military expenditures (total and as a percentage of GDP) and armed forces (total and per capita), is likely a peace promoting factor in disputes with Russia. By “balancing” Russian power (for example, more closely than could Georgia), Ukraine’s militarization reduces the likelihood of Russian aggression • The likelihood of violent conflict between Ukraine and Russia seems low; but were it to happen it would be a significant event, with the possibility of drawing in other parties such as the EU and the US due to the Ukraine’s increasing connection to NATO
<p>Population Heterogeneity (Moderate)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> • Overall population is mainly ethnic Ukrainian (77.8%).¹⁴ • No history of widespread ethnic rebellion or violent conflict. <p>Destabilizing:</p> <ul style="list-style-type: none"> • In the Autonomous Republic of Crimea, there is an ethnic Russian majority of 58.5% compared to 24.4% Ukrainian and 12.1% Crimean Tartar; risk that Russia will stoke separatist ambitions of Crimean Russians if relations continue to sour with Ukraine.¹⁵
<p>Demographic Stress (Low)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> • Declining annual population growth of -0.9% between 2006 and 2007.¹⁶ • Low population between the ages of 0 to 14 (13.9%), little risk of youth bulge.¹⁷
<p>Economic Performance (High)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> • Gazprom reached a ten year supply and transport agreement with its Ukrainian counterpart, Naftohaz in January 2009.¹⁸ This agreement ensures continued gas supplies to the energy-intensive industrial sector. • Ukraine becomes a member of the WTO on May 16, 2008.¹⁹ • A flexible exchange rate regime is being implemented, moving away from the <i>de facto</i> US\$ peg that has been maintained since 2005.²⁰ This will likely slow inflation (over 21% in 2007). • Ukraine receives a \$16.5 billion IMF loan to maintain confidence and stability in the Hryvnia.²¹ <p>Destabilizing:</p> <ul style="list-style-type: none"> • The global financial crisis has severely weakened the Ukraine’s financial system. Currency markets violently sold off the Hryvnia, falling 38% between July and December.²² • The Ukraine’s major export markets, the EU and Russia, are both expected to enter into recession in 2009. Additionally, the Ukraine’s top export (steel) has seen drastic price declines in recent months.²³ • Deep recession is forecast, with real GDP to decline by 6%. Additionally, foreign direct investment levels have declined in the second half of 2008 and are not expected to recover until the global recession ends.²⁴ • Privatization and foreign investment levels remain low in the Ukraine due in part to high taxes, organized crime, and corruption.²⁵

<p>Human Development (Moderate)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> Literacy remains high with 99.4% of adults (over 15) literate.²⁶ Both primary and secondary school enrolment have made progress since independence in 1991, rising to 83% and 79% of relevant age groups respectively.²⁷ <p>Destabilizing:</p> <ul style="list-style-type: none"> Public expenditure on health care is low in the Ukraine at \$427 per capita (PPP) compared to other Central and Eastern European Countries.²⁸ Life expectancy remains low, actually falling from 70.1 years (life expectancy at birth) to 67.6 in 2005. This ranks the Ukraine 110th in the world.²⁹ The infant mortality rate remains nearly three times higher than that of the OECD at 13 per 1,000 live births.³⁰
<p>Environmental Stress (Low)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> Ukraine has a land area of 603,700 km, with 90% of agricultural land suitable for arable production.³¹ Ministry of Environment established in 2004 and a pollution fee system has been introduced.³² <p>Destabilizing:</p> <ul style="list-style-type: none"> Large tracts of land in northern Ukraine remain contaminated from the Chernobyl nuclear fallout.³³
<p>International Linkages (Moderate to High)</p>	<p>Stabilizing:</p> <ul style="list-style-type: none"> Ukraine's poor relationship with Russia includes numerous issues and disagreements, including concerning Russian supply of gas, Ukrainian NATO membership, the Crimea and the Black Sea Fleet, and boundary disputes, as well as the August 2008 Russian intervention in Georgia. Ukraine also has incompletely resolved boundary disputes with Belarus, Moldova, and Romania.³⁴ <p>Destabilizing:</p> <ul style="list-style-type: none"> Despite being a point of contention with Russia, Ukraine's increasing connections with the West— aspiring toward NATO and EU membership—are likely factors promoting peace, in providing allies against Russia, the most likely international aggressor. Additionally, these increasing linkages with the West and with the broader international community (through UN and Economic organizations) likely act as normative influences, promoting peace in the domestic realm as well.

