



# **NATO DEFENSE COLLEGE FOUNDATION**

## **EASTERN EUROPE STRATEGIC TRENDS**

September 2012

## **In depth analysis**

### **Serbia's change in power. What's going on?**

#### **Law on National Bank shakes dialogue with Brussels**

The Socialists (SPS) and the Progressives (SNS), the two political forces that took control of the Parliament after general elections in May, approved a law reconfiguring the functions of the National Bank on 4 August. It brings the bank under political control by reducing the powers of the Governor and the board. Analysts said that the new measures jeopardized the Bank's independence.

Few days before the law came into force Dejan Soskic, Governor of the National Bank, resigned. Jorgavanka Tabakovic replaced him. She's one of the top members of the Progressive Party, headed by Serbia's new President Tomislav Nikolic, a former heavyweight of ultra-nationalism who now supports European integration from a conservative perspective.

Tabakovic's appointment could be seen as a logical consequence of the spoil system. After all Soskic was chosen by former President Boris Tadic and his EU-friendly government. But it seems there's something more subtle behind this move. As a matter of fact the coalition of the Prime Minister Ivica Dacic, head of the Socialist Party and a former Milosevic's spokesperson, wants to promote an expansive fiscal policy as the main tool to fight the very high unemployment rate (25%) and recession. By doing so, Dacic also wants to distance himself from the previous government. Thus the National Bank's new statute serves governmental purposes, while Jorgovanka Tabakovic will help implementing them much more than Soskic, who is known as a strong supporter of fiscal discipline, as Tadic was.

The new statute of the bank brought the IMF to keep a loan deal frozen, in order to verify if the law on the National Bank substantially affects fiscal discipline, the main condition to have access to IMF's money.

The new regulations have also influenced the quality of dialogue with the EU. Brussels remarked they are a step back in the alignment of Serbia's legislation with the European laws. Moreover Belgrade, that got the status of official candidate for European membership in March, a historic step forward after years of isolation,

won't be positively rated in the annual progress report on European integration, due to be released by the EU Commission in October, as widely reported.

### **Kosovo is still a big issue**

The National Bank is not the only reason that brings the EU to look at Dacic's government with a certain degree of scepticism. Kosovo is raising some worrying questions among European diplomats, too. While Boris Tadic showed a will to find a compromise with Brussels, even though he has always refused to recognize Kosovo's independence, the parties now in power seem to have embraced a harder stance, with less space for dialogue and a clear will to strengthen the status quo in Northern Kosovo municipalities, still controlled by Belgrade through the so called "parallel institutions" (schools, public offices, currency, banks etc.). The EU, on the contrary, would want them dismantled in exchange for a larger administrative autonomy for the Serbs living there, who represent the majority of the local population.

Nikolic and Dacic don't want any negotiations on this, especially the President. Analysts suggest it depends on the overwhelming majority his party got in Northern Kosovo last May (people living there are allowed to take part in Serbia's elections). That's why Nikolic still talks about partition, an option that would bring to the inclusion of Northern Kosovo in Serbia's territory. Also Dacic supports this idea, although neither the UN's General Secretary nor the EU think it's a feasible chance.

### **Belgrade hasn't forgotten Europe**

Some pundits think Serbia, with Nikolic as President and Dacic as Prime Minister, will be driven by nationalism and authoritarianism, pushing Serbia into isolation again after Tadic's era of overtures and therefore slowing down the dialogue with the EU.

The Law on the National Bank and the new approach in Kosovo would confirm these views, as well as Serbian government recent moves to develop stronger economic ties with Russia (a couple of Russian tycoons are interested in revitalizing a big steel plant in the town of Smederevo, formerly owned by the American industrial giant US Steel).

Anyway this is a too easy interpretation of current political affairs in Serbia. First it should be stressed that Nikolic and Dacic could be a bit disappointed with the EU, as Brussels has always publicly supported Tadic and his moderate pro-EU coalition. Second, a tougher stance on Kosovo has emerged but at the same time some analysts argue that, by recently downgrading the Ministry for Kosovo to the Office for

Kosovo, the government has tried to reassure Brussels that the fight for Kosovo has just a bureaucratic nature and that Serbia will not trespass any red line.

Third, it should be also remembered that the economic outlook of the country is very bad (unemployment, recession, deficit, decrease of foreign direct investment and a very weak currency) and that people are really frustrated. Reform of the National Bank, emphasis on expansive fiscal policy and warmer relations with the Russians shouldn't wonder too much, if coupled with political competition.

