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CONTENTS

UCEPS SOCIOLOGICAL SURVEY

UKRAINE ON THE ROAD OF EUROPEAN INTEGRATION <i>VALERIY CHALY, MIKHAIL PASHKOV</i>	2
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ROUND TABLE BY CORRESPONDENCE

PROBLEMS AND PROSPECTS OF UKRAINE'S INTEGRATION INTO THE EU	15
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ARTICLES

EXPANSION OF THE EUROPEAN UNION EASTWARD: CONSEQUENCES FOR UKRAINE <i>VOLODYMYR SIDENKO</i>	25
EASTERN EUROPE REFORMS: WHY THE OUTCOMES HAVE DIFFERED SO SHARPLY? <i>JEFFREY SACHS</i>	29
MACRO ASSESSMENT OF UKRAINE'S ECONOMIC PROBLEMS <i>NATALYA VITRENKO</i>	32
THE SCHENGEN AGREEMENT, EU ENLARGEMENT & EUROPEAN SECURITY <i>JAMES SHERR</i>	38
UKRAINE ON GEO-ECONOMIC CROSSROADS <i>VIKTOR BUDKIN</i>	44
UKRAINE'S ENTRY INTO WESTERN MARKETS: MAIN ISSUES <i>WINFRIED SCHNEIDER-DETERS</i>	47
UKRAINE BETWEEN RUSSIA AND THE WEST <i>CHRISTIAN BEC</i>	49
LIST OF PUBLICATIONS BY UCEPS EXPERTS IN 2000	53

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UKRAINE ON THE ROAD OF EUROPEAN INTEGRATION



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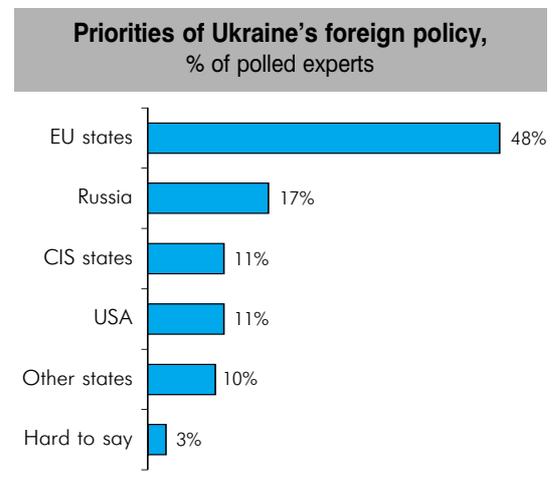
In July, 2000, the Ukrainian Centre for Economic and Political Studies conducted an expert opinion poll on the problems of Ukraine's European integration. 100 experts representing the Administration of the President of Ukraine, staff of the National Security and Defence Council, the Cabinet of Ministers, Ministry of Foreign Affairs, Ministry of Economy, other ministries and agencies, specialised committees of the Verkhovna Rada, state research institutions, non-governmental analytical centres, and leading Ukrainian mass media, were questioned.

The results of the poll presented below reflect the assessment of Ukraine's state, political and scientific elite of the present status of Ukraine-EU relations, factors, affecting cooperation with the European Union, and the prospects for further integration of Ukraine into the European community. UCEPS sociological service held a similar poll in June, 2000, among Ukraine's population¹. Its results are also presented in this article. For us, it is significant to correlate the views of the nation's elite and Ukraine's population regarding one of the key directions of Ukraine's foreign policy.

MIND TOWARD THE WEST, HEART SET ON THE EAST?

To begin with, let us examine the foreign policy leanings of the authorities and the population of Ukraine. To what extent do they coincide? Is there a unity of views in Ukraine regarding European integration?

According to the UCEPS expert opinion poll, Ukraine's national elite tends to support the course toward European integration most of all, as compared with other vectors of the state's foreign policy. As the Diagram "Priorities of Ukraine's foreign policy" shows, **almost half of those polled (48%), believes that relations with EU countries should be the first priority.**

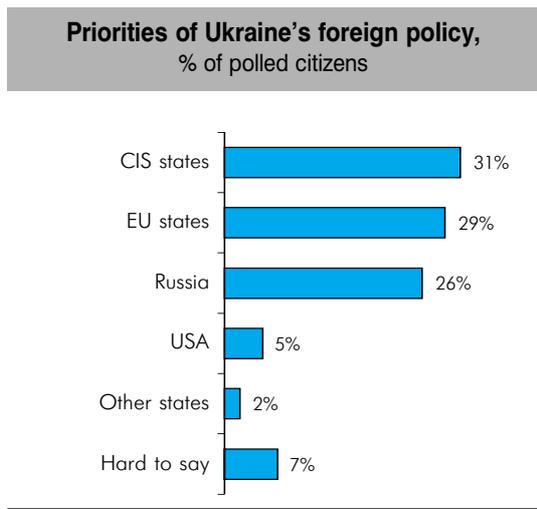


¹ 2010 citizens aged over 18 were polled in all of Ukraine's regions.