<u>Key Stakeholders</u>	
<p>Viktor Yushchenko (President)</p>	<p>A moderate pro-Western reformist and Ukrainian nationalist, Yushchenko became President following the Orange Revolution of the 2004 Presidential elections. Since becoming President Yushchenko has both <i>nominated</i> and <i>clashed with</i> pro-Western and pro-Russian Prime Ministers (Tymoshenko and Yanukovych), dissolving their governments and calling elections when political stalemates emerged. With Presidential elections in 2010, Yushchenko currently faces an on-going single digit approval rating.³⁵</p>
<p>Yulia Tymoshenko (Prime Minister)</p>	<p>A leader during the Orange Revolution and subsequently nominated for PM by Yushchenko (Jan-2005), a rift developed between them shortly thereafter, leading to dissolution of parliament by Yushchenko later that year (Sep-2005). Elected in the 2007 elections, through a narrow BYuT coalition margin, Tymoshenko is the current PM, despite on-going political problems with the President. An early parliamentary election called for December 2008, was postponed due to the economic crisis. She champions pro-Western reform of the Ukraine, supporting democratization, economic liberalization, and the rule of law, as well as anti-corruption and anti-oligarchy measures.³⁶</p>

Viktor Yanukovych (Leader of Opposition)	of With an ethnic Russian support base and open support from Russian PM Putin, the leader of the Party of Regions seeks closer ties with Russia and more power for Ukrainian regions. His presidential candidacy in 2004 was marred by accusations of anti- electoral fraud and involvement in the poisoning of rival Yushchenko. In 2006 he was nominated PM by his former rival. He resisted Yushchenko's dissolution of government (April 2007) until an agreement (late May) to hold elections in September. Yanukovych's party received the most votes, but the BYuT coalition nominated Tymoshenko as PM. ³⁷
<u>Key Stakeholders (continued)</u>	
Russia	Ukraine's relationship with Russia has been acrimonious during the last decade. Russia feels threatened by Ukraine's desire to become part of NATO. Tensions between the two countries also stem from Russia's lease on the port of Sevastopol, natural gas supply issues, unresolved land and sea disputes, and Russia's relationship with its ethnic brethren in Crimea,
Crimea	Demographically, ethnic Russians are the majority in Crimea. If relations between Russia and Ukraine were to further deteriorate there is a risk that Russia would seek to stoke separatist sentiment in Crimea, as seen in their Georgian intervention in the summer of 2008.
NATO	Ukraine was not given a NATO Membership Action Plan (MAP) in December 2008. However, Ukraine's strong desire to join this organization and the country's re-orientation to the West is a main issue of contention with Russia.

Scenarios

Worst Case Scenario: WWII

Economics: Ukraine suffers catastrophic economic collapse during the global recession; Ukrainians are plunged into deep economic hardship and revolt against the government.

Domestic Politics: The 2010 Presidential elections worsen domestic political stability (i.e. the President and PM can still not work together); economic collapse fractures the domestic political situation; the threat of internal violence increases.

Russia: Russia seeks to influence the weakened Ukraine, inflaming ethnic-Russian separatism; Crimea declares independence; Ukraine resists, perhaps seeing an external war as a distraction from internal strife; Russia comes to the aid of Crimea/ethnic-Russians resulting in open warfare between Russia and Ukraine.

The West: The West also suffers from the global recession, but (perhaps following a period of inward looking protectionism) realizes that it cannot allow Russian success in Ukraine; open hostilities erupt between Russian and NATO forces triggering World War III and the strong possibility of nuclear war, or at least the drawing in of many other countries.

Best-Case Scenario: Ukrainian and Russian Transformation

Economics: With support from the IMF and the West, the Ukrainian economy suffers a relatively short and shallow recession; IMF reforms set the Ukraine on a path to improved economic growth.

Domestic Politics: The 2010 elections bring in a new President better able to work with the Prime Minister, improving domestic political stability.

Russia: Deal with Gazprom is upheld; Russia withdraws naval forces from Sevastopol once lease expires in 2017.

The West: Ukraine and the West maintain good relations without infringing on sensitivities of Russia.