In spite of this, both the President and the Prime Minister have assured that access to the EU remains Serbia's biggest priority. There's no reasons to distrust them. While they are trying to keep their consensus high by pursuing new policies, they are still aware that Europe is closer than Russia and that Serbia's economy mainly depends from European markets.

## **Area Monitoring**

### **Montenegro**

#### **General elections. The same old story?**

Parties are focusing on parliamentary elections, scheduled for the 14<sup>th</sup> of October. Pollsters say that the Democratic Party of Socialists of Montenegro (DPS), the ruling party since twenty years, should keep the power although without the big majority it gained in 2009 elections (47 seats out of 76).

It's not yet clear who will be the next Prime Minister. Someone says Igor Luksic, the outgoing Head of Government, will be appointed again. But there are also some rumours regarding Milo Djukanovic's comeback, as he tops the electoral list of the DPS, of which he has retained the chairmanship after he resigned as Prime Minister in 2010. Djukanovic, a veteran politician who has served both as President and Prime Minister, is still considered the strongest man in the country.

The main theme of the DPS's campaign has been European integration so far. The leadership of the party has underlined that Montenegro, with the DPS in power, succeeded in getting independence from Serbia (through the 2006 referendum) and since then it has moved faster towards European membership.

It's true indeed. The small Adriatic country, already a NATO member, has got the status of official candidate for European membership in 2010 and opened formal talks with Brussels on the 1<sup>st</sup> of July.

Few days later DPS's parliamentary group voted to dissolve the assembly, forcing the Head of State Filip Vujanovic to call for early elections. It was a calculated move. The party leadership said that the government, after the beginning of accession talks, would need people's support to continue fostering European integration. It did the same in 2009 and it got a landslide victory. As this precedent worked, one could think that DPS leadership is trying to follow the same scheme.

### **Economic winter and opposition spring**

But there are some differences between this and the previous vote. First, the economic situation is much worse now than three years ago. The global crisis has severely affected Montenegro, a country hugely depending on international investments.

The improved quality of political competition is another difference with 2009 elections. Opposition parties, even though they haven't succeeded in merging together ahead of these elections, seem more mature. Moreover the so called "Montenegrin Spring", a series of demonstrations against corruption among members of the parliamentary majority held in spring and early summer, has shown that civil society is much more dynamic and vibrant than one would have expected.

Those rallies were organized by Vanja Calovic, a young woman who coordinates the activities of MANS (Network for Affirmation of the Non-governmental Sector), an umbrella NGO focusing on fight against corruption and organized crime, two issues that have been raised many times also in Brussels and cast some doubts on Montenegrin leadership's credibility.

Analysts think that citizens who took part in the protests are potential voters of the Democratic Front, an electoral coalition created by the New Serbian Democracy (8 seats in the Parliament) and Movement for Changes (5). Miodrag Lekic was appointed chairman. He's a very respected former diplomat who broke ties with Djukanovic's party when Italian judges accused the latter of being one of masterminds behind cigarettes smuggling in the Adriatic Sea during the Nineties. Since then Lekic has taught diplomacy at LUISS University in Rome.

Lekic has tried to forge an alliance with the Socialist People's Party (SNP), the main opposition force in the Parliament. He failed. Srdan Milic, president of the SNP,

announced in August that his party will run alone. This has weakened opposition chances. It should get more seats in the Parliament, but the DPS should continue ruling.

## **Bosnia and Herzegovina**

### **Dodik vs. Lagumdzija**

The government headed by Vjekoslav Bevanda, appointed last February after an executive vacuum lasting sixteen months, the longest in post-war history of the country, seems already on the brink of collapse due to a new contrast between ethnic parties representing the three main Bosnian peoples (Muslims, Serbs and Croats).

More precisely, the ongoing crisis depends on a dispute between Milorad Dodik and Zlatko Lagumdzija. Dodik, President of Republika Srpska (the Serbian entity of Bosnia and Herzegovina) and chief of the Alliance of Independent Social Democrats (SNSD), one of the stakeholders of the ruling coalition, asked the replacement of Lagumdzija, Minister of Foreign Affairs and head of the Social-democratic Party, after the latter instructed Bosnia and Herzegovina's ambassador to the UN to vote for a resolution on Syria, without consulting neither coalition allies nor waiting for a tripartite Presidency's <sup>1</sup> position on the matter. Dodik said that without Lagumdzija's replacement his party won't discuss any reform in the Parliament.

