

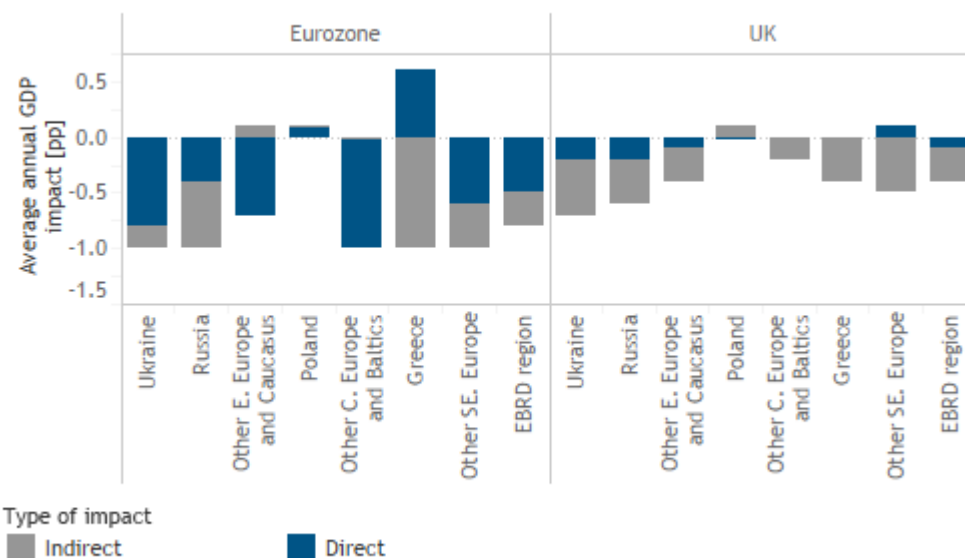
Donald Tusk plays Ukrainian trump card

Blog post by Adviser Alexander Smotrov, 25 November 2016

The EU-Ukraine summit in Brussels on Thursday just ended on an unusual note - and not just because Donald Tusk delivered some of his closing remarks in Ukrainian. He also officially said that the EU now bears the entire responsibility for successful completion of the visa facilitation process and the Association Agreement implementation impeded by the results of the Dutch referendum earlier this year. This was quite a concession. So why make it?

The simple answer is that Ukraine is probably more vulnerable now than at any point since 2013. And with the election of Donald Trump in the US, the EU has felt the need to explicitly acknowledge Kiev's anxiety about shifting US focus with a clear statement of responsibility.

Estimated impact of 1pp decline in GDP growth in the eurozone and the UK



Source: EBRD

Just how vulnerable Ukraine looks was underpinned by a recent European Bank of Reconstruction and Development (EBRD) assessment. This suggested that Ukraine is the most vulnerable country in Central and Eastern Europe to potential economic slowdown in the UK and the eurozone as well as to the 'hard Brexit' scenario. These numbers reflect both the direct impact transmitted through financial, trade and labour linkages with Ukraine and the indirect effect of the anticipated poorer performance of the EU-27 and the eurozone in the post-Brexit era.

As Ukrainian steel, fertiliser and agricultural producers are still considered as "marginal" in the global markets, they are likely to be the first to be cut off when demand is weak. A messy Brexit, and an EU focused on fending off domestic Eurosceptics and solving the problems of its own

institutional future is one that Kiev fears will have less time and focus for it - it will leverage this vulnerability as much as it can to avoid this.

The EBRD projections are an important reminder of how dependant Ukraine remains on Europe economically. Kiev has made real (if patchy) progress over the three years since the Maidan protests. Its Association Agreement with the EU is in place and is one step away from the visa-free travel with Europe. But it could easily be stalled by events and decisions outside its borders inside the EU. In that sense, Donald Tusk was really just acknowledging reality.

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