

Ukraine's Bid for a Decisive Place in History

For much of the last millennium, Ukraine as a state was more a vision of its people than a political reality. Rule came from abroad and initiative was repressed—until 1991. In that year, Ukraine split from the Soviet Union and gained its best chance to establish itself as a sovereign and independent state. Across the nation, millions of people formed a human chain in a call for freedom. Ten years later, Ukraine has established its independence and strengthened what was, in the early 1990s, a fragile nation-state. The character of that independent Ukraine is still evolving: how free a society, how strong its democratic values, how competitive its economy, how deep the rule of law, how much a prisoner of corruption?

Accomplishments and disappointments have filled the last 10 years. For most of that time, the Ukrainian people suffered a crushing economic contraction that wiped away their savings and cut their incomes by more than half. Yet as a nation, Ukraine held together, as if by some innate belief, produced through a thousand years of Ukrainian culture, that being Ukrainian meant something. Ukrainians often felt disappointed that the West did not help more. The West often resented that Ukraine did not make more of its assistance. Ten years later, we need to understand these clashing perspectives and use that knowledge to advance a shared goal of Ukraine as a democratic, market-oriented, and prosperous European state.

If any lesson has been learned, it is that Ukraine's future is its own to define. Outsiders can help or hinder, but their impact is marginal. The principal choices are Ukraine's to make. Never before has Ukraine been able to make this claim. Never before has Ukraine shouldered such responsibility for itself.

Carlos Pascual is the U.S. ambassador to Ukraine. From 1998 to 2000, he was senior director for Russia, Ukraine, and Eurasia at the National Security Council. Steven Pifer is deputy assistant secretary of state for Europe and Eurasia. He was the U.S. ambassador to Ukraine from 1998 to 2000.

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Politically, there is really no middle road. Ukraine must either walk with the civilized world as a responsible democracy, or its indecision will isolate it. Indications are that Ukraine's leaders understand this choice and are taking sound steps in their foreign policy, but in the long term, the success of Ukraine's foreign policy will depend on domestic choices—the political and economic character of the Ukrainian state. These traits will fundamentally shape Ukraine's possibilities as a partner in the Euro-Atlantic community.

From a U.S. perspective, this article charts some of the lessons of the past and issues for the future. Ironically, the next 25 years are perhaps easier to predict than the next 10 years. Imagining a state as large as Ukraine, given its history and culture, and with such natural and human resources, as anything other than European is difficult. The big question is which path Ukraine will take to reach that goal—an easy path or a difficult one. The choices that Ukraine's leaders make now will determine that path and will have major consequences for the Ukrainian people.

A National Transformation

How to assess Ukraine and its prospects depends on how one understands the process of change during the past 10 years. One must recall that Soviet Ukraine was no more than part of an authoritarian, oppressive empire. The state controlled every economic entity from defense monoliths to corner bread stores. Corruption was a way of life: petty corruption to get by; wholesale corruption enriching the privileged few. Suppression was the watchword for politics. There were no press freedoms, only one party, and no semblance of civil society. Human rights and religious freedoms were routinely trounced. Moscow defined political and economic life. The needs and interests of the state—as a handful of people at the top determined—were more important than the neglect of the people.

From this starting point, building a modern Ukrainian state was a monumental challenge, and monumental successes have been achieved. In 1996, a new constitution officially revoked Ukraine's Soviet constitution. In 1997, Ukraine and NATO signed a "Distinctive Partnership" agreement. Today, Ukraine annually engages in hundreds of military activities with NATO and its members. Ukraine renounced its nuclear weapons and is safer for having done so. It has joined the Open Skies Treaty. Elections for president and parliament, even if flawed, have become accepted as the mechanism to transfer political power. The Ukrainian people value their vote—about 70 percent show up each election day. In December 2000, Ukraine closed the Chernobyl nuclear power plant and turned the page on one of the most tragic chapters in its history.

Yet today's Ukraine is still not what all Ukrainians hoped it would be. For eight years after independence, Ukraine's economy contracted violently. Fear of change led to economic and political half-steps. Pensions went unpaid, and massive salary arrears mounted. Ukrainians had independence but had lost faith in their country. For some, a brighter future seemed unattainable as hardship came to define reality.

A question often asked is, Why has the transition been so difficult? With hindsight, perhaps we should have considered why we would have thought otherwise. Ukraine is undergoing three radical transformations—from regional outpost to nation-state, from authoritarianism to democracy, and from command economy to market economy—simultaneously. In effect, every aspect of people's political and economic lives, as well as how they thought of themselves as a nation, changed. Obviously, doing all of this at once is difficult; we should expect problems and complications. At an individual level, such massive transformations mean a new sociological and psychological mind-frame. They cause instability and insecurity and at times make people vulnerable to ugly forces such as nationalism and corruption. Managing such change is a generational challenge.