Most-Likely Scenario: On-Going Non-Violent Tension

Economics: Ukraine seems likely to undergo a painful recession, but with the aid of the IMF and other international/Western support, will likely avoid catastrophic economic collapse.

Domestic Politics: Collaboration over the current economic problems will likely provide domestic stability in the very short term. The 2010 Presidential elections will likely replace Yushchenko, improving the potential for political stability.

Russia: Russian displeasure rooted in Ukrainian pro-Westernism and NATO aspirations will continue, but without provoking violent conflict in the near future. This will most-likely manifest as flare-ups of the following more specific issue areas, particularly when Russia is otherwise displeased with Ukraine or trying to influence Ukrainian decision-making:

- **Gas supply:** The January 2009 deal will likely hold, but with minor disputes and possible brief gas stoppages.
- **Sevastopol naval base:** The October 2008 agreement will likely hold in the short-term, but with the potential for increased tensions closer to the 2017 end-date.
- **Ethnic-Russians:** Allegations concerning the undermining Crimean autonomy will likely surface occasionally.

The West: The West will continue to be a stabilizing influence for Ukrainian-Russian relations by providing a military counterbalance to Russian threats and incentives for further domestic political and economic reform. The West may also be able to broker further agreements between Russia and Ukraine, as they did with the gas deal.

Notes:

- ¹ US State Department, "Profile: Ukraine," *US State Department Website* (March 2008), <http://www.state.gov/r/pa/ei/bgn/3211.htm> (accessed January 29, 2009).
- ² US State Department, "Profile: Ukraine."
- ³ US State Department, "Profile: Ukraine."
- ⁴ Reuters, "Ukraine calls early election," *Reuters Website* (October 8, 2008), <http://www.reuters.com/article/topNews/idUSTRE4979YT20081008> (accessed 2009/01/28); Reuters, "Ukraine leader abandons poll, recession looms," *Reuters Website* (November 12, 2008), <http://www.reuters.com/article/economicNews/idUSLC29879720081112> (accessed 2009/01/28).
- ⁵ US State Department, "Profile: Ukraine."
- ⁶ Altintas, Kemal et al, "e-Tartars: Virtual Community of the Crimean Tartar Diaspora," *International Committee for Crimea Website*, <http://www.iccrimea.org/scholarly/e-tatars.html> (accessed February 1, 2009).
- ⁷ *Gas, NATO Membership, Naval Base:* Reuters, "Factbox: Ukraine-Russia Relations," Reuters Website (February 12, 2008), <http://www.reuters.com/article/idUSL1282952720080212> (accessed 2009-01-26). *Gas Agreement Signed:* Reuters, "Factbox-Russia and Ukraine sign 10-yr gas supply deal," Reuters Website (January 20, 2008), <http://www.reuters.com/article/idUSLK52415020090120> (accessed January 29, 2009). *Boundary Disputes:* Central Intelligence Agency, "CIA World Fact Book: Ukraine", *CIA Website*, <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html> (accessed January 30, 2009). *Russian-Georgian conflict:* Reuters. "Factbox-Ukraine's politics and finances." *Reuters Website* (December 10, 2008). <http://www.reuters.com/article/idUSLK52415020090120> (accessed January 29, 2009).
- ⁸ Uppsala Conflict Data Program (UCDP), "Ukraine," UCDP database, http://www.pcr.uu.se/gpdatabase/gpcountry.php?id=161®ionSelect=9-Eastern_Europe (accessed: January 30, 2009).
- ⁹ UNHCR, "UNHCR Statistical Yearbook Country Data Sheet: Ukraine." *UNHCR Website*, <http://www.unhcr.org/statistics/STATISTICS/4641becf11.pdf> (accessed February 1, 2009).
- ¹⁰ United Nations High Commission for Refugees (UNHCR), "Refugee and asylum statistics for Ukraine." *UNHCR, Regional Website for Belarus, Moldova, Ukraine*, http://www.unhcr.org.ua/unhcr_ukr/main.php?article_id=3&view=full&start=1 (accessed January 30, 2009). Note, however, that UNHCR statistics also indicate a stable or even decreasing total number of "Persons of Concern" in Ukraine: UNHCR, *UNHCR Statistical Online Population Database*, <http://www.unhcr.org/statistics/45c063a82.html> (accessed January 20, 2009).
- ¹¹ Economist Intelligence Unit (EIU), *Country Report: Ukraine (January 2009)*, EIU (London: 2009): 4.
- ¹² World Bank, "Worldwide Governance Indicators, 1996-2007," *The World Bank Website*, http://info.worldbank.org/governance/wgi/sc_country.asp (accessed January 30, 2009)
- ¹³ Freedom House, "Annual Press Freedom Survey – Country Report: Ukraine (2008)," *Freedom House Website*, <http://www.freedomhouse.org/template.cfm?page=251&year=2008> (accessed January 20, 2009).
- ¹⁴ Central Intelligence Agency (CIA), "CIA World Factbook: Ukraine."