Therefore, in the consciousness of Ukraine's establishment, the multi-vectored foreign policy has noticeably transformed in favour of the European choice. Adherents of priority contacts with Russia, the CIS, and the USA (altogether 39%), are in a clear minority, as compared with the advocates of European integration.

However, the foreign policy leanings of Ukraine's elite somewhat differ from the sentiments of the population, the overwhelming majority of which (57%) gives preference to co-operation with the CIS and Russia (see Diagram below).



Therefore, there is kind of "parity" of sympathies in society regarding some key foreign policy directions (EU, Russia). Of importance is

that almost one-third of Ukrainians (29%) is sure that relations with countries of the European Union should be a priority.

It is clear that friends are normally found among the closest neighbours, since, as one classic put it, friendship is a geographic notion. The U.S. is surely a friend of Ukraine, but a remote one. Maybe for this reason, contacts with the U.S. occupy a rather modest position in public opinion despite the objective importance of Ukraine-U.S. partnership: only 5% of polled citizens considers Ukraine's co-operation with the U.S. to be a priority.

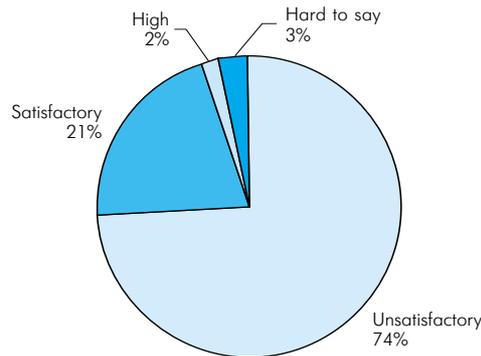
Therefore, integration into the EU, declared the main priority in President Kuchma's inaugural speech in November, 1999, and formulated as the strategic goal in the Government programme at the beginning of 2000, is supported by the national elite, but has yet failed to become a dominant priority in the population's foreign policy sympathies, as well as a uniting idea.

What are the reasons for such a stance on the Ukraine population's part? First and foremost, this reflects the traditional inertia of pro-Eastern sentiments among our citizens. Secondly, in their everyday lives, people don't experience the benefits of co-operation with the European Union. Thirdly, the EU markets are barely accessible for Ukrainian goods. Profitable projects, such as the AN-7X, are rejected by EU countries on political grounds. Finally, the results of the expert poll show that **Ukraine clearly lacks a target-oriented PR-campaign in support of the integration of our country into the European community.**



As the Diagram shows, three-fourths of Ukraine's elite (74%) assume the level of information support for Ukraine's course toward European integration to be unsatisfactory, and only 2% believes this level to be high. It should be particularly emphasised that this position is

The level of information support for Ukraine's course toward EU integration, % of polled experts



that of the educated elite, for whom it is possible to visit European countries and observe the advantages of European way of life with their own eyes. Meanwhile, for the majority of Ukraine's population, European standard of living remains a remote strange phantom. En mass, people are able to compare their wellbeing with that of Russians and citizens of other CIS countries (and if salaries in Ukraine, Russia and Belarus are taken as the points of reference, such a comparison will clearly not be in Ukraine's favour).