Ukraine is going through three radical transformations simultaneously.

Nor is the process of transition linear. Within each of these transitions are two processes: tearing apart the old and building the new. Building a new state is more difficult than tearing apart an old empire. Decayed structures crumble, and new buildings take time to erect. Changes in human infrastructure are even more profound: writing new laws, educating legislators to pass them, creating institutions to oversee them, training individuals to enforce them, educating the public to understand the differences, creating the checks and balances in a society that allow a new social order to prevail, and internalizing the culture of a society based on openness and freedom. Defining, much less creating, a modern European Ukraine is not an overnight task.

Time, however, is only part of the difficulty. Once the old is torn apart, gaps will appear before the creation of the new. What fills the void in the interim? What is the source of order when, ironically, the Communist state has collapsed and become a state hostage to patronage? Some have argued that the better course of action is waiting until the new state is "ready" before dismantling the old. Others argue that the two processes should run in tandem. The theories are interesting, but life is more complex; building the new will always take longer.

Deciding that the risk of interim chaos was worth the price of independence, Ukraine seized the opportunity, forcing itself to confront chaos while it builds its future society. The challenge now, Ukraine's "Lockean dilemma," has its roots in seventeenth-century political philosophy: creating a society founded on the principles of freedom, openness, and competition, yet regulated to prevent one individual's rights from infringing on those of another—with courts to mediate disputes. Where the Soviet Union found order in authoritarianism, Ukraine must seek a sociocultural revolution, in which order stems from respect for the law and the rights of other individuals. In effect, Ukraine is defining a new state, new political ideology, new economic foundations, new philosophical framework, and new social contract. This change is cultural, not just physical. As any sociologist will say, cultural change is messy and long. Leaders can shape it. It takes root, however, only when people change from within.

Ten Tumultuous Years of Change

At the beginning of the 1990s, some in the West highlighted the promise of Ukraine's human capital, agricultural potential, and industrial capability, predicting the country could be an early post-Soviet success story. Others took a grimmer view, regarding Ukraine as a fragile state destined for hard times, even as a nation at risk. Looking at 10 years of post-Soviet transition, saying that Ukraine has avoided the worst pitfalls that the pessimists foretold is fair. That outcome is good; avoiding disaster is a success of sorts. One unfortunately also must say, however, that Ukraine has failed to fulfill the bright hopes that the optimists described.

In Ukraine's early years of independence, both the nation and the West focused more, for reasons that are understandable, on giving substance to symbols of Ukrainian—as opposed to Soviet—statehood rather than the internal policies needed to underpin a prosperous, democratic state. Ukraine had virtually no history as a modern, independent state, and symbols of statehood had enormous emotional and political significance. The risks of a collapsing state were enormous, possibly resulting in the reconstitution of the Soviet empire or massive instability in the heart of Europe. In effect, Ukraine and the West found themselves in an unintended and unfortunate collusion that encouraged Ukraine to skirt many of the most basic economic and political issues fundamental to prosperity.

Forging a domestic policy consensus bordered on the impossible for Ukraine. About 91 percent of Ukrainians voted for independence in 1991. Beyond that, however, ideological consensus was scarce. The relatively conservative and nationalistic Rukh Party pressed for stronger ties to the West.

The Communist Party still remained the largest and best-organized network in the country. The national leadership was almost exclusively bred in the Communist Party's system. People had no experience of freedom and markets. Pensioners, who constituted one-fourth of the population, feared change. Although consensus for independence was overwhelming, no vision of what a sovereign and independent Ukraine should be, or how it should relate to Europe, was common.

Half-measures in policy that made economic chaos a self-fulfilling prophecy exacerbated fear of change. In 1992 and 1993, some of today's economic reformers argued that liberalizing prices and dismantling the state distribution system would create chaos and that entrepreneurs and consumers could not make economic choices for themselves. Following this course of action led to policies that kept the state involved in most economic activity, despite proclaimed steps toward liberalization and structural reform. The result is well documented. The state went bankrupt and shadow markets blossomed. In 1993, inflation reached more than 10,000 percent. By 1999, gross domestic product (GDP) had collapsed by 60 percent. By many accounts, well more than half of Ukraine's national income was produced outside the official economy, meaning corruption was rampant and income was untaxed.