---

<sup>1</sup> The Bosnian Presidency consists of three members: one Muslim, one Croat and one Serb. They serve for a four year term. The chairmanship rotates every eight months. This principle is a direct consequence of Dayton Agreement, that ended the war in 1995. Dayton establishes several mechanism ensuring the cohabitation between the Muslims, the Serbs and the Croats, who are the so called "Constituent peoples" of Bosnia and Herzegovina. Anyway experts think that all of these rotating positions slow down political processes and decisions.

Once again Dodik, although his position seems technically correct, shows that his main goal is freezing dialogue with Muslim and Croat parties in order to keep all the functions of Republika Srpska, a quasi-state, where his power is currently hegemonic.

Both the Muslims and the Croats, but also international community and the EU, have explained in the last years that the Serbian entity has to devolve some of its powers to central institutions, that are too weak to let the country work properly and gain approval for the laws required by the EU.

Dodik has always refused. When the issue arises he flexes muscles, sometimes threatening to hold a referendum in Republika Srpska to ask his fellow nationals if they want to leave Bosnia and Herzegovina.

### **Brcko. What's next?**

The international supervision in Brcko district finished on 31 August after 15 years. It started in 1997, because both Republika Srpska and Federacija Bosne i Hercegovine, the Muslim-Croat entity of the country, claimed sovereignty over this strip of land with mixed population and strategic importance, as it borders with Croatia, it's crossed by the Sava river and it's just few kilometres away from Serbia's boundaries and the Danube. As the two entities couldn't find a solution by themselves, the international community decided to create a neutral district, supervised by the deputy head of the Office of the High Representative (OHR)<sup>2</sup> and governed through special laws, easing international foreign investments and cohabitation between ethnicities. This scheme has worked well and Brcko is one of the richest territories of BiH and the whole Balkan region.

The end of international supervision was established at the end of 2011. The international community thinks the district is stable and can live without external controls. Nonetheless there are some issues that makes the future a bit uncertain. Corruption cases and bankruptcies linked to some international projects are among them, as well as Republika Srpska's growing influence over Brcko. Both local and foreign observers don't see any traumatic challenges ahead but advice to keep an eye on next developments.

### **Unhealthy economy**

---

<sup>2</sup> The Office of the High Representative oversees the implementation of the Dayton Peace Agreement. It has the power of removing public officials and politicians who try to breach the Dayton arrangements and adopting decrees to overcome local political stalemates. The deputy of the OHR is always an American diplomat. The current High Representative in the Austrian diplomat Valentin Inzko.

Global and European financial troubles affected Bosnia. The country is experiencing a severe recession. Economic forecasts for 2013 are not satisfying at all and unemployment runs at 40%. Moreover the National Central Bank warns that the GDP should continue shrinking.

Some big industrial crisis has hit the news in August. Aluminij Mostar, a noticeable aluminium plant, cut production by 12,5% due to higher prices of raw materials and electricity. The situation in the Birac soil alumina plant is even worse. The management was forced to halt production after the national gas distributor, BH Gas, cut supplies due to \$ 13,8 millions of unpaid bills.

In the meantime, while it's still negotiating the renewal of an IMF loan, the government is trying to find some fresh foreign investments. Chinese have showed some interest in hydroelectricity sector. Bosnia has many water resources and experts believe it could become a regional energetic power.

### **Turkey's growing influence**

Turkey has invested a lot in Bosnia in recent years, financing projects, infrastructures and restorations of historic buildings. It also has been active in terms of diplomacy, by helping Bosnia to re-establish high level diplomatic relations with Serbia in 2010 after some years of very limited contacts between the two Balkan countries. This activism depends on the so called Neo-Ottoman doctrine<sup>3</sup>, a strategy aimed at increasing Ankara's interests in former imperial territories. It was elaborated by the Turkish Foreign Minister Ahmet Davütoglü.

Now Turkish influence in Bosnia, already very important, is supposed to become even wider as the state-owned Ziraat Bankasi, the second biggest Turkish bank, is set to make the country an operation centre for the whole Balkan region by opening new branches. It is worth noting that Recep Tayyip Erdoğan, the Turkish Prime Minister, will visit Sarajevo in mid-September.

---

<sup>3</sup> Officially, there is no neo-Ottoman doctrine, nor Davutoglu has ever elaborated one, although he has written an volume on Turkish geopolitics with the title "Strategic Depth". The expression is a short hand one to indicate a de facto trend in Turkish foreign policy.



