

Ukraine between Russia and the EU: economic background and political implications

Ukraine's controversial second round of presidential elections held on 21 November 2004 not only threw the country into a severe political crisis and put it on the verge of disintegration, it also brought Ukraine in the centre of world attention. Beyond politics, Ukraine's economic relations with its biggest neighbours, Russia and the European Union, in particular regarding trade and investment, are crucial in understanding the current crisis and the separatist sentiments in the east of the country.

Thirteen years after the break-up of the Soviet Union, Russia is still Ukraine's biggest trading partner (18.7% in terms of exports and 37.6% in terms of imports in 2003) and the supplier of cheap energy for its largely unstructured energy-intensive economy. Russia is also the largest strategic investor in a number of Ukrainian industries (frequently via Cyprus). The economic links between the two countries are growing further following the formation of the Common Economic Space (the other two participants are Belarus and Kazakhstan). The Ukrainian economy has been growing rather fast during the past few years (e.g. by 9.4% in 2003 and 13.4% in the first three quarters of 2004).

In turn, the EU has had virtually no consistent policy towards Ukraine and very little trade so far (Ukraine accounts for less than 1% of the EU's exports and imports). Ironically, and in stark contrast to the prevailing EU rhetoric, Russia's relations and the degree of its integration with the EU are more advanced than those of Ukraine in a number of important respects. The EU now accounts for nearly half of foreign trade in Russia, but only for one-third in Ukraine; Russia is recognized by the EU as a market economy, whereas Ukraine is not; Russia has managed to negotiate an extension of the quota for steel exports to the EU after enlargement, whereas Ukraine has not. The list could be extended. The strategic partnership between the EU and Russia, as well as the aim to establish 'Four Common Spaces' has just been reconfirmed at the EU-Russia Summit in The Hague on 25 November. The main challenge for the EU policy-makers is nowadays to foster a balanced economic integration with both Russia and Ukraine simultaneously, thus avoiding a painful disruption of existing economic links.

Language is not the only source of the sharp division between Ukraine's east and west. The east is not only Russian-speaking, it is also richer, more industrialized, and is the country's principal exporter. Its reluctance to accept the opposition leader Viktor Yushchenko as a potential new president has to be taken seriously. An escalation of the conflict might fuel discussions about a possible new territorial structure of the country – a development with potentially grave economic consequences.

wiiw, 9 December 2004

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