



Ukraine's Recovery, Ukraine's Election

Anders Åslund assesses the prospects for economic reform as Ukraine goes through a presidential election that could break the country's political paralysis.

Edited transcript, recorded January 20, 2010. © Peterson Institute for International Economics.

Steve Weisman: Ukraine is going through a tumultuous presidential election and it has also gone through the worst of its financial and economic crisis. This is Steve Weisman at the Peterson Institute for International Economics with Anders Åslund, senior fellow at the Institute, to discuss both of these developments and others. Thanks for joining us, Anders.

Anders Åslund: My pleasure.

Steve Weisman: Let's talk first about the presidential race. What's the latest on who's ahead and how it is shaping up? And also tell us what it signifies for the passage that Ukraine is undergoing right now.

Anders Åslund: Well, I think the first point to make is that the elections were very orderly and fair. Everybody's accepting the results. And the Tymoshenko camp said before that [a] 10-percent difference between her and Yanukovych is the most that they can catch up.

Steve Weisman: Let me interrupt you. In other words, remind us—the two leading candidates are—

Anders Åslund: The two leading candidates are current Prime Minister Yulia Tymoshenko and former Prime Minister Viktor Yanukovych. They have approximately the same program. The main difference is that Yanukovych represents the east and Yulia Tymoshenko represents the west. It's a regional dispute more than anything else.

Steve Weisman: Do they also reflect an orientation toward the east and toward the west?

Anders Åslund: Traditionally, yes, but the interesting thing now is that Yanukovych, the eastern candidate, is trying to present himself as more pro-European than Yulia Tymoshenko, who has previously pushed hard for EU integration, but neither of them is interested in NATO membership for Ukraine.

Steve Weisman: One of the two will be elected president, although there were other candidates, including the incumbent.

Anders Åslund: Yes, there's a runoff the seventh of February, and Yanukovych is ahead with 10 percent, but he had only 35 percent and Tymoshenko has 25 percent. The western vote is altogether more than the eastern vote, but with a very slight margin. So, it is very much a matter of if they can mobilize their respective constituencies.

Steve Weisman: And also, the voters who voted for others, what's happening there?

Anders Åslund: There is one person who is interesting. That's number three, Sergey Tigipko, who has approximately as [many] votes from all districts and he had 13 percent altogether.

And Yulia Tymoshenko has today offered him publicly to become prime minister in her government and have a post in the cabinet of ministers. So, Yulia Tymoshenko's strategy is altogether to get Tigipko and thereby get his vote.

Steve Weisman: In terms of the economic reforms that you've spoken of that Ukraine needs to undertake, what is the likelihood of this election speeding Ukraine down a path of reform?

Anders Åslund: Very strongly so. Both sides want to undertake substantial deregulation and macroeconomic reforms. Both want to improve the budget situation. So, there is a substantial sense in Ukraine that we can't go on like this. We have to become serious and everybody is complaining about corruption as the main problem and, of course, both major candidates are accusing one another [of] corruption.

Steve Weisman: You are somewhat hopeful that in the next regime Ukraine can undertake certain adjustments that might improve its economic prospects. How important is that for the rest of Europe as it looks toward Ukraine?

Anders Åslund: It is important. Currently, Ukraine has a steady political gridlock and that has to be broken. If you break that, you can also get a more functional state, then you don't need as much corruption as Ukraine has today. And Ukraine is, today, a quite open economy but it's also a very corrupt and bureaucratic economy. And 40 percent of the banks in Ukraine are owned by European banks, so Ukraine is substantially integrated into the west. Last year, when Ukraine was in deep crisis, even so, it got 45 percent of the GDP in foreign direct investment, which is a very respectable number.

Steve Weisman: What about the orientation and influence of Russia in Ukraine—always a thorny issue, especially in the last few years?

Anders Åslund: I think that it's quite clear whoever wins, Ukraine's relations with Russia would be pragmatic and the strong anti-Russian tendency that President Yushchenko stood for has lost out electorally.

Steve Weisman: I mean there was a time when that was a very popular position to take but it has turned out to be constricting.

Anders Åslund: It has not really been popular. When Viktor Yushchenko was elected president five years ago, he was very careful not to come out as anti-Russian. And it's more in the last three years that he's come out very strongly [with an] anti-Russian impression.

Steve Weisman: But nevertheless, he was seen that way. Why was that?

Anders Åslund: Well, he was all the time trying not to be a hardcore Ukrainian nationalist because then he knew he would only get three regions in the far west, and those were the only three regions that gave him some support this time. So, then he was a rational politician. Now, he is a person who's just fighting for some kind of legacy.

Steve Weisman: What should the west do now?

Anders Åslund: Welcome the new president, engage, and support new reforms. The European Union has two big projects: one is gas reform in Ukraine, where the United States can also play a role; and the other is the broad European Association Agreement, which would include a deep free trade agreement with Ukraine.

Steve Weisman: What do you mean by the gas accord? In other words, natural gas is shipped to Europe through Ukraine, is that what you are referring to?

Anders Åslund: Ukraine and the European Union agreed about the substantial gas reform last year and this means that the gas transit system will be taken out of the large Ukrainian oil and gas state corporation and that it will be given a transparent regime. It will also mean that transportation, distribution, and production in Ukraine will be separated from one another. So, it goes deeper than only being a matter of gas transit through Ukraine. And since gas trade has been the main source of high-level corruption in Ukraine, this would also be a substantial cleaning up of Ukraine's corruption.

Steve Weisman: Anders, you've played a role in advising Ukraine. Tell us a little bit about that and your experience.

Anders Åslund: Well, I worked as an official government advisor in 1994 to 1997 and the big thing that we managed to get through was a stabilization program in the fall of 1994, which brought down inflation by 1996 and then made a currency reform possible. But the government was not very interested in economic growth, so therefore they were not interested in deregulation. Privatization was easier because privatization does benefit certain people high up. So deregulation is really the big issue in Ukraine that I would emphasize now.

Steve Weisman: And more recently, what's been your role?

Anders Åslund: I've been co-chair at the UN Blue Ribbon Commission of Independent Experts in 2004. They wrote a program then for the next president and I'm doing the same now, as co-chairman of Global 25 Ukrainian International Independent Experts, on a reform program for Ukraine after the presidential elections. This is done with funding from the Swedish and Dutch ministries for foreign affairs.

Steve Weisman: And have you interacted with the candidates, especially Prime Minister Tymoshenko and Mr. Yanukovych?

Anders Åslund: Yes, I have interacted with both of them and, in particular, I've been assisting the government informally with their interaction with the IMF because there are often misunderstandings that can sort out quite easily.

Steve Weisman: So your somewhat hopeful prognosis seems also based on your personal experience with them.

Anders Åslund: Yes. You can say that. Yulia Tymoshenko is a very strong leader and an excellent crisis manager. Her weakness is that she is, to a considerable extent, a micromanager. She has a huge work capacity but she wants to decide herself. Viktor Yanukovych is much different. He's a pretty laid back leader who rather delegates all the big questions. So, in his case, the problem is rather lack of coordination between decisions that various ministries take.

Steve Weisman: And the election is February seventh, so let's talk after that and assess. Thank you very much, Anders Åslund.

Anders Åslund: Thank you.