# **Fyrom**

## **The happiest people in the Balkans**

Macedonians are optimistic, showed the latest Eurobarometer poll, released in early August and concerning the 27 members of the EU and the six official candidates for accession (Serbia, Turkey, Croatia, Iceland, Montenegro and Macedonia).

64% of the citizens of the former Yugoslav republic are satisfied with their life, while 35% think their economic conditions will improve within a year. These percentages, higher than the EU average, are linked to the economic situation in the country. It is rather encouraging, if one compare it to those of the post-Yugoslav region. Deficit is under control and foreign companies are still investing in the country, stimulated by favourable fiscal policies and low cost of labour. Moreover Macedonian rating hasn't been downgraded by Standard & Poor's and other agencies, even though GDP expectations in 2012 are going to be readjusted from an initial 4% to 2%.

## **A battalion of German advisors**

Germany, the largest Macedonia's trade partner (Macedonian export is valued 870m Euros annually and import worth 474m), is trying to strengthen its position through an agreement that will allow Macedonian small and medium size businesses to ask German Senior Expert Service advices in order to boost production and competitiveness. German Senior Expert Service is a nonprofit organization based in Bonn and formed by approximately 9.000 retired businessmen and consultants from a wide range of sectors.

The co-operation programme is already working and some Macedonian enterprises have benefited from Germany's consultants who came in the country, visited plants and had talks with local businessmen. «The goal is to come and give support to companies, especially to small and medium firms to become more competitive, to have better performances in the market and help them in finding new business

partners», Michael Schmitt, Director of the Macedonian-German Economic Association, explained to local media in August.

### **A new round of talks on name dispute**

On September 26 the UN General Secretary will personally lead talks between Macedonia and Greece during the works of the 67<sup>th</sup> session of the UN General Assembly (18<sup>th</sup> of September). Some analysts think this is a clear evidence that the UN chief is rather unsatisfied by the unfruitful talks between Macedonians and Greeks, both unwilling to lose something in a compromise that received lukewarm support by the parties.

In the meantime Macedonian Foreign Minister Nikola Popovski said Skopje would reject the EU Commission annual progress report on integration, to be finalised in October, if the country won't be mentioned in the document by the name of Macedonia. In previous progress reports it has always been named Fyrom, according to 1993 international agreements, that allow the Balkan country to join the United Nations. Agreements were provisional but nothing has changed since that time.

# Kosovo

## **EULEX will withdraw in 2014**

EULEX, the European rule of law mission to Kosovo, will withdraw from the Balkan country in June 2014. The decision, announced in early August, follows the International Steering Group's choice,<sup>4</sup> made on 2 July, to grant Kosovo with full sovereignty from September 2012 and close, as consequence, the International Civilian Office (ICO), the international body that has overseen Kosovo's transition from 17 February 2008, when the Parliament of the former Serbian province issued a unilateral declaration of independence.

As Kosovo's "supervised independence" will be lifted in few weeks there's no reason anymore to stay in the country, European officers told. Anyway EULEX's demobilization won't be immediate. Kosovo's government and the EU negotiated to let the civilian mission continue working for a couple of years. During this time EULEX, currently employing 3.000 people (2.000 European officials and 1.000 locals) will reduce its weight step by step.

## **Political scandals and insecurity in the North**

Someone argues it may not be the best time to give Kosovo full sovereignty, as situation in the Northern municipalities, controlled by Belgrade and mainly inhabited by the Serbs, is getting worse. The Albanians contribute to instability. Some Serbian returnees were beaten by radical Albanians in July and August, media reported.

Another sensitive issue regards some worrying corruption files involving high personalities close to the Prime Minister Hashim Thaci. EULEX prosecutors put Nazmi Mustafi, former chief of Kosovo's anti-corruption agency, under investigation. Mustafi, paradoxically, is charged with corruption. According to European prosecutors he had taken bribes to drop corruption charges against several individuals whose activities were screened by the agency he ran.

Mustafi is not the only high officer charged with corruption. There have been many cases in recent months. Former deputy Health Minister Bujar Bukoshi is among high-

---

<sup>4</sup> The International Steering Group, a group of 25 states which has overseen Kosovo ever since it declared independence from Serbia in 2008.

ranking officers prosecuted. He was charged with taking bribes in exchange for awarding health contracts.

These scandals do not help Kosovo's image abroad and make the effort of getting international recognitions even more difficult. Only 91 out of 193 Members of the UN have established formal diplomatic relations with Pristina so far.

