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## **Ukrainian elections: two (more) steps forward**

In Ukraine, official results from the September 30<sup>th</sup> early parliamentary elections have been released: Prime Minister Viktor Yanukovich's Party of Regions (PoR) came in first with 34.4% of total votes, two pro-presidential parties – ex-PM Yulia Tymoshenko's eponymous bloc (Bloc Yulia Tymoshenko, BYuT) and Our Ukraine (OU) – followed with 30.7% and 14.2% of total votes, respectively. Two more parties cleared the required 3% threshold, the Communist Party (5.4%) and centrist bloc led by former parliamentary speaker Volodymyr Lytvyn (4.0%). The Socialists, lead by Olexandr Moroz, failed to clear the threshold. In line with earlier projections, these results confirm a slim majority of 228 seats (out of 450 total) for BYuT and OU.

Thus it appears that the "Orange" coalition between the followers of Yulia Tymoshenko and President Viktor Yushchenko has been revived and revitalized. We believe this is good news for Ukraine's development, both politically and economically. While it is undeniable that Ukraine's economy grew strongly under Yanukovich's prime ministership, many senior figures in his party remained too closely wedded for comfort to the crony capitalism that was such a feature of Ukraine under former President Leonid Kuchma and Yanukovich's own previous term as prime minister.

However, the new ruling coalition will be highly vulnerable to defections and poaching – in the past one side has simply "bought" deputies from the other side to try and create a majority for themselves. And it is particularly worrying that under the constitution any party with over 33% of the seats has the power simply to resign en masse and render the whole parliament invalid: PoR has a projected 39% and will thus be able to cause severe disruption whenever they do not like what the government is doing or proposing.

To Western observers this may appear a very strange and unstable system, resulting in precarious government. It should be borne in mind, though, that Ukraine's reform stage only really started in earnest at the end of 2004. The period from 1991 up until that time was one of stagnation and no real political or economic progress. As such, it is now going through similar processes that many central European countries went through when they embarked on their ambitious reform programmes in the 1990s. While it is true that these years saw frequent changes of government, they also saw mostly strong economic growth; to a large extent this went unnoticed as the political turmoil dominated the headlines.

This similarity to Central Europe in the 1990s is useful and is worth analyzing further, although it is also worth remembering that there are significant differences. With very few exceptions, not one government in the Central European region has ever been re-elected. So whoever wins in Election A is almost certain to be thrown out in Election B. People want results faster than any government can ever provide. While this may appear unstable, this constant, almost Hegelian, process (first one idea/party, then an opposing idea/party, then some kind of synthesis) may also have laid the ground in the medium term for the formation of stronger and more disciplined parties which can last for more than one election, even accounting for the corruption and non-ideological motives that can accompany this evolution. We already see this happening in the key countries of Poland, Hungary and the Czech Republic – previously parties there would revolve around the personality of one charismatic leader and would often fold upon that person's departure from public life (prime example: Lech Walesa and Solidarity in Poland). Now parties in the region are more driven by ideology with clear divides appearing (e.g. left-right).

However, this took place on one bedrock on which most were in agreement and few questioned: entry and integration into the EU (based on a market economy and the Rule of Law). The EU has (wrongly, in our view) not offered this eventual prospect to Ukraine. This has made it much more difficult for the Orange camp to hold out the promise of European integration and themselves as the best way to that goal: their antagonists can retort that (a) the EU doesn't want us and (b) the "blue" camp (PoR) also wants EU membership.

However, the blue camp has yet to prove that it believes in a fair market economy, transparency and the Rule of Law, and thus its professed European ambitions are mere words, incompatible with European practice. In truth it wants to follow a model which is closer (though not identical) to that seen in Russia: a strong state dominated by state-friendly or state-owned mega-companies, presided over by an all-controlling center.

Thus the divides that persist in Ukraine today are ones that Western observers find almost irrelevant from an electoral perspective: Ukrainian language vs Russian language, Catholic (various rites) vs Orthodox (various rites), west vs east, etc. Nevertheless, it is encouraging that Yulia Tymoshenko's party made extremely significant inroads into eastern Ukraine and overcame some of these schisms, even while the other parties divided, as before, along east-west lines. However, the name of her party (BYuT – Bloc Yulia Tymoshenko) indicates that hers is still a party that revolves around one charismatic leader. It needs to take the next step and nail itself to an ideology rather than a person (and preferably re-name itself), or else risk disintegrating.

The Kremlin is unlikely to be encouraged by the election results. Although it did not interfere with the elections this time (unlike in 2004), its preference for PoR and dislike of Tymoshenko are widely known. Despite the differences in size, many wonder which country might have the greater influence over the other in the medium term: Russia on Ukraine or Ukraine on Russia? Could the "Orange fever" spread to Russia? In the short and medium term this is unlikely: three key factors which were true of the situation in Ukraine in 2004 are conspicuously absent in Russia, namely:

- i) A weak and unpopular president (Kuchma);
- ii) A liberal and popular alternative (Yushchenko/Tymoshenko);
- iii) A large part of the electorate receptive to ideas of liberal reform.

At the level of the "ordinary man on the street", most Russians look at Ukraine and immediately ridicule developments there. This is a centuries-old reflex, much like the British used to ridicule the Irish, perceiving them as backward comical peasants. Russia also claims the Orange Revolution was a waste of time, paid for by the West which achieved nothing. All this masks a deeper fear. Russians look at the ebb and flow which is now characteristic of Ukraine and are certain that it can only result in weakness and domination by outsiders. They do not, unlike many Western observers, perceive the sometimes ebullient exchange of ideas as a process that can, in the end, lead to a consensus and a universally agreed sense of direction.

On balance, we take great encouragement from these elections. Ukraine is continuing the path of political and economic reform begun in 2004. While there are many factors which could temporarily slow down this progress, it is unlikely now to be derailed. The slow divorce between business and the state has advanced (another similarity with Central Europe) and will continue doing so. This greater political and economic openness will create significant opportunities and a burgeoning market of almost 50 million people that investors will find increasingly hard to ignore.

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