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Left Behind

Ukraine's Uncertain Transformation

Anders Åslund

Ukraine has never been so close to an oligarchic system of power. We are witnessing the first stage of a *coup d'état* that started inside the walls of parliament.

—Ukrainian opposition leader Viktor Yushchenko, December 18, 2002

THESE DRAMATIC words reflect a developing political crisis in what is arguably the most delicately situated major country in Europe today. On the one hand, the oligarchic regime is becoming ever more authoritarian and President Leonid Kuchma ever more unpopular, with an approval rating hovering around 7 percent. On the other hand, political opposition and civil society have gathered strength, and new forces may soon come to power. The natural showdown is the next presidential election, scheduled for November 2004, but the preparations for that showdown will determine the outcome.

The West, and the United States in particular, cannot be indifferent to Ukraine's fate. It is the nexus between an expanding European Union, the Eurasian colossus of the Russian Federation and the northern Middle East. A stable and prosperous Ukraine facilitates interaction

among its neighbors; a weak Ukraine creates a power vacuum that encourages rivalries. In a host of areas, Ukraine as a failed state could become a major contributor to global instability, from organized crime to WMD proliferation.¹ This is why safeguarding the future of Ukraine is critical.

Right now, however, everything appears to be up for grabs. Semi-democratic Ukraine could become a dictatorship or a fuller democracy. Though a market economy of sorts exists, and the country has seen three years of strong economic growth, this progress is not guaranteed: it could easily break down into a corrupt oligarchy. Western-oriented reformers argue that Ukraine must make its "European choice", but Ukrainian nationalists fear their country's independence will be subverted by a revitalized Russia. Pessimists fear that President Kuchma and the oligarchs are transforming Ukraine into another Belarus—that rogue, Soviet-style theme park that, as the last dictatorship in Europe, is as outmoded as it is outclassed by everything around it. Who will win? A decade hence, what will Ukraine be like? Perhaps the country's post-Soviet history can give us a place to begin in answering this question.

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¹See Andrei Kokoshin, "Russia's Role in Proliferation: Obstacles and Opportunities", *In The National Interest*, vol. 2, no. 18, May 7, 2003 (www.inthenationalinterest.com).

A Late Economic Transformation

DURING ITS first years of independence, Ukraine was preoccupied with nation-building, and little thought was devoted to economic policy. This was reflected in the election in December 1991 of Ukraine's first president, Leonid Kravchuk, formerly the Second Secretary of the Communist Party of Ukraine, who quickly changed his stripes when the old regime died. Though the jovial Kravchuk appeared a plausible nation-builder and mediator between the nationalist west and the Russified eastern part of the country, his economic philosophy could best be summarized as neglect. While a small number of operators made fortunes from the post-Soviet economic transition, general prosperity proved elusive, with a devastating rate of hyperinflation reaching more than 10,000 percent in 1993. The resulting economic free-fall provoked coal miners to strike and forced Kravchuk to call early elections. To his great surprise, he lost to Leonid Kuchma, the ultimate "red director"—the former manager of Ukraine's biggest armaments factory, who was viewed as a technocrat.

Kuchma undertook substantial economic reforms during his first year in power, leading to financial stabilization, but soon lost interest in marketization and privatization. As the interests of the old state managers dominated, economic decline continued, impoverishing the nation and forcing many to seek some measure of support from the growing underground economy. A handful of businessmen became billionaires by importing natural gas from Russia and foisting the bill on the government. In November 1999, Kuchma was re-elected thanks to a credible communist threat and heavy financing from the newly minted, billionaire oligarchs, who appeared to have bought the state.

The oligarchs proceeded to accumulate still more privileges as the rest of the economy descended into the doldrums of red tape and endless petty corruption. Ukraine soon achieved the worst economic performance of any post-communist state not plagued by war: Its official GDP, which used to be higher than Russia's, declined steadily to half that of Russia. Oligarchic parasitism had driven Ukraine to the verge of external default.