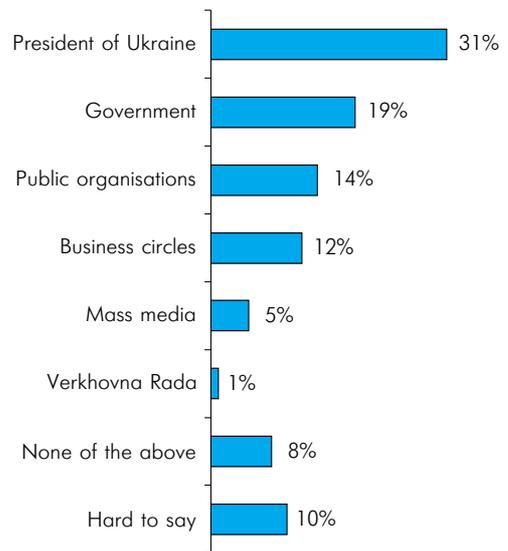
Therefore, the danger exists that the idea of Ukraine's European choice will only remain a good slogan for use in speeches and declarations of officials, if the authorities don't take practical steps in this direction that are understandable to the population. Overcoming the conservative and nostalgic sentiments in the mass consciousness of Ukrainians requires diligent and determined efforts by the authorities, to prove the economic benefits of Ukraine's integration into Europe.

At the same time, European integration is a two-way street. Ukraine must do much to move toward its goal, but the European Union, for its part, should also change its attitude toward our country. Some countries, named among contender states for EU membership (Romania, Bulgaria), are not booming either. And if the potentials of relations with the EU are compared, our country looks to be far more potent. However, Ukraine was left outside both the first and the second waves of EU enlargement.

WHOSE LUST FOR EUROPE IS GREATER?

This is a rhetorical question. It's no surprise that Ukraine's elite and the population associate the idea of European choice, first and foremost, with the President and the Government of Ukraine. It is interesting to picture the entire hierarchy of Ukrainian adherents to European integration (see Diagram "Most consistent adherents of integration with the EU in Ukraine"). Starting from the top: 31% of polled experts considers the President of Ukraine to be the most consistent adherent of integration with the European Union. 19% of respondents gives the palm to the Government, 14% — to public organisations, 12% — to Ukrainian business, 5% — to mass media. The outsider position of the Verkhovna Rada in this list is disturbing: only 1% of those polled believes Ukraine's Parliament to be an advocate of European integration. As such, MPs are the last in the queue to Europe, but they are here, too, and still have a chance of moving ahead in the general queue.

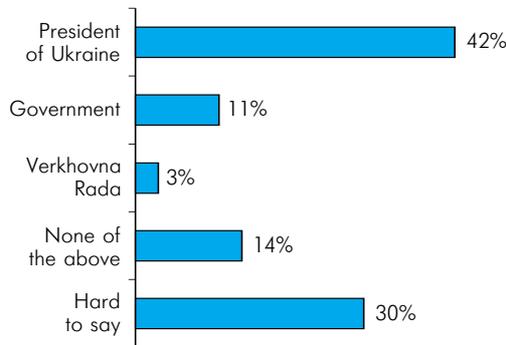
Most consistent adherents of integration with the EU in Ukraine, % of polled experts



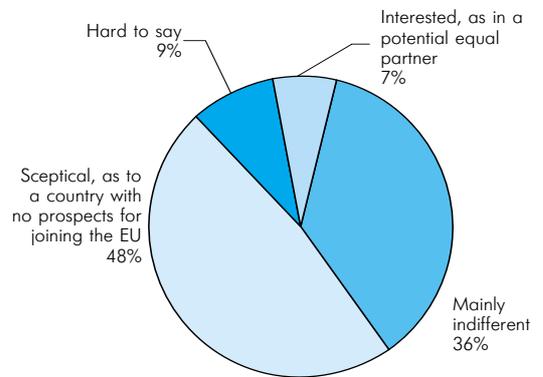
The population assesses the level of sympathy toward European integration on the part of the branches of power in a similar manner: 42% of citizens believes the President of Ukraine to be the most consistent adherent of moving toward Europe, 11% suggests that this is the Government, and only 3% — the Verkhovna Rada (see Diagram below).



Most consistent adherents of integration with the EU in Ukraine, % of polled citizens



Attitude of EU countries toward Ukraine as a potential member of this organisation, % of polled experts



It should be noted, that the fact that a large part (almost half) of the population is not impressed by the authorities' small steps toward Europe is demonstrated by the result that 14% of the population does not perceive any adherents of European integration in the higher echelons of power whatsoever, while 30% gave no response. These assessments provide few grounds for optimism. **In the first place, nearly half (44%) of citizens is either sceptical, or unaware of the efforts of Ukraine's leadership aimed at European integration. Second, the country's elite, and the population, negatively assess Parliament's deeds on this key foreign policy direction. This can be explained by a generally low trust in Parliament, and the uncertainty of the Verkhovna Rada's position regarding European integration (at least, until its majority was formed). Third, such an assessment is indirect evidence of the differences in the positions of the branches of power with respect to foreign policy priorities of Ukraine. This leads to formation of doubts which interfere in the co-ordination of their efforts on the European direction.**