Kosovo's government, on this side, is trying to get recognitions among revolutionary Arab countries. It sided with regional powers like Saudi Arabia and Qatar by supporting Arab Springs and now it would hope to be recognized by the new regimes in Libya, Tunisia and Egypt. Anyway only the Tunisian government has given some encouraging assurances, even though it has not yet recognized Kosovo.

### **A too fragile economy**

The economic scenario is quite frustrating in Kosovo. International investments, very few compared to those that Pristina would need, have slowed down since the beginning of the global financial crisis. This has a big impact on domestic economy, already saddled with huge problems like unemployment (at least 45% according to some economists), lack of industrial backbone and corruption.

News from August are not good at all. Media reported that 500 businesses have failed in the first semester of 2012 and that 55.000 shut down since 1999, the year that marked the end of the war. Moreover the privatization process of Trepca mines, once accounting for 70% of the Yugoslav extraction output, has been delayed once again, depriving Kosovo of fresh money. The delay depends on the Serbian claims. Belgrade says that the privatization is illegal because Kosovo is not a State and it hasn't the authority to negotiate on the matter. Worth noting that Trepca is located in the Serbian-controlled area of Kosovo.

## **Moldova**

## **Merkel in Chisinau**

Angela Merkel paid a short but significant visit to Moldova on August 22. Before that, a German Chancellor had never had high profile talks with Moldova's leadership in Chisinau.

Merkel, speaking with the Prime Minister Vladimir Filat, supported Moldova's European aspirations, carried on by the Alliance for European Integration, the coalition that, by winning 2009 elections, put an end to the Communist Party's long time stay in power.

Merkel suggested that Moldova's integration should come step by step and would begin with an Association Agreement. This is the procedure followed with all the non-EU countries that joined the Eastern Partnership, a Brussels sponsored program focusing on fostering relations between the EU members and countries who have economic, cultural and social potentials to join the community in the medium or in the long term.<sup>5</sup>

Negotiations between Chisinau and Brussels are ongoing and the two sides hope to sign the agreement within the end of the year. A free trade framework and visa liberalization for Moldovans will be the main points included in the agreement.

## **A hurdle called Transnistria**

Merkel also remarked that Moldova should resolve the frozen conflict with Transnistria, its secessionist entity supported by Moscow. That is to say that Moldova won't join the EU if Transnistria will continue being a *de facto* state.

A solution of this frozen conflict doesn't still seem in view of an end and it's almost certain that in September, when there will be a new round of talks within the 5+2 framework, there will not be any meaningful progress.<sup>6</sup>

Nonetheless, after Yevgeny Shevchuk defeated the Kremlin's candidate at presidential elections (December 2011), something has changed. Confrontation between Chisinau and Tiraspol is softer and there are also some rumours about a forthcoming discussion aimed at creating a federative state. All the sides have dismissed this scenario, but the situation should be carefully followed.

---

<sup>5</sup> The Eastern Partnership was launched during the Czech Presidency of the EU in 2009 and finalised during the Polish Presidency in 2011. Moldova, Belarus, Ukraine, Georgia, Armenia and Azerbaijan are the countries with which the EU is currently working with in order to create a deeper integration.

<sup>6</sup> The 5+2 format involves Moldova and Transnistria, as well as the Organization for Security and Cooperation in Europe, Russia, Ukraine, the European Union and the United States.

In the meantime, the Russian Prime Minister Dmitry Medvedev has invited Vladimir Flat in Moscow in September in order to discuss energy and economic cooperation. This shows that the Russians are embracing a more flexible approach, some observers argued.

## **Georgia**

### **Electoral fever**

Political forces are campaigning ahead of the October parliamentary vote. This could be the most challenging electoral test ever for the coalition belonging to Mikhail

Saakashvili, the President of the Republic. He was elected in 2003 at the end of the so called Rose Revolution and he has ruled the country without any problems since then, always with plebiscitary approval rates. Now his grip on power seems a bit weaker.

On one hand his authority is physiologically shrinking after a so long time in power, on the other hand the Georgian Dream, a new political party created by Bidzina Ivashvili, the richest man in the country, shows a good capacity of mobilization. The party has organized several protest rallies so far, each time attracting many people. Polls indicated that the Georgian Dream could get up 40% of votes.

Analysts refer that Bidzina Ivashvili should win many votes among citizens who got tired with Saakashvili's neo-liberal policies and those cut out from these ten years of fast and sometimes very wild growth. Economic reforms, liberalizations and measures fostering foreign direct investments have helped Georgia, that before Saakashvili's ascent was considered a post-Soviet failed state, to improve its international standing. The latest statistics, showing a +37% in foreign direct investments in 2011, indicate that this still is a very successful policy. But there's a also a growing social burden to deal with and this is becoming a political issue.