Managing such change is a generational challenge.

In Ukraine as anywhere else, when reform slows and standards of living suffer, politicians blame their opponents. At a time when Ukraine needed to create a national identity, it became entrapped in the "politics of blame." For a politician, personal success lay in successfully casting blame for the country's woes on one's opponents. Few offered a vision of how to create a better life. Such tendencies made forging consensus on contentious issues, especially on economic policy, nearly impossible, resulting in a virtual policy roller coaster in which reforms never were sufficiently sustained to produce the desired results, and investors shied away. Cumulative foreign investment by 1999 was less than \$3.5 billion, compared to more than \$35 billion in Poland, a smaller country with fewer people and natural resources.

To the extent Kiev addressed internal issues, it focused on managing ethnic diversity while promoting a national identity. One does not have to look far in the region to see how badly things can go wrong if ethnicity is not managed well. The Ukrainian government in effect defused the sensitivity of the issue over Ukrainian and Russian languages and allowed Russian speakers to feel as if they were Ukrainian by allowing communities considerable choice over the language used for business and education. Increasingly, Ukraine built a sense of national identity, albeit one that is shallow in some

regions. Although Ukrainian society has differences within it, the reality is more complex, nuanced, and hopeful than the oft-presented caricature of a simple ethnic Ukrainian–ethnic Russian divide. That national identity was perhaps best capped with the passage of a constitution in 1996 that gave Ukraine the legal underpinnings of an independent and sovereign state.

To be ‘European’ depends on domestic policy choices.

Fraught with political conflict at home, Ukraine sought recognition and respect internationally. Having suffered the Chernobyl crisis, it deemed forgoing its nuclear weapons as a sound decision to gain international recognition and respectability. In January 1994, the Trilateral Statement among Ukraine, Russia, and the United States resolved the nuclear weapons question. By the end of 1994, Ukraine had acceded to the Nuclear Non-Proliferation Treaty (NPT) and was transferring nuclear weapons to Russia for elimination. The United States had provided Kiev security assurances and had launched a robust Cooperative Threat Reduction effort to assist Ukraine in eliminating the nuclear legacy of the Cold War.

In 1997, Ukraine achieved perhaps its most impressive string of foreign policy successes. Ukraine concluded agreements with Russia on the Black Sea fleet and on bilateral relations, resulting in the formal recognition of Ukrainian sovereignty in Moscow. It signed agreements with Moldova and Belarus, delimiting shared borders. In June 1997, President Leonid D. Kuchma joined the leaders of NATO to sign the NATO-Ukraine Charter on a Distinctive Partnership, a document that outlined practical areas for cooperation between NATO and Ukraine and established a standing mechanism for consultation.

Ukraine’s initial focus on gaining “foreign recognition” coincidentally meshed with the United States’ preoccupation at the end of the Cold War. The United States did not want the breakup of the Soviet Union to increase the number of nuclear weapons states. Ukrainian retention of nuclear weapons would have been a major setback for global nuclear nonproliferation efforts, which at the time focused on securing an indefinite extension of the NPT, and would have been fraught with risks and dangers for Kiev and Moscow—as perhaps the only issue that raised a plausible prospect of Russian military action against Ukraine.

Once the nuclear question was resolved, other aspects of U.S.-Ukrainian relations vastly expanded, but an unspoken frustration was always present. The United States provided more than \$2 billion in assistance and credits through 2000. Much of it produced important micro-results: more than 24,000 Ukrainians trained in exchange programs, nuclear safety improved, and small business opportunities expanded significantly. Yet Ukraine never

quite reached the anticipated economic levels that its Central European neighbors achieved. Kiev, for its part, often felt it did not get credit for many tough reform measures. In hindsight, Ukraine and its relations with other nations suffered because Ukraine did not achieve “necessary and sufficient” conditions for successful reforms. Ukraine indeed undertook some necessary steps and sought commensurate rewards, but it never amassed sufficient reforms to generate the kind of economic stimulus it desired. Thus, through 1999, Ukraine’s development and its relations with Western countries were a halting dance forward—generally moving in the right direction, but frustrating to both sides because the results failed to meet either side’s expectations.