Frightened by the Russian financial collapse of 1998, the Ukrainian oligarchs realized how desperate the situation was. Oligarchs, liberals and nationalists united in parliament and wrested control from the communists. They appointed Viktor Yushchenko, the highly-respected chairman of the Central Bank, as prime minister in December 1999 and charged him with saving the economy. Yushchenko named Yulia Timoshenko, at one time Ukraine's gas queen, deputy prime minister for energy. As a former oligarch who has fallen out with Kuchma, she knew all the tricks, and she took on the remaining oligarchs with full force.

In the course of four months, Yushchenko, Timoshenko and a handful of aides transformed Ukraine. They deregulated the economy, abolishing hundreds of decrees that had granted the oligarchs tax exemptions, subsidies or trade privileges. They enforced strict budget discipline, sharply reduced barter (an important means to extract tax rebates) and still managed to cut taxes. Yushchenko carried out a major land reform initiative and privatized many big enterprises, boosting the private share of the economy from about 50 percent to 60 percent. Timoshenko applied her unique knowledge as a former gas oligarch to clean out the energy sector.

The economic results were stunning. Ukraine's annual economic growth surged from 6 percent in 2000 to 9 percent in 2001 and remained above 4 percent in 2002. Exports from private enterprises in

steel, textiles, agriculture, food processing and other light industries were the main engines of this growth. The budget was balanced, foreign debt was reduced from about 40 percent of GDP to about one-quarter of GDP, and prices and exchange rates stabilized. Millions of small and medium-size enterprises emerged. Ukraine's situation elegantly illustrates not only how damaging gradual market reforms can be, but also how radical market reforms can successfully revive a country.

Yushchenko had saved the country from default, but the oligarchs had only been diminished, not displaced. In April 2001, they ousted Yushchenko with the support of the communists and put a government of civil servants acting as caretakers in its place. Further economic reforms came to a halt, although existing ones were not reversed.

An Oligarchic State

DESPITE THE great distance traveled by Ukraine after the Cold War, no post-communist state today is more oligarchic. Initially, the clans were limited to the gas trade, but they have adapted and become regional conglomerates. Big business in Ukraine is even more entangled with the state than it is in Russia, and it is even more disposed to criminality. Today's Ukrainian oligarchs are reminiscent of those in Russia in the mid-1990s, presiding over unwieldy and shady business structures and sporting scores of bodyguards. Yet all the Ukrainian oligarchs have a seat in parliament. After elections in March 2002, nine oligarchic party factions now hold a slight majority among 450 parliamentarians. The oligarchs hold forth in parliament not to advance the common good but to immunize themselves against market competition by acquiring tax exemptions, subsidies and other privileges.

The most transparent indication of the oligarchs' wealth and political power is the size of their parliamentary factions. At present, three clans dominate. The most prominent and stable is the Kiev-based clan co-headed by Hryhory Surkis and Viktor Medvedchuk. They got their start in trade and real estate but then moved into the more lucrative gas industry; power utilities have since become their forte. Not stopping there, they have branched out into all conceivable industries, including steelworks and machine-building factories. They also "own" the well-organized and well-funded Social Democratic Party (SPDU) and its 39 members of parliament.

The Dnepropetrovsk group, Ukraine's second large clan, is led by the businessman Viktor Pinchuk, who is married to Kuchma's only daughter, Lena. His main company is Interpipe, which unites four big steelworks, earning him the unofficial distinction of being Ukraine's pipe king. Pinchuk runs a company with normal corporate structures, being the only Ukrainian oligarch displaying any ambition to gentrify himself, as have many Russian oligarchs. Naturally, he is also a member of parliament and the shadow leader of the Labor Ukraine faction with 42 members of parliament.