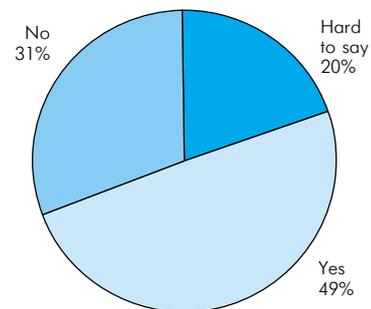
IS THE EU WAITING FOR US?

There is no doubt that Ukraine is a European country. However, this 'continental' affiliation does not by itself remove the humiliating question, whether we are welcome into the union of leading European countries. What do we think about this, ourselves?

The overwhelming majority of representatives of the state-political and scientific establishments of Ukraine (84%) is sceptical about the EU's attitude toward Ukraine as a potential member of this grouping. The polled experts believe that the majority of EU member-states at present tends to distance themselves from Ukraine as a 'problem country'. Expert views on this issue are presented in the Diagram "Attitude of EU countries toward Ukraine as a potential member of this organisation".

It is interesting to note that the population tends to be more optimistic. Almost half of those polled (49%) believes that the EU is interested in admitting Ukraine as a member (*see Diagram "Are EU countries interested in Ukraine joining this organisation?"*).

Are EU countries interested in Ukraine joining this organisation? % of polled citizens



In this connection, it should be emphasised that Ukraine's Western partners cannot but notice the apparently positive political and economic changes in our country: the creation of a constructive majority in the Verkhovna Rada, GDP growth in the first six months of 2000, positive dynamics in different sectors of the national economy, peaceful resolution of social conflicts, stability of the national currency, etc.

However, the scepticism of informed experts evidently has some grounds. They say, a pessimist is a well informed optimist. The unfavourable, in experts view, stance of EU countries toward Ukraine is conditioned by a number of negative factors.

The political sphere. The present level of the development of democratic institutions in Ukraine, and the status of civil society in general, are still far from European criteria. Political



developments in Ukraine have caused conflicts with European community more than once (*Ukraine was blamed for suppressing freedom of press, election campaign violations, non-fulfilment of commitments before the Council of Europe, etc.*).

The economy. Positive developments in the national economy have not yet become irreversible. The quality of Ukrainian goods remains low, which affects the competitiveness of exports (mainly comprised of raw materials and semi-finished goods); domestic production has an extremely high level of energy consumption². The diagram below lists the main reasons which, in the view of experts, impede the promotion of goods on the European markets³.

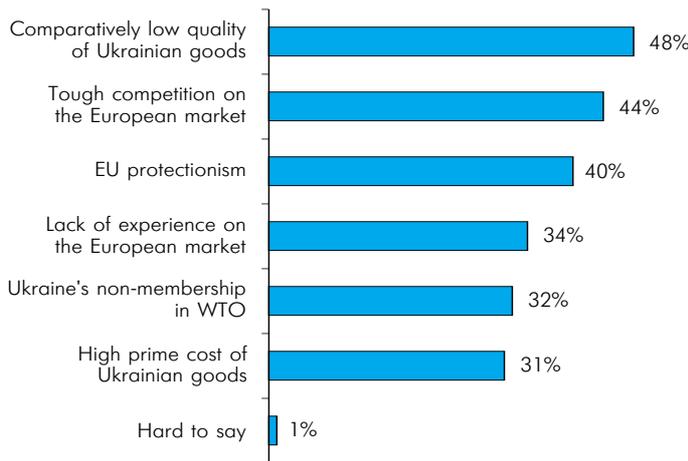
Among other economic reasons, the inadequate regulatory and legal support for business in Ukraine, the underdevelopment of fundamental economic institutions, bureaucratic

interference in economic processes, and the high risk of investing, should also be mentioned. Those negative factors limit the potential for economic co-operation with the EU, and place Ukraine into the group of unattractive and insignificant partners of the European community. It is no wonder that Ukraine's share in the EU's foreign trade remains meagre — 0.42% of the European Union's total turnover⁴.

