

opposition to the enlargement of NATO into the Visegrad countries - something that results more from fear of Russia's response than from any threat posed by NATO. The West has an interest in calming Ukraine's concerns: The security of those bordering on Ukraine (Poland, Slovakia and Hungary) will not be improved by their membership in NATO if it is accompanied by the arrival of Russian border guards and bases on their frontiers with Ukraine - especially since this might unleash a Ukrainian civil war. A far more pleasant scenario to contemplate is one in which the commission would go to work negotiating Ukraine's permanent neutrality, a status guaranteed by the world's nuclear powers and similar to Austria's after 1955.

Ukraine's decision last month to close the Chernobyl nuclear plant by the year 2000 removed the final obstacle to the complete normalization of relations with the West. To find a similar resolution of outstanding issues with Russia remains a challenge for Ukraine and its friends. But with help from the U.S. and other Western countries, this problem, too, can be solved. A strong and prosperous Ukraine will then contribute to the stability and potential of this important region.

*Mr. Kuzio is the editor of Ukraine Business Review and a research fellow at the Centre for Russian and East European Studies at the University of Birmingham, England.*

## Mexican Precedent for Ukraine

by Jeffrey D. Sachs, *Financial Times*  
The author is professor of international trade at Harvard University

European governments were taken aback by the way the US last month commandeered the International Monetary Fund, the Bank for International Settlements, and leading governments to arrange a \$52bn bailout for Mexico.

The sum earmarked for Mexico is probably more than is necessary to achieve the key goal of stopping creditors from panicking and unnecessarily pushing the country into default. But the package has exposed the failure of the European Union to come to the aid of its neighbors in urgent need.

The discrepancy between Mexico's treatment and that received in recent years by Algeria, Yugoslavia and Russia could not be more stark. In the virtual absence of leadership from the EU, each of these countries suffered a disastrous financial crisis which undermined fragile attempts to

strengthen democracy and to implement economic reform.

Algeria was pressed in 1991 to transfer around 5 per cent of national income to its creditors at a crucial stage in the liberalization process. Yugoslavia's request for its debt to be rescheduled during a last-ditch stabilization program in 1990 was turned down. And Russia received a pittance from the IMF in the crucial years of reform between 1992 and 1994.

Ukraine is the latest foreign policy test of this type for the EU.

A new reform-minded government led by President Leonid Kuchma came to power in June 1994, inheriting hyper-inflation and an utter collapse of public administration. Mr. Kuchma has rallied the country to the cause of economic reform against great odds. If his current effort fails, Ukrainian sovereignty could be at risk, with revanchist Russians looking to "reunite" it with the "motherland".

The EU's response has been extremely feeble. It has found out about Ecu85m in loans to provide support for Ukraine's balance of payments but Ecu65m of this must be used to repay debts to the EU that are falling due. The IMF will put up another \$1.5 bn - an amount equal to Ukraine's IMF quota, the contribution each country makes to the organization's funds. This compares with \$17bn pledged by the IMF for Mexico - equivalent to seven times Mexico's IMF quota.

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The overall sums for Ukraine are minuscule, and fall short even of the inadequate pledges made at last summer's summit of the seven leading industrialized nations when \$4bn in aid was promised.

To some extent the experience of Ukraine - like those of Algeria, Yugoslavia and Russia - reflects Europe's difficulty in coordinating the response of a dozen countries to international issues. But it also reflects a serious misjudgment by the EU about the best course of action to adopt. Its instinct is to wait for financial matters to take care of themselves, rather than mobilize an emergency package of financial support.

This is an odd stance for EU member states to take. After all, they first achieved post-war stability with the help of credits supplied by the US government under the Marshall Plan.

The problem is that governments' financial crises tend to spiral out of control until reform-minded politicians are ousted by extremists.

Without significant external assistance, most financially strapped governments cannot win the time needed for basic reforms. When creditor governments fail to provide meaningful financial support to back up their calls on debtor governments to get their house in order, the result is usually a political debacle in the debtor country.

The EU should follow the Mexican package with a suitable Europe-led package for Ukraine.

Rather than the \$1.5bn now on offer, the IMF should provide \$3bn: \$1.5bn to help Ukraine's budget and \$1.5bn to help back a new Ukrainian currency. The World Bank should put up another \$1.5bn for urgent balance of payments support, as opposed to the meager \$500m now on offer. And European nations together should mobilize \$1bn in urgent additional support.

Sooner rather than later, new market-based solutions will be needed for crises such as these. The IMF should have new powers to authorize debtor governments in distress to tap markets for new funds on an urgent "priority" basis. Repayment of old debts would be legally subordinated to repayment of these emergency loans.

Such mechanisms should be discussed at this year's G7 summit, where the role of the international institutions will be on the agenda.

But short-term emergencies in Europe's backyard should not wait for long-term reforms. Europe must act to defend its security interests. It can take a cue from the US's quick and ample response to the Mexican crisis.

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## Helping Ukraine

Editorial in the *Financial Times* of London, May 2, 1995

It is a fair guess that Bill Clinton is enjoying the Ukrainian leg of his present journey rather more than he did the Russian one. In Moscow reviving nationalism expresses itself as resentment of American pressure. In Kyiv nationalism is becoming less strident. Russia has become somewhat more respectful of Ukraine's independence, and Ukrainians attribute this in part to the support Mr. Clinton has given them.

The bolstering of Ukraine's independence is indeed an achievement for which the much-criticized Clinton administration deserves credit, and it is appropriate that Mr. Clinton's visit coincided with May 11th's agreement on indefinite extension of the nuclear non-proliferation treaty. The latter would hardly have been possible had the U.S. not persuaded Ukraine to transfer its nuclear weapons to Russia, and to sign the treaty as a non-nuclear state.