### **Is Ivashvili a Russian puppet?**

As October's parliamentary vote quickly approaches, tensions are growing. There were clashes during some demonstrations and the ruling coalition seems quite nervous. Ivashvili has been accused of tax evasion, violation of the financial rules for political campaigns and political use of his powerful TV9, a cable television he owns.

Moreover members of Saakashvili's party, United National Movement, stated that Ivashvili is a Kremlin's puppet. This appears to be an excessive statement. Anyway, the leader of the Georgian Dream has underlined many times that if he won general elections he would immediately mend ties with Russia, deeply deteriorated under Saakashvili's rule. The two countries fought a war in August 2008, at the end of which Southern Ossetia and Abkhazia, two former Georgian secessionist provinces, were granted independence by the Russian Federation, that had always supported these claims.

The 2008 war still stirs debate and reciprocal emotions. A recent South Ossetia authorities' plan to tear down Georgian refugees homes left during the conflict have outraged the Georgian government. Some experts think it could be seen as a Russian attempt to ignite people's feelings ahead of Georgian elections.

## **Ukraine**

### **Language law deepens national divisions**

A law expanding the use languages other than Ukrainian in many territories of the country came into force on August 8. The document, approved by the Parliament on July 3 and signed a month later by Viktor Yanukovich, the Head of State, allows official use of minorities' languages in regions where at least 10% of the population speaks something else. People now have the right to conduct any business with the central and local governments in their native language. Also MEPs can speak in their main idiom during parliamentary works. As almost of the Ukrainian population



speaks Russian, it's expected that 11 out of Ukraine's 24 oblasts (regions) will turn to Russian as regional administrative language.

Russian language is a very sensitive and political issue. Opposition parties believe the new law is another tool to weaken the legacy of 2004 Orange Revolution and to strengthen the influence of the Kremlin, of which Ukrainian President Viktor Yanukovich is considered a sort of legal representative. Yanukovich, who is also the chairman of the Regions' Party, the current ruling force, rooted in Eastern and Southern oblasts, where ties with Moscow are traditionally very strong and the majority of people speak Russian, dismissed opposition's accusations by explaining that the law widens citizen's rights.

### **Lutsenko's trial ended as expected**

The language law is one of the main issues of the opposition campaign ahead of parliamentary elections, scheduled for October 27. It will be another crucial voting test in the recent Ukrainian history. All the electoral processes held from 1991 independence have always been tense and each time there has been a wide range of relevant and contentious issues like Ukraine's ability to conduct a transparent voting process, political will to forge stronger ties with Europe, relations with Moscow, security along the European external borders and NATO's perspective.

This time it seems the vote will be less challenged. The Regions' Party is supposed to keep the majority in Parliament, also because opposition has been severely weakened by Yulia Tymoshenko's conviction to 7 years of prison, that prevents her participating to elections. Another important member of the opposition, former Interior Minister Yuri Lutsenko, is in jail. Lutsenko is a charismatic politician and a close ally of Tymoshenko. He was convicted to 2 years of detention on August 17 because prosecutors found him guilty of illegal surveillance during the investigations on the poisoning of Viktor Yushchenko, the former President, carried on while he was Interior Minister. EU officials stated that Lutsenko, as well as Tymoshenko, is a victim of selective justice.

### **Yanukovich needs fresh money to tackle the crisis**

Tymoshenko's and Lutsenko's trials have engulfed the dialogue with the EU. Negotiations on an Association Agreement, crucial for a very weak Ukrainian economy, were stopped after Yanukovich didn't put an end to selective justice as required by Brussels.

Russian financial help is the alternative to the EU commercial deals, but Yanukovich, a skilled politician, knows that Moscow would ask too much as a compensation. Neighbouring Belarus's experience confirms this. The Kremlin pretended a clear control over Minsk's economic resources after it bailed out Lukashenko's regime.

As dialogue with the EU is interrupted and as Moscow's assistance would have a very high political cost, Yanukovich is trying to liberalize some worthy sectors of the economy. ITC, a strategic sector with a huge potential, is among them. In August Ukraine's Parliament approved a law reducing corporate taxes at 5% for companies already operating in the field and for those who plan to invest in Ukraine in the next ten years. A VAT exemption was also established. Yanukovich hopes, with these measures, to boost foreign investments.