In the last two years, the rival Donetsk group has emerged as the strongest, richest and most feared of the three dominant clans. Its leader is Rinat Akhmetov, a young, innocent-looking Tatar and a practicing Muslim. His deputy is Viktor Yanukovych, who was governor of the Donetsk region from 1997 to 2002. Donetsk politics and business have been particularly bloody: two previous Donetsk leaders were murdered separately in 1996. The Donetsk clan is a multifaceted regional conglomerate focusing on coal industry subsidies and is represented by the forty-member "Regions" faction in parliament. So

while Ukrainian democracy as a whole is frail, Donetsk has none at all.²

Mobilization of Opposition

THANKS TO the four-month Ukrainian “spring” that Yushchenko brought about, Timoshenko and their allies, the oligarchic clans are being challenged by a mobilizing political opposition and a rising civil society. Ukrainian society has been liberated and strengthened by privatization and economic liberalization. Events are being driven by a *mélange* of scandal, government repression and popular protests. Political tensions are high.

The strength of the opposition is further bolstered by Kuchma’s weakness. In November 2000, Socialist leader Oleksandr Moroz presented tapes made by one of the President’s bodyguards indicating that Kuchma had requested his Minister of the Interior to do away with the independent journalist Hryhory Gongadze, who had been murdered earlier in September. Three hundred hours of taped conversations with Kuchma and his collaborators documented the systematic repression of his regime. Those immediately responsible for illegal violence, the ministers of Interior and Security, were ousted, but Kuchma deployed his great survival skills to weather the political crisis. Yet, with his popularity rating, he is a fatally wounded lame duck.

The strength of the opposition is best measured by the March 2002 parliamentary elections. Although flawed, the campaign was intense and very costly, leading to important changes. First, the opposition won a 70 percent majority of the popular vote in the proportional part of the election. Second, the moderate Right unified in a new party, Our Ukraine, which officially received 23.5 percent of the votes cast (and probably more when one accounts for vote-rigging). Third, Our Ukraine’s leader, Viktor Yushchenko,

surged as the outstanding favorite in the next presidential elections. Fourth, the communists’ share of the vote fell from 25 percent to 20 percent, and their share of the seats dwindled from 30 percent to 14 percent, relegating the communist threat to history’s dust bin. As a result, the non-oligarchic moderate Right dominates the opposition, and Yushchenko remains twice as popular as the troglodytic communist leader, Petro Symonenko, and four times more popular than the top oligarchs.

Two other opposition parties entered parliament as well, namely Olexander Moroz’s Socialist Party and Yulia Timoshenko’s small center-right bloc, with about twenty deputies each. (The number varies because of frequent defections and vote purchases.) Currently, the four opposition parties have 204 seats in parliament and the nine oligarchic party factions about 220, while some 25 independent deputies hold the balance. In effect, the parliament is hung, and, having secured only a minority of its seats in the proportional party-list elections, the oligarchic regime and its government are perceived as illegitimate.

The Regime Strikes Back

NEITHER KUCHMA nor the oligarchs will give up without a fight. Kuchma’s first reaction to his miserable election results was to appoint a major oligarch,

²The parliament contains six more oligarchic factions, each with 15–20 deputies. In the March 31, 2002 parliamentary elections, all of the oligarchic parties obtained only one-quarter of the votes cast in the proportional part of the elections. Even so, they got about half the seats in parliament because that many seats are distributed through majority votes in single-mandate constituencies, in which vote-rigging is rampant. (Of the 450 seats in parliament, 225 are assigned by proportional voting and 225 by single-mandate elections.)

Viktor Medvedchuk, as his chief of staff. Medvedchuk focused on two tasks. One was to persuade businessmen in parliament to join the oligarchs. Since most of these businessmen are multi-millionaires, they are not easily bribed, so the regime uses repression instead. Most major businessmen in the opposition have endured raids by the tax police and arrests of their top managers. One after another, they have given in, but the hold-outs have become so infuriated that they now form the backbone of the opposition.

Medvedchuk's second task is trying to get the already subdued media completely under heel. The leading oligarchs own most media outlets, and they have degraded their television channels and newspapers to tabloid status. Disobedient independent newspapers are sometimes sued for libel and issued prohibitive fines, forcing them into bankruptcy. The government admits that the State Tax Administration inspected no less than 260 media outlets in the last year, but merely adds insult to injury by complaining about their poor tax morals. In the old Soviet vein, Medvedchuk even issues compulsory instructions to the media about what to report. And last but not least are the murders of six journalists in 2002, an unmistakable sign of a campaign of intimidation. Ukrainian journalists have organized protest actions and set up a union of hundreds of independent journalists in defiance of the censorship and intimidation. Nevertheless, the newspapers are so miserable that few Ukrainians read them, rendering them ineffective as instruments of influencing public opinion.

