



CHALLENGE AND OPPORTUNITY: A U.S. STRATEGY ON UKRAINE JUNE 2005

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Consolidating Ukraine's future as a democratic country with a globally integrated market economy and a European orientation will contribute greatly to a more secure and inclusive Europe and thus must be a strategic priority of U.S. foreign policy. Ukraine is a key European country with geopolitical importance in Europe, the Black Sea region, and the Caucasus. Its location makes it a vital country in geoeconomic terms, as well as a potential trade corridor between Europe and Asia. Its economy is more diversified than many in the post-Communist region, with potential in the energy, defense, scientific-technological, manufacturing, and agricultural sectors. Security and prosperity in Ukraine will prove that a promising post-Communist future is possible for countries that once comprised the former Soviet Union, especially as a prospect for Russia itself. In short, Ukraine's success is important to U.S. national interests and justifies a strong and sustained strategy.

Furthermore, Ukraine has a convincing claim for U.S. support. Ukraine voluntarily gave up what would have been the world's third-largest nuclear arsenal in 1994. Through the peaceful and legal resolution of the election crisis in 2004, Ukraine showed that it belongs to the Euro-Atlantic community. Ukraine's political system, ultimately, passed the most difficult tests of democracy: fully contested elections and the legitimate transfer of power to the winning candidate. Because of the leading role of average Ukrainian citizens in demanding the right to have their votes counted and in refusing to accept fraudulent results, Ukrainian society has confirmed that it embraces Western values. In sum, Ukraine's presidential election reaffirmed the hopes of 1991: that after the Cold War, global security would be rooted in a Europe whole and free.

The election, however, was only the beginning of the process. Ukraine's leaders have much to do to realize the promise of the Orange Revolution and, in close coordination with the European Union (EU) and the United States, must play a leading role in Ukraine's full transformation and integration in the Euro-Atlantic community. For their part, Ukraine's leaders must implement ambitious reforms in the coming months. Ukraine's leaders cannot wait for the United States to do its part alone: the two countries have a synchronous responsibility.

In order for the United States to play its leadership role, U.S. leaders must make Ukraine a priority. Ukraine is a priority not only for the strategic reasons outlined above, but also because U.S. credibility is at stake: if the United States cannot sustain a serious strategy for Ukrainian development and integration, it is difficult to see how it can do so for countries with less economic potential, weaker democratic institutions, and further removed from vital European allies.

There is little time to lose for the articulation and implementation of such a strategy. With parliamentary elections scheduled for March 2006, Ukraine's citizens will soon have the opportunity to send a signal to their new leadership on whether the promise of a better future as a European country is meeting the democratic test. During the intervening months, the United States should work constructively with Ukraine's new democratically elected leadership to fulfill its promise as a European country.

The basis for a U.S. strategy toward Ukraine in 2005 should be *challenge* and *opportunity*.

Challenge. The United States should challenge Ukraine's leaders and society to undertake the necessary policy and institutional changes to become a full member of the Euro-Atlantic community. Ukraine is an important country with enormous potential: it deserves to be treated as a serious candidate for membership in the broadest array of political, economic, and security institutions. The goal should be integration, but integration on the merits. It would do Ukraine no favors to confer membership in the broad array of institutions that define the Euro-Atlantic community without Ukraine meeting the requirements expected of all current members, since meeting those requirements is what will make Ukraine a full member of the Euro-Atlantic community.

Opportunity. The United States should create every opportunity for Ukraine's leaders and society to accept the challenge. While it is crucial that Ukraine meet the requirements for membership in Euro-Atlantic institutions, it is also crucial that the United States remove outdated obstacles, bureaucratic impediments, and status quo assumptions that impede rapid progress where Ukraine has the commitment and capability to adapt its policies and institutions to the country's aspirations.

By the end of 2005, the United States can and should create the following challenges and opportunities in its policy toward Ukraine.

(1) The United States should use its channels and influence to press the EU to commit unambiguously to an "Open Door" for Ukrainian membership. 2004 demonstrated that Ukraine's place is in Europe, yet the EU has not made a statement equivalent to NATO's Open Door statement on membership for qualified countries. An EU statement would not be a commitment of membership, especially in light of the EU's constitutional crisis and its focus on absorbing ten new members: it would be a European statement of challenge and opportunity to Ukraine's leaders and citizens to develop a democracy and market economy compatible with those of EU countries.

(2) The United States should lead within NATO the implementation of the alliance's Intensified Dialogue on Membership Issues with Ukraine, with commitment to a Membership Action Plan (MAP) following free and fair parliamentary elections in March 2006. NATO and Ukraine have an excellent track record of cooperation over the past decade. Ukraine has already proven that it has the capacity to make positive contributions to transatlantic security by contributing peacekeeping forces in the Balkans and by sending forces for the stabilization mission in Iraq. In recent years, the questions holding back Ukraine's progress toward NATO membership have been primarily political, not military. After democratic presidential elections in 2004, democratic parliamentary elections in March 2006, and the commitment of the new leadership to Euro-Atlantic integration, Ukraine will have answered questions about its political orientation. A detailed MAP should lay out how Ukraine will still have to fulfill membership requirements, and the government must be held to those requirements.