The Ups and Downs of the New Millennium

The year 2000 changed the landscape of Ukrainian politics and economics, and the final shape of these changes is still evolving. Economically, Ukraine began to implement fiscal, energy, and agricultural reforms that led to unprecedented growth and shifted the terms of the internal economic debate. Fiscal responsibility and transparency became accepted buzzwords in Ukraine’s political lexicon. Yet just when Ukraine began to turn the corner economically, in September 2000 Giorgiy Gongadze, a prominent journalist, disappeared. In November that year, a decapitated body was found, which analyses by the U.S. Federal Bureau of Investigation (FBI) eventually confirmed in May 2001 as Gongadze. Meanwhile, also in November, released audio recordings implied Kuchma’s and other key officials’ complicity in Gongadze’s disappearance. The tapes implied a series of political and corruption scandals, creating uproar in Ukrainian politics and isolating Ukraine from the West. These political and economic developments are important to understand in order to assess a path forward.

Three reforms dominated Ukraine’s economic revival: a balanced budget executed almost completely through cash transactions, cash transactions as the basis for payment in the electricity sector, and private production in agriculture. In 2000, Ukrainian GDP grew about 5 percent, and growth through August 2001 registered an annual growth rate of about 10 percent. Ukraine surely got a strong boost from sharp growth in Russia, especially due to high oil prices that stimulated Russian demand for Ukrainian goods, but Ukrainian growth has been broad based, extending to agriculture, light industry, metallurgy, and retail sales. Exports to Russia account for only part of Ukraine’s recovery.

Through 1999, barter, or “offsets,” accounted for about half of Ukraine’s budget. Businesses would accumulate credits to the government. The government would issue tax bills, and deals would be cut to offset taxes against

Serious concerns remain about the Gongadze case.

accumulated government debts to business. The result: the government was cash starved, pension and salary arrears mounted, fiscal instability created constant pressure on monetary policy, and the lack of transparency in government accounts created conditions in which corruption could thrive. In 2000, Ukraine accepted international recommendations to implement a cash budget; the results were almost immediate and beyond expectations. By the end of 2000, the government executed the budget almost completely in

cash. It paid off pension arrears and most of its salary arrears, and it remained current on salaries and pensions.

By late 2001, private agricultural production increased from 25 percent of acreage planted the previous year to 75 percent. Although Ukraine has not privatized land, it has given all former collective farm workers certificates that it gradually is converting into land titles. Based on a De-

cember 1999 decree, Ukrainians on former collectives were allowed to lease land to private farmers. After some initial months of uncertainty, Ukrainian private farmers learned how to use this decree to sign leases with certificate holders to amass sizable farms. In addition, the government stopped interfering in the distribution of agricultural inputs and limited its role in agriculture to interest-rate subsidies. That decision opened the door for private networks to distribute fertilizer and chemicals, reversing a declining trend in their use. The harvest in 2001 is estimated at 38.5 million metric tons, up more than 70 percent from the previous year's harvest.

In energy, Ukraine radically increased cash collections for electricity bills from less than 10 percent in January 2000 to more than 70 percent per month in mid-2001. With more cash flowing through the system, Ukraine had additional resources to pay fuel bills and miners. This change also provided the government with a usable tool to crack down on corruption: cash accounts can be audited; barter cannot. In addition, with more cash in hand, Ukraine was able to conclude a new gas agreement to obtain 50 percent of its gas imports from Turkmenistan. (Most gas imported from Russia comes through a barter arrangement that pays Ukraine 30 billion cubic meters of gas per year for transporting Russian gas to Western Europe.)

By no means are Ukraine's energy problems resolved. The coal sector is in disarray, electricity tariffs do not cover costs, and the electricity sector cannot survive if 30 percent of bills go unpaid. The budgetary and economic impact of the radical increase in cash collections, however, was an essential step in the right direction, hopefully breeding further success.

With these reforms, Ukraine unleashed latent economic activity that began to translate into higher incomes and greater security about the future

for its people. By the end of August 2001, real personal income had increased by 11 percent compared to the previous year. As of September 2001, consumer confidence levels had risen by more than 44 percent in one year. Assets in the banking sector doubled, reflecting a massive increase in savings. In a September 2001 survey that the International Foundation for Election Systems (IFES) conducted, 74 percent of Ukrainians said that they expected the economy to get better or at least stay the same.

The Gongadze disappearance and the Melnychenko tapes (named after the former presidential security agent who claims he made the recordings) implicating Kuchma and other high officials threw Ukrainian politics into disarray late in 2000, just when the positive effects of the economic turnaround began to be seen and felt. When the United States accepted Melnychenko's application for refugee status in April 2001, U.S.-Ukrainian relations suffered, even though U.S. officials made this decision based strictly on U.S. immigration laws.