-
- ¹⁵ State Statistics Committee of Ukraine, "Ukrainian Population Census 2001," *State Statistics Committee of Ukraine Website*, <http://www.ukrcensus.gov.ua/eng/results/general/nationality/Crimea/> (accessed January 20, 2009).
- ¹⁶ State Statistics Committee of Ukraine, "Ukrainian Population Census 2001."
- ¹⁷ CIA, "CIA World Factbook: Ukraine."
- ¹⁸ Oxford Analytica, "Gazprom faces up to longer-term challenges", *Global Strategic Analysis* (January 20, 2009).
- ¹⁹ World Trade Organization (WTO), "Ukraine becomes the 152nd member", *WTO Website* (May 16, 2008), http://www.wto.org/english/news_e/news08_e/acc_urk_may08_e.htm (accessed January 30, 2009).
- ²⁰ The Economist, "Preparing to Float", *Economist Website* (June 25, 2008), http://www.economist.com/agenda/displaystory.cfm?story_id=11613226 (accessed January 30, 2009).
- ²¹ International Monetary Fund (IMF), "Helping Ukraine Avoid a Hard Landing," *IMF Website* (November 10, 2008), <http://www.imf.org/external/pubs/ft/survey/so/2008/CAR111008A.htm> (accessed January 30, 2009).
- ²² The Economist, "Currency Collapse in Ukraine," *Economist Website* (December 1, 2008), http://www.economist.com/agenda/displaystory.cfm?story_id=12713824 (accessed January 30, 2009).
- ²³ EIU, *Country Report: Ukraine* (January 2009).
- ²⁴ EIU, *Country Report: Ukraine* (January 2009).
- ²⁵ EIU, *Country Profile 2008: Ukraine*, EIU (London: 2009).
- ²⁶ United Nations Development Program (UNDP), "2008 Statistical Update: Ukraine," *UNDP Website*, http://hdrstats.undp.org/2008/countries/country_fact_sheets/cty_fs_UKR.html (accessed January 30, 2009).
- ²⁷ UNDP, "2008 Statistical Update: Ukraine."
- ²⁸ UNDP, "2008 Statistical Update: Ukraine."
- ²⁹ UNDP, "2008 Statistical Update: Ukraine."
- ³⁰ UNDP, "2008 Statistical Update: Ukraine."
- ³¹ EIU, *Country Profile 2008: Ukraine*.
- ³² US State Department, "Profile: Ukraine."
- ³³ World Health Organization (WHO), "Chernobyl: The True Scale of the Accident", *WHO Website* (September 5, 2005), <http://www.who.int/mediacentre/news/releases/2005/pr38/en/index.html> (accessed January 30, 2009).
- ³⁴ CIA, "CIA World Fact Book: Ukraine."
- ³⁵ British Broadcasting Corporation (BBC), "Profile: Viktor Yushchenko," *BBC News Website* (October 9, 2008), <http://news.bbc.co.uk/2/hi/europe/4035789.stm> (accessed January 31, 2009).
- ³⁶ BBC, "Profile: Yulia Tymoshenko," *BBC News Website* (December 18, 2007), <http://news.bbc.co.uk/2/hi/europe/4848942.stm> (accessed January 31, 2009); Yulia Tymoshenko, "Biography" and "News" sections, Yulia Tymoshenko Official Website. <http://www.tymoshenko.com.ua/eng/> (accessed January 31, 2009).
- ³⁷ BBC, "Profile: Viktor Yanukovich," *BBC News Website* (April 2, 2007), <http://news.bbc.co.uk/2/hi/europe/4038803.stm> (accessed January 31, 2009); Victor Yanukovich, "Biography," Victor Yanukovich Personal Information Server, <http://www.ya2008.com.ua/eng/meet/biography/> (accessed January 31, 2009).