(3) The United States should support the enhancement of the regional multilateral grouping GUAM (Georgia-Ukraine-Azerbaijan-Moldova) to support the exploration and implementation of regional solutions to the regional problems the member countries face based on democratic development and economic cooperation. Among the most important of those problems is border security. Professional and effective policing of borders in the region will enable the countries to better tackle problems of criminal trafficking, corruption, and potential movement of transnational terrorist and criminal groups. In addition, enhanced cooperation on regional border security would support Ukraine's efforts to cope with smuggling in and from Moldova, thereby making a contribution to resolving the frozen conflict over Transnistria. The United States should play a more active role, working with Ukraine in a multilateral effort to resolve the status of the crime-ridden Transnistrian enclave, which prevents Moldova's development as a normal European country.

(4) The United States should support the development of stable and constructive Ukrainian relations with Russia. Ukraine's European orientation should not come at the expense of its relations with Russia, which

itself seeks closer relations with Europe and greater global integration. The United States should endorse President Viktor Yushchenko's policy of fully developing free trade and economic cooperation with Russia as long as the agreements supporting them do not inhibit Ukraine's eventual membership in the EU.

(5) Ukraine should be freed from Jackson-Vanik Amendment restrictions. Even more, with Ukraine's application for status as a market economy in the process of review by the U.S. government, the United States should conduct intensified negotiations for Ukraine's World Trade Organization (WTO) membership over the summer of 2005 with the goal of WTO accession by November 2005. Ukraine must reform its trade laws and legal system, including important intellectual property rights legislation, to advance the process, but the United States has a role to play in actively engaging and supporting the Ukrainian government and advising the new leadership on priorities and strategies for effectively addressing U.S. and global requirements for WTO membership.

(6) By November 2005, the United States should include Ukraine as an eligible country of the Millennium Challenge Corporation (MCC). The Millennium Challenge concept is to encourage and support countries that are committed to a free market economy, rule of law, growth through encouraging domestic and foreign investment, and promoting good governance. The program is meant to target not only countries where the need is great, but where the opportunity is credible because the country's leadership and society have made a commitment to these goals. Ukraine qualifies as a candidate country based on the country's per capita income level: what is needed in 2005 is for the MCC board to include Ukraine on the list of eligible countries based on measures such as progress in free market policies and democratic governance. As an eligible country, Ukraine would be able to compete for funds to support programs for fighting corruption, reducing bureaucratic obstacles to market reforms, and engaging civil society in the country's social development. After the Orange Revolution, Ukraine exemplifies the type of country President George W. Bush described as a target of the program.

(7) The U.S. and Ukrainian governments should immediately create a multiagency bilateral program for anticorruption technical assistance. A rule-of-law society is fundamental to Ukraine's future and encompasses not only government and business, but human rights, independent media, and citizen activism. Reduction of corruption is key to several core reforms that Ukraine must implement to be able to improve its economy and negotiate integration in Euro-Atlantic institutions, including the WTO, NATO, and the EU. It is necessary to improve the investment climate in Ukraine in order to attract both the domestic and foreign investment necessary to spur economic growth and improve living standards for Ukrainian citizens.

(8) Along these same lines, the U.S. government should help establish a U.S.-Ukraine business dialogue, including representatives of American and Ukrainian industry and finance, on how to improve the business and investment climate in Ukraine. Cumulative foreign direct investment in Ukraine is about \$8 billion, a tiny figure compared to \$65–70 billion in Poland. If the government of Ukraine can reform the laws and regulations affecting commercial and investment practices, experts estimate that the country could attract \$2–4 billion per year, which would boost growth, employment, and government revenues. The business dialogue would be a low-cost way for the United States to spur growth in the country and demonstrate to Ukraine's citizens that they have chosen the right path to a better future.

(9) The United States should help Ukraine to promote its energy independence. To do so, the United States must encourage and support the government of Ukraine in its efforts to enhance the diversification and efficiency of its energy use, while relying on market mechanisms. The United States can help the government of Ukraine to recognize realistic options to increase the diversity of its supplies, including through the increase of Ukraine's domestic production. The United States can work with Ukraine to improve the environment for investment in the exploration and development of oil, gas, coal-based methane, and coal. Just as important will be improvements in fuel efficiency by ending Ukraine's reliance on subsidized energy, which is also a necessary condition for European integration.

(10) The United States should increase funding for American-Ukrainian exchanges of experts, professionals, academics, and students. As a consequence of limited funding and opportunities to study in the West, Ukrainians do not have as many opportunities to enhance their training and learn about American culture and society as do their neighbors in Russia, Poland, or Romania. Exchanges contribute to a long-term strategic partnership, but they also have an immediate positive effect in building human capacity in vital professions such as medicine, scientific research, entrepreneurship, the humanities, and the legal profession.

Conclusion: Enhancing Capacity for a Strong and Sustained U.S. Strategy on Ukraine

In order to manage the demands of a strong and sustained strategy, as outlined above, the United States should establish a concrete bilateral review of U.S. and Ukrainian progress in implementing the joint statement, “A New Century Agenda for the Ukrainian-American Strategic Partnership,” of President Bush and President Yushchenko from April 4, 2005. As part of the review, the U.S. government should lead a strategic assessment by international donors of the funding needs to sustain Ukraine’s Euro-Atlantic integration. The assessment should identify the scale and type of funds necessary to achieve the objective and work from that basis, rather than through an uncoordinated patchwork of programs vulnerable to short-term funding cuts.

The joint presidential statement laid out an ambitious yet well-targeted plan for work in the coming years. The question is how actively and fruitfully the two countries will pursue programs to implement the vision and commitment of the presidents. Establishing the practice of a regular, public review will help spur commitment to implement the presidential goals within each government and will enable each country’s civil society groups and nongovernmental organizations to play a constructive role in holding their governments to account for their progress.

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