The lack of progress on the Gongadze investigation, which even Kuchma noted, raised questions about the rule of law in Ukraine. A tenuous political alliance that had secured parliamentary cooperation on critical reforms came undone. Political parties became bitter competitors as they took stances on the scandal or sought to exploit it. Political rivalries led to the parliament's vote of no confidence in the government of reformist Prime Minister Victor Yushchenko, even though he had played no role in the Gongadze case. Many Western countries cooled their relations, pressing Ukraine to undertake promptly a transparent and credible investigation of the case. The murder of another journalist in July 2001 and the beatings of two others raised questions about whether those who disagree with the press (not necessarily the government) can seek revenge without consequence.

For months, political disarray derailed momentum on policy reform. Through May 2001, internal politics consumed the parliament exclusively. Ukraine's International Monetary Fund (IMF) program went off track, in turn freezing World Bank assistance and an agreement with the Paris Club nations. Critical legislation was shelved. The political cloud also obscured positive changes in the press environment. Journalists boldly reported most aspects of the political scandal. Because of intense domestic and international scrutiny, journalists have said that their principal concern is now not with the government but with editorial constraints that their oligarch owners impose.

When a new prime minister was confirmed in late May 2001, expectations were low. Would Ukrainian politics fall back into a deadlock that would freeze both economic and political reforms? For various reasons, those worst fears have not materialized. Fiscal reforms have been sustained, Ukraine renewed its IMF program in September 2001, and the rescheduling

of its Paris Club debt is moving forward. Some important economic legislation has passed, particularly budget and criminal codes. The parliament is considering other key pieces of legislation—the land, tax, and customs codes; a law on an independent judiciary; and a law on intellectual property. Whether they pass will fundamentally shape the next stage of Ukraine's economic progress. Whether Kuchma, the prime minister, and the parliament can find the political consensus to advance these measures as Ukraine nears parliamentary elections in 2002 will fundamentally test the national commitment to integrate with Euro-Atlantic markets.

Ukraine clearly needs to dispel the cloud that the Gongadze case has created if it wants to instill confidence in the rule of law and in the fairness of its legal system—and if it wants to restore international and domestic confidence in Ukraine's government. The IFES poll showed that about 60 percent of Ukrainians do not or only somewhat trust Kuchma and his presidential administration; 85 percent of Ukrainians are dissatisfied with the situation in Ukraine; and nearly half (47 percent) believe Ukraine is not a democracy. With the Gongadze case, the most crucial issue is demonstrating that the legal system works. With Ukraine as a whole, the fundamental issue is creating confidence that Ukraine is committed to the democratic principles that fundamentally define a European state.

The Question of Russia

Throughout Ukraine's short history of independence, relations with Russia have loomed heavily. Some fear that Russia seeks to manipulate and control Ukraine politically and economically. Conversely, Ukraine is sometimes seen as a critical barrier to reconstituting a Soviet empire. Throughout the past year of political scandals, relations with Russia became an even more important factor. When Kuchma found little solace in the West, Russia continued to draw closer, raising questions about whether Ukraine had compromised its sovereignty. Rumored Ukrainian concessions on national security have simply proved false. A bigger question is whether both Ukraine's relations with Russia and the Ukrainian business climate possess sufficient transparency to ensure that Ukraine gets the value it deserves out of its assets.

The United States has consistently encouraged good relations between Ukraine and Russia. They are neighbors: a reforming Ukraine should want a reforming Russia on its border, and vice versa. To some extent, Ukraine will always need Russian fuel, and they should be major trading partners. The United States endorses both regional and bilateral economic ties as long as nations enter freely into those ties, which also do not detract from a nation's integration with international markets and the trans-Atlantic community.

In January 2001, the Ukrainian and Russian defense ministers met in Crimea. A month later, Presidents Vladimir Putin and Kuchma met in Dnepropetrovsk, the heart of Ukraine's missile industry. Between the two meetings, rumors and press reports intimated that Ukraine and Russia had created a joint naval combat unit, that Ukraine had given Russia veto power over Ukrainian participation in NATO exercises, and that Ukraine and Russia would jointly produce intercontinental ballistic missiles (ICBMs) to counter U.S. missile defenses. These rumors were simply wrong. Ukraine and Russia are, quite legitimately, creating a long-planned search-and-rescue unit for the Black Sea. Ukraine has intensified its cooperation with NATO and its member states, including 120 joint-participation events with NATO in 2001, more than 70 with Poland, more than 60 with the United States, and more still with other NATO countries. Ukraine and Russia are cooperating on ICBMs, but only to share technology on their dismantlement and perhaps to convert SS-18s from carrying warheads to carrying commercial satellites to low earth orbit.

