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Schemes and scandals in Ukraine

Jan 18th 2001 | KIEV From The Economist print edition

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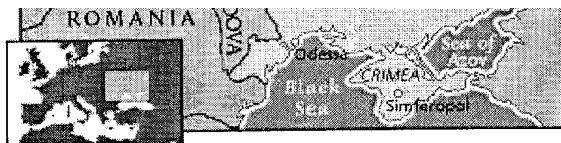
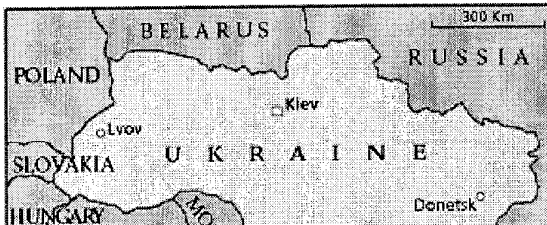
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One of the largest countries in Europe is embroiled in a lurid scandal which could stunt reform, threaten independence and bring it back into Russia's orbit

WHETHER the truth is simple or complicated, both varieties are spectacular and disturbing. The straightforward version would go like this: the president of Ukraine and his top officials are foul-mouthed thugs who plotted the murder of a troublesome journalist. A bodyguard taped their conversations, escaped abroad, then leaked excerpts to the opposition. Now the authorities are fighting back, by trying to scupper the country's nascent reforms and, in exchange for support, hand its lucrative energy-distribution system over to Russia.



That is the simpler version of the past few months' events, though strongly denied by those it traduces. For those who like their scandals spicier, other explanations abound in Ukraine's political circles: a foreign country—Russia, the United States or Israel, depending on your taste—or a tycoon or a political opponent is behind the whole affair, including murder and either bugging conversations or faking tapes, to blacken the president's name and oust him from power.

All this matters because Ukraine is so big—and so weak. After Russia, it is the largest country in Eastern Europe, with nearly

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52m people. If it falls back into the Kremlin's orbit, which, like neighbouring Belarus and other former Soviet republics, it shows signs of doing, that would firmly re-establish Russia as the regional superpower. If it can entrench independence, democracy and a law-based market economy, it would give the European Union (and NATO, with which—to Russia's annoyance—it has a privileged arrangement) a prosperous and stable eastern neighbour, rather than a bankrupt menace that leaks crime, disease and many thousands of illegal immigrants. It would also be a valuable example to Russia itself.

In the past year, the signs have been mixed. The president, Leonid Kuchma, has been increasingly friendly to Russia's Vladimir Putin. Russian companies have been snapping up the choicest and most lucrative bits of the Ukrainian economy, such as its aluminium industry, at bargain prices; the government seems as blithe about this as the president. Public-spiritedness is weak, corruption rampant, the press docile.



Blithe Kuchma

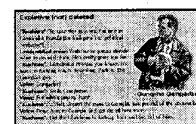
But there have been flickers of good news too. Ukraine has managed a tricky renegotiation of its foreign debt, nudged up its foreign-exchange reserves, cut the annual rate of inflation from 377% five years ago to around 20% at last count, and has seen its economy grow by 6% in the past year. This greatly surprised all concerned, including the IMF, which predicted 2%. Indeed, the country is now growing nearly as fast as Russia (7% last year), though Ukraine faces much harsher conditions. It has little energy of its own, for instance; most of it comes from Russia. And whereas the rouble tumbled by 75% in 1998, boosting Russian industry, Ukraine's currency dipped only slightly.

So what went wrong?

The current scandal revolves around three sets of facts. One is the disappearance in September of a journalist of Georgian background called Georgi Gongadze. A mutilated body was discovered a few weeks later, which relations said was his. Last week the Ukrainian authorities grudgingly agreed.

Second, a former member of the presidential security service, Mykola Melnichenko, produced tape recordings of voices resembling Mr Kuchma's and other important Ukrainians, discussing, in extremely colourful and grubby language, the illegal solution to various

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problems, including—apparently—Mr Gongadze's elimination (see transcript to the right).

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Third, the very bad relations between the presidential administration and the government have worsened sharply. A deputy prime minister, Yulia Timoshenko, is facing criminal charges for tax fraud, smuggling and forgery. These relate to her previous business activities in the gas industry, which she now says she is reforming. The rest of the government is under

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