The increased repression has compelled the very disparate opposition factions to unite and protest. On September 16, 2002, two years after Gongadze's disappearance and murder, the united opposition held a major demonstration in Kiev, gathering roughly 50–60,000 people—huge numbers for a political protest in Ukraine. Public respect for the semi-

authoritarian regime is ebbing, and each week there are significant demonstrations. Their organizers vary, but their common battlecry is "Down with Kuchma!"

The domestic scandals have had international repercussions as well. Ukraine has not gone as far as Belarus in international isolation and trafficking with rogue states, but the tendencies are apparent. In September 2002, the United States confirmed as authentic a recording of Kuchma ordering the sale of the Kolchuga aircraft tracking radar to Iraq, prompting the West to distance itself even further from Kuchma. The Ukrainian President was thus embarrassingly rebuked in his attempts to approach both the European Union and NATO, and it was only by gatecrashing that he attended the NATO summit in Prague in November 2002.

Yet Kuchma is a dogged fighter who thrives on being underestimated. Developments in the wake of the Iraq war demonstrate this. President Kuchma cleverly seized on the issue as a means of improving his poor relations with the United States. In advance of the war, the oligarchic parliamentarians voted overwhelmingly to send a battalion of some 500 men for the biological and chemical defense of Kuwait.³ Encouraged by this success, Kuchma went a step further and this summer committed 1,800 peacekeeping soldiers to the Polish-led division in Iraq, making Ukraine the fourth biggest contributor of allied forces in Iraq and thus further earning kudos from the Bush Administration as a member of the coalition of the willing.

Last fall, the big political question was whether Kuchma would once again take his cues from recent Russian political history. Would he abandon his old game of

³Our Ukraine split its votes, as it did not want to be outdone in pro-Western policy by the oligarchs (since public opinion was strongly against the war).

playing the oligarchs against one another and “pull a Putin” by selecting an obscure but popular prime minister, who could then be elected president and provide Kuchma with the legal immunity he so badly needs after his retirement?

The test did occur, when Kuchma deemed his government of comparatively decent civil servants as ineffective and dismissed them. His choice as prime minister was Viktor Yanukovich, Donetsk’s leading politician. Even Yanukovich’s *official* biography admits that he has been sentenced to jail twice for violent crimes. Evidently, Kuchma had not opted for a crown prince but a counterweight to Medvedchuk, who continues in his role as chief of staff. True to his Machiavellian talents, Kuchma opted for maximal strife among his ministers. He did not leave Yanukovich in charge of the government but appointed a government reminiscent of a rogues’ gallery, with leading representatives from all major oligarchic groups maintaining his balancing act.

Contrary to first appearances, this rogues’ gallery implies several qualitative improvements. For the first time, the political heavyweights—the oligarchs—are no longer “powers behind the throne” but holders of actual public government positions. Unlike the civil servants they replaced, these ministers cannot evade their responsibility. The new cabinet is also the first political coalition representing all the parties in the parliamentary majority. The formation of this government might be seen as Ukraine’s transition from presidential rule to a parliamentary system, as Kuchma’s excesses appear to have discredited strong presidential powers for good. Such constitutional changes dominate Ukraine’s political discourse. In the same way, the oligarchs discredited single-mandate constituencies in the last election, prompting a transition to proportional elections.

The new Ukrainian government’s combination of strong ministers and a

near parliamentary majority has given it the opportunity to pass important and controversial legislation, and it has done so to a far greater extent than expected in spite of vicious infighting in the government. Two reform endeavors have been particularly noteworthy.