A law creating the legal basis to fight money laundering is needed.

Less clear is the nature of Russian-Ukrainian economic relations. Virtually every year, tensions arise over Ukraine's gas debt to Russia. Ukraine has steadfastly insisted that this debt is commercial, not sovereign, and has avoided state guarantees that could be converted into Russian equity in strategic infrastructure. Early signs suggest that the two countries reached an agreement in early October 2001 to reschedule the debt, although such agreements have collapsed in the past. Ukraine and Russia also signed an agreement in August 2001 to unify their electricity grids. When Russia cut Ukraine off from the grid several years ago due to fluctuations in Ukrainian frequencies, it was perceived as Russian manipulation. The unification agreement has raised similar allegations. The truth will depend on the actual implementation and must be watched carefully.

In addition to these large energy transactions, numerous sales and privatizations of Ukrainian economic entities proceed constantly. At issue is not whether the sales go to Russia, but whether they are transparent. For context, U.S. direct foreign investment in Ukraine since 1991 is by far the largest of any investor—133 percent higher than direct investments from Russia. Some Russian investments have clearly benefited Ukraine, such as Lukoil's purchase of the Odessa Oil Refinery, which resulted in increased productivity and wages for the refinery's workers. The key is to ensure that privatization and bankruptcy cases are handled transparently and with

maximum competition. Otherwise, Ukrainian interests will not be served, whether the buyer is Ukrainian, Russian, or of some other nationality.

In the long term, Ukraine's best guarantee of its sovereignty and parity in its relations with Russia is its commitment to democracy and a strong economy tied to global markets. Kuchma has unequivocally stated that Ukraine has made a "European choice" and that there are no other options in its foreign policy. Slowly, Ukraine is recognizing that this European choice

is as much a question of domestic policy as of foreign policy. To be "European" depends on free and fair elections, freedom of the press, objectivity of the courts, the soundness of one's tax system, confidence in the rule of law—in other words, domestic policy choices that are Ukraine's to make. As President George W. Bush said in June 2001, if this is Ukraine's aspiration, we should reward it.

Ukraine is not yet organized for WTO accession.

The United States and Ukraine: Looking Forward

The long-term objectives of the United States and Ukraine for Ukraine coincide: a democratic, market-oriented, prosperous state founded on the rule of law and integrated with Europe. For the United States, these goals are long standing, underpinned by strong bipartisan consensus. To achieve these ends, keeping focused on long-term objectives and not allowing every twist and turn of Ukrainian domestic politics to drive U.S. policy is crucial. Current events should not be ignored; rather, our capacity to address them will be stronger if they are integrated into a consistent long-term policy agenda. For that reason, the United States will continue to engage Ukraine and support a reform agenda consistent with Ukraine's integration with Europe.

Based on the lessons of the last 10 years, clearly the success of international efforts to support Ukraine will depend on the clarity and efficacy of Ukraine's own efforts to build an open and democratic political system and a competitive market economy. Increasingly, consensus regarding which issues must take priority is growing among Ukrainians. The following agenda is not so much the U.S. wish list, but a reflection of the comments we now consistently hear from Ukrainian officials and activists.

THE GONGADZE CASE

Serious concerns remain about this case, which has effectively become a litmus test of the rule of law in Ukraine. Thus far, Ukrainian law enforcement authorities' handling of the Gongadze case evokes little confidence. An FBI

analysis concluded in May that a body found last November was indeed Gongadze, but no evident movement has been made toward identifying the murderer. Ukrainian officials have invited FBI officials to return to Ukraine to consult on the case. If the prosecutor general shares its evidence and records with the FBI and engages in a serious dialogue on the conduct of the investigation, those actions will be welcome steps to help create confidence in the nature and course of the investigation. The situation would also benefit if law enforcement officials discuss publicly the course of their investigations into murdered or assaulted journalists—not to reveal confidential information, but to make clear whether credible investigations are being conducted and to signal that violence against journalists will not be tolerated.

MARCH 2002 PARLIAMENTARY ELECTIONS

Elections are the most fundamental element of any democracy. A free and fair electoral process culminating in a free and fair election next March will send a strong signal to the international community that Ukraine has matured politically and is back on the track of democratic reform. They also will help redress the lack of domestic confidence in Ukraine's political system. During the last national election in Ukraine, the Organization for Security and Cooperation in Europe (OSCE) found serious problems involving state pressure on the media as well as on opponents and their supporters, although we believe that the problems did not necessarily negate the election results. Ukraine must start work now to ensure a free and fair election. Having the right legal framework for the electoral process is critical. Key issues will be the role of the press, whether governors and mayors allow a level playing field for all parties, the role of the courts in settling disputes, broad participation of election observers, a parallel vote count that engenders trust in the official results, and effective mechanisms to respond to violations in the course of the election campaign. All countries experience controversies and disputes in their elections; the last U.S. presidential election demonstrated that the United States is certainly no exception. For any country, establishing mechanisms that will build a consensus on the final results and provide confidence that, in the end, the rule of law has been observed is key to building trust in its government.

