

FOR THE RECORD

Ukraine: Europe's Linchpin

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Preserving Independence

FIVE YEARS after independence, Ukraine watches the nationalist turn in neighbouring Russia with unease bordering on alarm. Much of the Russian political spectrum, obsessed with reclaiming great power status and reuniting the former Soviet republics, recognizes that Ukraine is the key to its plans and openly espouses reabsorption. President Boris Yeltsin, instrumental in the 1991 dissolution of the Soviet Union, has, in his quest for votes, adopted much of the nationalist agenda; he has dismissed his Western-oriented foreign minister, Andrei Kozyrev, cracked down on the rebellion in Chechnya, and pursued formal union with Belarus. Continued progress in Ukraine toward democracy and free markets will be more difficult no matter who triumphs in Russia's presidential election in June. A victory for Gennadi Zyuganov, the Communist Party boss and the leading presidential contender, would give Ukraine's communists a second wind and could well throw Ukraine back into the instability that preceded reform.

With a landmass equal to France, a population of 52 million, a location at the crossroads of Europe and Asia, large agricultural and high-tech industries, and extensive natural resources, Ukraine is crucial for the stability of the continent, and uncertainty there would reverberate throughout Europe. An independent, democratic, and reform-oriented Ukraine can provide a model for Russia's development, prevent the emergence of the Commonwealth of Independent States (CIS) as a political and military alliance under Moscow's control, and promote stability in Central and Eastern Europe. The next year's events in Ukraine will determine whether the continent continues on its path toward integration or faces a new confrontational divide.

Regardless of the outcome of Russia's presidential contest, Ukraine has ample reason to suspect Moscow's long-term intentions. Russia has refused to negotiate the exact borders between the two states. The Duma has not annulled its 1993 resolution declaring Sevastopol a Russian city, nor has it canceled its order to review the 1954 transfer of Crimea from Russia to Ukraine. Most recently, it proclaimed illegal the dissolution of the Soviet Union. In fact,

many Russians believe that Ukraine's leaders, not its people, have been the impediment to closer relations, if not union, between the two countries.

But a majority of Ukrainians would not voluntarily agree to union with Russia. Ukrainians in the country's west have long associated domination by Moscow with political oppression and economic decline. Despite forces in eastern Ukraine that favor reintegration, nationalist sentiment has grown throughout the rest of the country. The prospect of again being a provincial outpost of Moscow does not appeal to Ukrainians, who contrast that scenario with improving conditions in neighboring countries like Poland, Hungary, and the Czech Republic. Ukrainians in the eastern, Russified areas have demonstrated in the two elections since independence that they will vote for the candidate best able to improve their economic situation. Thus in 1991 a majority of the eastern region voted to secede from the Soviet Union because an independent Ukraine seemed to offer better economic opportunities, but in 1994 a majority, judging that the Russian economy had improved and was clearly in better shape than their own, opted for a candidate who endorsed closer ties with Russia. With few exceptions, reintegration with Russia is in the interests of neither the new Ukrainian political elite nor much of the commercial class. In a recent set of interviews, Ukrainian entrepreneurs, many of whom are personally pro-Russian, argued that Ukrainian sovereignty protects the country's emerging business community from the rich, powerful capitalists of Russia.

Ukraine desires normal relations with Russia, but attempts to force it back under Moscow's thumb would further alienate its already suspicious population. Aggressive Russian efforts might lead to civil war in Ukraine, accompanied by an overwhelming refugee crisis and ecological disasters.

Missiles into Plows

SINCE WINNING election as president of Ukraine in 1994, Leonid D. Kuchma has focused on the single greatest security threat to Ukraine - the near-collapse of its economy. Kuchma has been surprisingly successful, and Ukraine now has a fighting chance of following the Central European countries' example and creating a viable market economy. He has also worked hard to bind Ukraine to Europe while maintaining normal relations with Russia. Kuchma's presidential campaign concentrated on closer ties with Russia and the introduction of Russian (his native language) as Ukraine's second official language, and thus his stress on economic reform and relations with Europe is astounding. Though a former director of the world's largest missile factory, Kuchma has convinced his countrymen to relinquish their nuclear weapons, creating goodwill with the West. Most important, he has turned out to be a staunch defender of Ukraine's in-

dependence and sovereignty.

Kuchma's persistence has brought financial stabilization within reach. Inflation in 1995 decreased to roughly 150 percent, an enormous improvement over the 4,000 percent hyperinflation of just two years before. Total trade volume in 1995 grew by 32 percent, as trade with the West rose by 40 percent. For the first time in 60 years, Ukraine exported grain, reminding the world that it once was, and can again become, the breadbasket of Europe.

By securing the support of many voters in western Ukraine who had originally been against him, Kuchma has bridged the gap between the country's Russian-populated eastern half and its more nationalist west, restoring unity to the country and dispelling the specter of instability. Any significant shift in the course of reform would ruin his coalition, restrain economic growth, and split the country once again. Mindful of such dangers, Kuchma and his able prime minister, Yevhen Marchuk, have pursued radical economic reforms vigorously, despite resistance from powerful groups more interested in accumulating personal power and wealth than nationbuilding. The forces of opposition - the post-Soviet bureaucracy, the leftist-dominated parliament, the industrial and agricultural lobbies - have relentlessly attacked Kuchma and Marchuk's policies. Group and corporate interests often prevail in economic decisions, and corruption remains a serious problem, though less daunting than in Russia.

In 1995, following a pattern common to East European economies in transition, Ukraine's GDP declined, although at a lower rate than in past years. Total industrial production decreased by 11.5 percent and the production of consumer goods by 19.1 percent. Perhaps most disquieting was the sluggishness of privatization; less than 10 percent of the 8,000 targeted large and medium-size enterprises went into private hands in 1995. The government, which has been disappointingly indecisive in this regard, announced in March that it will speed up the privatization of 400 of these companies through international tender. Ukraine's difficulties in delivering on its commitments led the International Monetary Fund (IMF) in January to postpone the fourth tranche of a standby loan.

Kuchma has staunchly defended Ukraine's independence.

Despite its size, agricultural potential, and key location, Ukraine has failed to attract major investors. Kuchma claims that the economy requires about \$40 billion in private investment, but it received only \$750 million between 1992 and 1995. He told New York investors last October that in 1994 direct foreign investment per capita was \$12 in Ukraine versus \$670 in Hungary, \$319 in the Czech Republic, \$298 in Estonia, and even \$27 in Russia. The country's confusing tax laws and its failure to allow private property have combined with its economic instability to scare away many investors. Meanwhile, internal sources of financing remain very limited. A significant portion of the new