First, Finance Minister Mykola Azarov, with his roots in Donetsk, has insisted on carrying out and radicalizing the tax reform that has been prepared for years. Virtually unnoticed, Ukraine has abolished its progressive personal income tax (with a maximum tax rate of 40 percent) and adopted a 13 percent flat tax, following the Russian example. The value-added tax has been cut from 20 percent to 15 percent, and the corporate profit tax has also been slashed. Second, Economy Minister Valeriy Khoroshkovsky, a wealthy young businessman, has aggressively pursued Ukraine’s entry into the WTO and transformed this long-lingering issue into a national top priority. In short order, Ukraine appears poised to accede to the WTO within the next year. Aside from these reforms, the Ukrainian parliament has adopted one major legal code after another since 2000. Against expectations, the new government has adopted a full-fledged pension reform, with private savings forming a substantial part of the plan.

This reform work has been matched by new economic growth. Ukraine looks set to achieve growth on the order of 7.5 percent this year. Much of the growth comes from the restructuring by new private owners of the old heavy metallurgical and machine-building companies but also from new companies in light industry, food processing and trade. The Dnepropetrovsk group can no longer be described as an oligarchic group; it has been transformed into a bourgeoisie with many big businessmen who have become mutually independent economically but cooperate in various ways, especially in politics. The same process is at work in Donetsk. Ownership is being separated,

transforming a large number of big businessmen in the oligarchic clans into independent owners. According to surveys by the European Bank for Reconstruction and Development, corruption has declined by 30 percent over the last four years. The full transformation of the Ukrainian oligarchic system into a normal bourgeoisie may be in the works, but it is still too soon to tell.

Clearly, Ukraine is approaching a critical moment. Presidential elections are scheduled for November 2004, though Timoshenko and Moroz hope to unseat Kuchma earlier. Yushchenko is the obvious opposition candidate, though it is unclear whether the opposition will unite behind him. No single oligarch enjoys a national popularity rating above 7 percent, rendering them virtually unelectable in a democratic national election. But they seem to think they can buy anything, just as they bought their seats in parliament, and one should never entirely rule out the kind of influence money can buy.

So the oligarchs may act in unison on the question of presidential elections. At present, their most plausible popular candidate is Serhyi Tyhytko, a successful private banker from Dnepropetrovsk, the former Deputy Prime Minister, the leader of Labor Ukraine in parliament and the Chairman of the National Bank of Ukraine since late 2002. The oligarchs could not find a more competent candidate, and they may very well unite behind Tyhytko.

What to Do About Ukraine

IN PRINCIPLE, it is obvious what the West should do about Ukraine: integrate it with the West. Ukraine is too big and geopolitically important to be ignored. Yet the West must also respond to the authoritarianism, repression and sheer lawlessness of the regime. The West should cooperate with the broader Ukrainian society, while avoiding particular politicians too tainted

by repression or criminal activity. What should be done is thus clear. But how to do it, striking the right balance between carrot and stick, is not.

Diverse parts of the Ukrainian opposition are advising the West to follow diametrically opposed policies, but an amalgam of both positions makes more sense than either route alone. Timoshenko and Moroz, who hope the regime will crumble soon, call for the West to levy maximal sanctions. Yushchenko and Our Ukraine, by contrast, are afraid of their country being driven into isolation or to the embrace of Russia if Western policy relies too strongly on the stick.

Given Ukraine's size and central location, one would expect the country to attract great international interest. In fact, however, only three international players worth mentioning are concerned about Ukraine: Russia, the European Union (EU) and the United States.

RUSSIA

Ukraine suffers from a little-brother complex in relation to Russia, which Russians are prone to aggravate both at a personal and official level. Nevertheless, Ukraine has quite successfully liberated itself from Russia and moved toward more mutually beneficial relations (though some problems of nontransparency still exist). Since 1991, Ukraine has reduced its trade dependence on Russia, which once accounted for most of its trade but now represents about one-quarter.

Yet Russia appears to be the main beneficiary of the last years of turmoil in Ukraine. During Yushchenko's privatizing reforms, several big Russian corporations bought large Ukrainian enterprises: for instance, four big oil refineries. The Russian purchasers are private companies, and their acquisitions make perfect business sense, but many Ukrainians are worried by the significant expansion of Russian business in Ukraine. The main

problem, however, as Yushchenko emphasizes, is the business climate in Ukraine. He welcomes private Russian business investments but suggests that they should take place in a transparent way and face free competition with investment proposals from other nations. Several regional power utilities were privatized in such a fashion, two of which the American company AES bought.

