



Ukrainian business elite is parasitic and reluctant to invest in the Ukrainian economy. If Ukraine is counting on increased Western financial assistance and investment, it must take the necessary steps, such as large-scale privatization, banking sector reform, and capital market development. Unless Western investors bring their capital to Ukraine, disappointment may lead ordinary Ukrainians - like their Russian fellows - to harbor anti-Western sentiments.

Ukraine's mixed economic performance has caused foreign investors to be cautious, but some remain optimistic because of the country's political stability and commitment to democracy. The international community has applauded Kyiv for its handling of the Crimean secession, which for several years seemed sure to spark serious regional conflict. Kuchma and Yeltsin displayed true statesmanship in defusing a potentially violent eruption there last year. Similar leadership will be required to complete negotiations over the Black Sea fleet. While many CIS countries have retreated from democracy, Ukraine has compiled a solid track record, particularly in its treatment of its national minorities. It was the first member of the CIS to enjoy a peaceful, democratic transfer of presidential power. In its transition, Ukraine has avoided violence, and its army has not been dragged into domestic political quarrels, let alone projected its power beyond the country's borders. Despite heated debates and political tension, strong leadership and democratic compromise have characterized Ukraine's politics since Kuchma's election. The June 1995 Constitutional Agreement between the president and the parliament, for example, temporarily resolved a serious deadlock by regulating the division of power between the legislative and executive branches, while setting out a procedure for the adoption of a new constitution. Last fall Ukraine became the second CIS country, after Moldova, to be admitted to Europe's "democratic club," the Council of Europe.

Still, Ukraine is the only country in the former Soviet Union that has not adopted a new constitution since independence, and Kuchma's June deadline will prove tough to meet. Many observers expect him to prevail by the end of the year, but his constant battles with the leftist forces in parliament provide skeptics with enough evidence to adjudge the current political situation fragile. As coal miners strike and

religious tensions fester, Kuchma's opponents can easily exploit social unrest. Most of Ukraine's domestic and foreign policy dilemmas stem from the nation's tenuous unity. Its size, cultural diversity, and weak tradition of statehood seriously complicate its transition.

Walking a Tightrope

KUCHMA'S FOREIGN policy aims to balance gradual but steady integration into Europe's political and economic structures with constructive, friendly relations with Russia. While many other Central European countries have declared their desire for admission into NATO, Ukraine has firmly committed itself to nonalignment. It has participated in NATO's Partnership for Peace program and now publicly seeks a special relationship with the alliance, parallel to that which Russia has demanded; it is a reluctant member of the CIS and has time and again refused to sign the 1992 Tashkent collective security agreement. Just as it has combatted anti-Russian sentiment in its western region, the Ukrainian government has done its best to avoid anti-NATO paranoia, present in other CIS countries, in its eastern half. Both Russia and the West have hailed Kuchma's success in persuading his country to abandon nuclear arms, even though many Ukrainians still view the decision as harmful to the country's long-term national security. Once the third largest nuclear power and owner of the third largest conventional force in Europe, Ukraine voluntarily transferred its tactical nuclear stocks to Russia in 1992 and started to remove and destroy its strategic nuclear weapons in 1994. Ukraine has already reduced its conventional forces from 800,000 to 500,000.

Internal economic weakness makes Ukraine susceptible to outside pressures and has complicated Kuchma's foreign policy. The prime example of this vulnerability is Ukraine's dependence on Russia for energy. Russia supplies 80 percent of Ukraine's gas, and Ukraine has accumulated an energy debt of \$4 billion, making energy Russia's most effective lever over the country. Gazprom, Russia's gas monopoly and a powerful lobby, has threatened to close the pipeline to Ukraine unless it pays its bill. At one point, in exchange for debt relief, Gazprom unsuccessfully maneuvered for stakes of between 35 and 50 percent in 15 of Ukraine's most profitable and strategic national enterprises.

Reducing this dependence on Moscow has become Ukraine's top priority. It has made some progress toward this goal by commercializing its oil import business, restructuring its debt, and using IMF standby loans to pay its gas bills. But the energy problem still awaits a comprehensive solution, and Russia has objected to some of Ukraine's stopgap measures. Last February, for instance, Ukraine found itself on the edge

of an energy collapse: coal miners' strikes coincided with Gazprom's decision to stop dealing with Ukraine's commercial gas importers and with Moscow's decision to disconnect Ukraine from its electricity system. Until the energy problem is addressed, Ukraine will remain a weak state, vulnerable to Russian pressure.

Opposed to Ukraine's independence in 1991 and preoccupied with Russia in 1992 and 1993, the West has since become a significant supporter of Ukraine and its transition to a market economy. While serving briefly as prime minister three years ago, Kuchma criticized Western policy, saying that "on the map of world leaders, Ukraine does not even exist. They are indifferent [to] whether Ukraine is independent or not." Ignored by the West, Ukrainian policymakers lacked the confidence to pursue difficult decisions on nuclear disarmament and economic reform, and the West's focus on Russia further aggravated Kyiv's sense of insecurity and made Ukrainian-Russian relations even more tense. That initial delay in formulating a clear Western policy has been responsible in part for Ukraine's tortoise-like progress toward capitalism.

Ukraine's foreign policy tries to balance between Russia and Europe.

A discernible Western policy first emerged in 1994. Vladimir Zhirinovskiy's strong showing in the Duma elections of December 1993 and Russia's subsequent great power posturing sent the first warning signals to the West. The election of Kuchma, then deemed pro-Russian, shocked the West out of its lethargy. Relations between the West and Ukraine have since improved substantially. Last summer British Foreign Secretary Malcolm Rifkind called Ukraine a "strategic pivot in Europe" that would determine the future prosperity and security of the continent. Even Russophile France has started to pay more attention to Ukraine. And American officials have stated that a free and independent Ukraine is "a vital strategic interest of the United States." Ukraine's accession to the Nuclear Non-proliferation Treaty and its launching of economic reforms prompted security assurances and financial support from Western governments and international institutions. Western assistance, pushed largely by Canada, the United States, and Germany, made possible Kuchma's macroeconomic reforms.

The latest figures show that since Kuchma began his reform program in late 1994, the World Bank and the IMF have committed a total of \$3.4 billion in loans, \$1.5 billion of which is slated for 1996. This year the European Union (EU) will provide \$250 million, the European Bank for Reconstruction and Development \$80 million, the United States \$170 million, and the Export-Import Bank of Japan \$180 million. Russia's rescheduling of \$3 billion of Ukraine's energy arrears is another reason for the improvement in Ukraine's economic situation.

Some Additional Media Articles and References on Ukraine

- Ukraine spurning Russian advances; Ukraine frustrating Kremlin's expansionist dreams**
- *Globe and Mail*, April 11, 1996
- Ukraine looks to Europe**
- *Ukrainian News Editorial*, April 10-23, 1996
- Russian bear re-awakens**
- *Ukrainian Weekly Editorial*, April 14, 1996
- Britain sees Ukraine as Europe's new strategic front**
- *Ukrainian Weekly*, April 28, 1996
- Ukraine - Country Profile**
- *European Bank for Reconstruction & Development*