INTERNATIONAL COALITION AGAINST TERRORISM

Ukraine's leaders have pledged solidarity with the international coalition to combat terrorism. Thousands of ordinary Ukrainian citizens have brought flowers to the U.S. embassy in Kiev, sent letters, and signed condolence books. Ukraine has provided blanket overflight clearance for military transport air-

craft and emergency landing rights at three airbases. It has worked hand in hand with U.S. intelligence officials, taken steps to tighten security around sensitive facilities, and has welcomed U.S. help. It has also tightened security around U.S. diplomatic facilities and businesses. Ukraine has played constructive diplomatic roles at the United Nations and with the grouping of GUUAM states (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova). Among the tasks remaining, Ukraine can continue to play a strong, constructive role by passing a money laundering law to help keep financial resources out of the hands of terrorists. Ukraine can continue to work with Moldova to control the border with Transdnistria. At home, Ukraine can reassure its citizens that the fight against terrorism and a reaffirmation of freedom must go together because freedom is the core value under attack.

SOUND, CASH-BASED BUDGET

No single reform has had a more powerful impact on the Ukrainian economy than implementing a cash-based budget with a limited deficit that can be realistically financed. Temptations to loosen spending will appear as elections approach. Presidential leadership will be crucial to maintaining fiscal stability and preserving the foundations for low inflation and economic growth while allowing the government to meet key obligations to salaries and pensions.

LEGAL FRAMEWORK FOR MARKET DEMOCRACY

Much of Ukraine's recent economic success stems from shedding some of the barter economy's strangleholds and from liberalizing economic activity. To attract significant new investment, Ukraine must establish a modern legal framework that establishes clear and fair ground rules for economic activity and for its court system. Perhaps no law would be more important than a land code, which can unleash a new dynamic for rural investment, allow land to be used as an instrument to raise financing, and give local governments an independent tax base. A law creating the legal basis to fight money laundering is also needed to give Ukraine the financial tools it needs in the fight against terrorism. Other necessary laws include tax and customs codes, a law on an independent judiciary, and legislation to protect intellectual property.

CREATE AN EFFECTIVE COURT SYSTEM

Many investors will not take risks in Ukraine because they fear that, if they get into a legal dispute, the court system is bound to rule against them and

judgments from international arbitration will not be enforced. The case of Sunola is illustrative. Sunola is a food processing company in western Ukraine. A U.S. government-capitalized investment fund placed its money in this enterprise; legal disputes arose; court decisions were ignored; and Ukrainian courts will not enforce a judgment of the New York Arbitration Court, even though the founding investment documents clearly specify that the New York court will be the final arbiter of any disputes. Private-sector investors cannot help but wonder what their fate would be, in comparable circumstances, if even a fund with direct support from the U.S. government encounters such difficulties.

ACCELERATE ACCESSION TO THE WORLD TRADE ORGANIZATION

Ukrainian officials fully accept the need to join the World Trade Organization (WTO) to advance their integration with global and regional markets, especially as European Union (EU) expansion proceeds. They have not, however, organized themselves for the task. WTO accession, in effect, entails two components: binding commitments to a nonnegotiable WTO protocol and bilateral negotiations with WTO members on goods (i.e., tariffs), agriculture, and services. Most countries move quickly on the protocol because the only negotiations involve when they will implement its terms. Ukraine has had many useful bilateral negotiations on goods, agriculture, and services but has not taken effective steps to accede to the WTO protocol. It does not have sufficient staff to review and advance legislation to accelerate the process. It also does not have the institutional mechanisms to ensure that new draft laws submitted to parliament are WTO compliant. This situation needs to change, or it will slow Ukraine's drive to integrate into the modern global economic system.

As the economy grows, reforms are easier to implement.