Ever since President Kuchma became a pariah in the West, President Putin has pampered him with nearly monthly meetings. Ukraine has had ambiguous feelings about the post-Soviet Commonwealth of Independent States (CIS), but Putin cleverly won Kuchma the position of Chairman of the CIS, strengthening both the CIS and Kuchma's attachment to Putin. To boost Kuchma and Ukraine's business links with Russia, Putin has also initiated negotiations on a new free trade agreement between Russia, Ukraine, Belarus and Kazakhstan. Russia's door is always open. Yet, in the end, Ukraine is likely to decline this offer, giving preference to an early accession to the WTO.

The most ominous Russian interference occurred during the parliamentary elections in March 2002. An army of Russian pollsters descended on Ukraine, well paid by Ukrainian oligarchs, and President Putin and his staff intervened heavily in favor of the oligarchic parties and the communists, which were perceived as pro-Russian. Many parliamentarians from different political camps had their campaigns financed by Russian businessmen. Yushchenko, who is seen as a Ukrainian nationalist, has faced up to this reality and worked hard on his relations with Russia, having won a private audience with President Putin.

EUROPE

In contrast to Russia, the EU is popular but seen as ineffective. Nonetheless, not only Our Ukraine, but also the current regime, claims to be pursuing the

“European choice.” In spring 1996, President Kuchma declared that Ukraine wanted to become a member of the EU, but the EU responded with embarrassed silence. EU commissioners revel in abusing the nation in public, but it is high time for the EU to get serious about Ukraine.

At present, the EU has a rather meaningless “Partnership and Cooperation Agreement” with Ukraine and suggests that Ukraine join its Common European Economic Area (EEA). While this may sound nice, it means that Ukraine must commit itself to adopt a bevy of EU legislation, most of it useless or harmful regulations, without having any influence on the process of gaining clear rewards for doing so.

Meanwhile Ukraine is suffering badly from EU protectionism. Only about 20 percent of Ukraine's exports are directed to the EU, while it ought to be about two-thirds, given the proximity and size of the EU market. The explanation is that three-quarters of Ukraine's exports are so-called sensitive products—notably steel, textiles, food and chemicals—that are very difficult to export to the EU because of protectionist tariffs and regulations. The EU-Ukraine discussion needs to become much more concrete, and it should focus on the adoption of a substantial free trade agreement, provided Ukraine first join the WTO. Such a strategy would put the onus on the EU as well, rather than on Ukraine alone.

THE UNITED STATES

In spite of the greater geographical distance, the United States has been much more active in Ukraine than the EU. The United States first focused on nuclear disarmament and, once that was successfully concluded, moved on to other military and economic issues. Under the Clinton Administration, a Gore-Kuchma Commission was established for closer economic cooperation, and Ukraine became the third biggest

recipient of U.S. foreign assistance in the late-1990s. Neither economic reforms nor cooperation, however, led to the desired results, and the administration scaled back its engagement after 1998 in the face of corruption scandals and poor economic performance.

The Bush Administration's first two years gave rise to a policy vacuum with regard to Ukraine. The Clinton policy appeared to have failed, while no alternative was apparent. Furthermore, Ukraine was not seen as a useful counterweight to Russia. At the end of 2002, however, the Bush Administration revised its stance. The new U.S. policy centers on engagement of Ukrainian society and the economy while simultaneously cold-shouldering Kuchma. Considering that President Kuchma is suspected of serious crimes, the natural choice is to isolate him personally while maintaining normal contacts with the country, as was done to Austria's President Kurt Waldheim.

More, however, can be done to strengthen Ukraine's rising civil society. Independent media exists, such as Kiev's weekly *Zerkalo nedeli* and the internet newspaper *Ukrainskaya pravda*, and it can be supported with private NGO aid. All kinds of exchanges of people should be encouraged and financed, and the United States should assist in educating a new Ukrainian elite both in the West and in Ukraine. A major stumbling-block is U.S. visa policy, which makes it far more difficult for Ukrainians to get a visa to the United States than to Europe.

The recovering Ukrainian economy offers the greatest opportunities for integration with the West. The first step should be to recognize Ukraine as the market economy it actually is. The U.S. steel lobby has opposed this because steel accounts for no less than 40 percent of Ukraine's total exports and "non-market economies" are defenseless in antidumping actions. Second, the United States

should free Ukraine from the obsolete Jackson-Vanik Amendment to the Trade Law of 1974, which actually aimed to sanction the Soviet Union for restricting Jewish emigration.

More substantially, the United States should work for Ukraine's early accession to the WTO. Though Ukraine applied as early as 1993, few Ukrainians have understood the WTO or its significance, and so the necessary political will has been missing. Issues such as intellectual property rights have complicated matters, and Ukraine has recently been blacklisted by the United States for having insufficient controls against money laundering (though better legislation in Ukraine promises to ease this problem). Still, Ukraine is a substantially open economy that should easily adjust to WTO rules. WTO membership, however, must not be seen merely as a matter of trade policy. Ukraine's accession would also set a substantial reform agenda for the country, reinforcing both liberalization and the rule of law and serving to integrate Ukraine into the Western world.

THE CURRENT Ukrainian political crisis actually represents an opportunity. If the West is reasonably open, isolationism or regression will lose all appeal.

Arguably, Ukraine is the last transition country, in the sense that it is not yet clear what this country will become. The achievements that are most secure are national integrity and the market economy, while three major open issues are the choice between democracy and authoritarianism, security policy and trade policy.

The most important question is undoubtedly the fate of democracy. If the next presidential elections are carried out in a timely and reasonable fashion, democracy may be secured. Such a development would have tremendous impact in

the whole of the former Soviet Union, which has experienced a steady slide toward authoritarian rule in recent years. Unfortunately, the Ukrainian government has still refused to let even the International Republican Institute and the National Democratic Institute register their offices in Ukraine.

For the West, trade policy toward Ukraine appears most controversial. The country is a major exporter of sensitive goods, such as steel and grain which encounter fierce protectionism in both the EU and the United States. However, if Ukrainian exports continue to be diverted to dubious Third World countries, Ukraine's outlook is likely to be formed by those countries. Both the EU and the United States should accelerate Ukraine's accession to the WTO, an action that should be followed by substantial bilateral free trade agreements. The main responsibility will rest with the United States, because the EU appears absorbed by the adoption of its own constitution, but hopefully it can make some positive contribution.

Such a policy should not be seen as

being in opposition to policy toward Russia. Russia's real interest lies in a stable and flourishing Ukraine. Closer cooperation between Ukraine and NATO should also correspond to future NATO cooperation with Russia. Russia and Ukraine cannot solve their severe mutual trade problems until both countries have joined the WTO, establishing multiple standards and an effective arbitration system. In short, Ukraine must be seen not as a zero-sum battlefield between Washington and Moscow but as a way of developing a real U.S. partnership with both Russia and Ukraine.

Success in Ukraine expands the post-communist zone of freedom and prosperity, to employ the Bush Administration's terminology. Failure, on the other hand, would trap Ukraine in a downward spiral, negating any progress made toward political and economic reform. Russia, Europe and the United States cannot afford to have a failed state in Ukraine. The cause of peace and stability in both the Euro-Atlantic and Eurasian zones rests on a Ukraine capable of surmounting its present crises. □

A Poet's Patriotism

... Men stand and trade their their mutual chains
 And barter truth for filthy gains,
 Committing shame against the Lord
 By harnessing for black reward
 People in yokes and sowing evil
 In fields commissioned by the Devil...
 And what will sprout? You soon will see
 What kind of harvest there will be!
 Come to your senses, ruthless ones,
 O stupid children, Folly's sons!
 And bring that peaceful paradise,
 Your own Ukraine, before your eyes; . . .

—Taras Shevchenko (1814–61)
 “My Friendly Epistle”