REVITALIZE ENERGY REFORM

After taking important steps toward shifting from barter to cash transactions in the electricity sector, energy reform has come to a halt. Failure to act resolutely poses a national security threat—the risk of bankrupting the country. Even if Ukraine were to collect 100 percent of its electricity bills, its generating and distribution companies would still lose money. They currently survive by borrowing monthly, creating enormous liabilities in the banking sector. In April, Ukraine successfully privatized six companies that distribute electricity, but it has not met its contractual commitment to raise

tariffs even though the investors have fulfilled the terms of their contracts. This explicit violation of pre-investment commitments will scare investors away from future large-scale privatizations. Some officials argue that higher tariffs would hurt industry and residential consumers, which is likely true. Industry and consumers will be hurt more, however, if tariffs are not increased and debts continue to mount. Ukraine will be unable to finance its fuel imports, and the banking sector will collapse from the unsustainable debt burden. Ukraine also must address in a straightforward fashion its biggest barter transactions, and consequently the biggest risk of corruption in the country: its gas transactions with Russia. Ukraine needs to move these transactions to a cash basis and seek professional international management of its gas system if it hopes to demonstrate its reliability as an energy-transit country and keep pace in the accelerating race to meet Europe's burgeoning energy needs over the next decade.

STRENGTHEN PRIVATE AGRICULTURE

Anyone familiar with Ukraine understands its legendary soil and agricultural potential. During the past year, Ukraine started to unleash some of that potential, but advances are fragile. Without private ownership of land, banks will not provide the type of seasonal financing critical to any agricultural system. Already 1.7 million land titles (out of 6.5 million) have been distributed, but those with titles cannot sell their land or use it as collateral; their titles are, in effect, IOUs that will be paid off once a land code is passed. While Ukraine works to pass a land code, the process of tilting should be accelerated and streamlined; otherwise years will pass before the land code has substantive impact. Agriculture markets also need to stay in private hands; although the state has a legitimate role in supporting farmers, it needs to avoid the blatant interventionism in input and output markets that destroy production incentives and production capacity. Sound markets and private land together will open the door to private financing for agriculture and allow the state to focus subsidies on the poor.

An Opportunity

Ukraine could have its best opportunity today to take a definitive step forward as a market-economy democracy and to advance its integration with Europe. Certainly, the challenges are serious. Parliamentary elections next year will focus more attention on politics than policy. The global economic slowdown could affect demand in key export markets and internally within Ukraine. Issues such as raising electricity tariffs are never politically popular.

The oligarchs, who are unenthusiastic about reforms that threaten their interests, play an overly large role in Ukraine's political life and have concentrated many important media outlets in their hands, which will complicate further the task of holding a fair election.

Nevertheless, developments favor Ukraine. People have started to see the impact of good economic policy. The IFES poll shows that 76 percent of the population thinks that reform is moving too slowly or not at all. As the economy grows, other reforms are easier to implement. Even within a contentious parliament, politicians now generally argue for fiscal stability, even if they might not vote consistently with that outlook.

Internationally, tensions have eased in the Russia-Ukraine relationship, and Russia's efforts to draw closer to the EU defuse the risk of aggressive Ukrainian actions to integrate with global markets. Indeed, Ukraine cannot afford the risk that Russia accedes to the WTO and deepens economic ties with Europe while Ukraine is left behind. In the energy sector, a new gas pipeline will need to be built from the east to Europe every two years to keep pace with rising European demand. Ukraine is positioned well to run in this race if it can demonstrate its reliability as an international partner.

The war against terrorism also makes a difference. Virtually all countries have started to understand that the world is interlinked more closely than ever. Ordinary Ukrainians actively discuss the implications of this reality. Although only a minority of Ukrainians advocates a Ukrainian military role in a conflict against terrorists, recent polls indicate that only a few percent believe that terrorism does not affect Ukraine. As has happened throughout the world, the tragedy of September 11 has created a profound awareness that the cooperation of all is crucial to combat the threat of terrorism. Yet that cooperation extends far beyond the military. It means common attitudes and values toward humanity, common policies toward financial regulation, sharing of intelligence on crime and terrorism, and cooperation on law enforcement.

In other words, terrorism is a threat to all because it has broken down international barriers. To combat it, countries also need to break down barriers and join together in a common cause. In both the popular and official outlooks, awareness is growing that all countries really have a choice to make: unite with those who support civilized values, or oppose a common cause for humanity. For Ukraine, its path to democracy and market reform and its stance against terrorism can and should reinforce each other.

No time is better than now for Ukraine to find its place as a modern European state.

After 10 years as an independent state, Ukraine has already achieved a historic milestone: its future is its own to chart. The agenda forward is not easy, but it offers hope. For Ukraine, no time is better than now to forge a consensus in its bid for a decisive place in history and its bid to find its place as a modern European state.