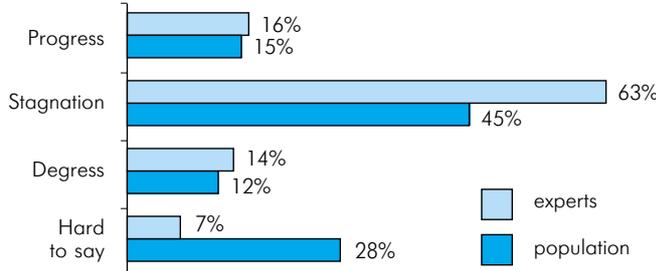
It is clear that such a list of negative factors gives few reasons for optimism. That's why **the overwhelming majority of the polled experts (77%) is critical about the dynamics of Ukraine's contacts with the European Union**. Expert assessments of the status of Ukraine's relations with the EU generally coincide with the opinion of Ukraine's population. 45% of the polled citizens calls those relations stagnant, another 12% believes that they are deteriorating (*see Diagram "The present status of Ukraine's relations with the European Union"*).

It is worth noting that many people (28%) have no clear idea of the nature of relations between Ukraine and the EU. Fortunately, among experts, there are only 7% of those.

Main impediments for the promotion of Ukrainian goods on the European markets, % of the polled



The present status of Ukraine's relations with the European Union, % of the polled



WHAT IMPEDES UKRAINE'S MOVEMENT TOWARD THE EU?

The road to the EU is long and difficult. It has internal and external dimensions. The main problems of Ukraine's movement along this road are related to the internal situation — first of all, to the inconsistency and slow pace of socio-economic and political-administrative transformations. This fact is expressively reaffirmed by the expert assessments below, obtained in the result of UCEPS poll. The majority of experts clearly distinguishes three main negative factors: the low level of economic development and slow pace of reforms (92%); the high level of corruption (90%); the inadequacy of the tax policy, and the non-transparency and instability of economic legislation (90%)⁵.

The general picture of the factors which, according to experts, negatively affect the process of Ukraine's integration into the EU, is presented in the Diagram *"Factors that make a significant negative influence on the process of Ukraine's integration into the European Union"*⁶.

What catches the eye in this unpleasant list of deficiencies is that Ukraine's elite pays much

² Per \$1 of GDP, Ukraine spends 5.5 times more energy resources than countries of Central-Eastern Europe, and 12 times more than OECD countries.

³ Respondents were asked to name three positions.

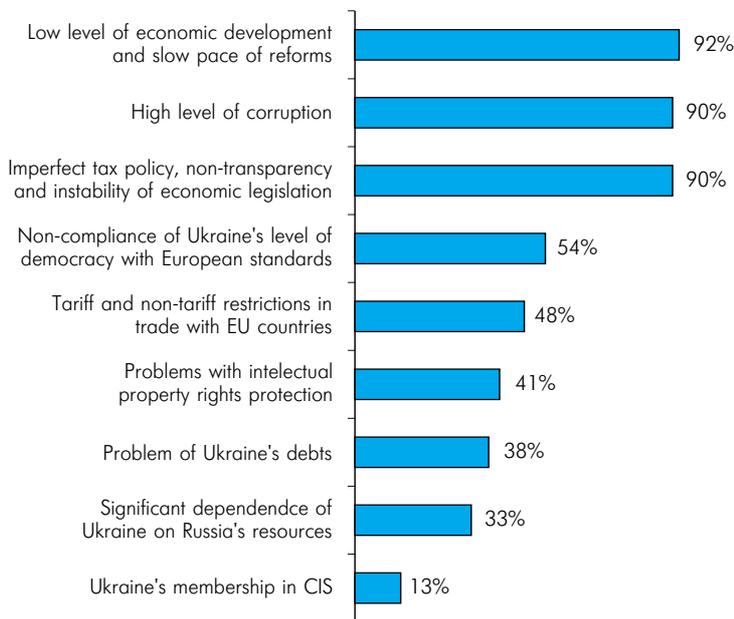
⁴ The Road to the Future Is the Road to Europe. The Centre for European and International Studies. — Kyiv, 2000, p.18.

⁵ Unfortunately, it is namely this list of negative factors which is becoming characteristic of international assessments of the Ukrainian situation. For instance, in February, 2000, UCEPS held a similar poll among Western experts working in Ukraine (diplomats, businessmen, representatives of international organisations). Then, experts named the same factors that are mentioned above.

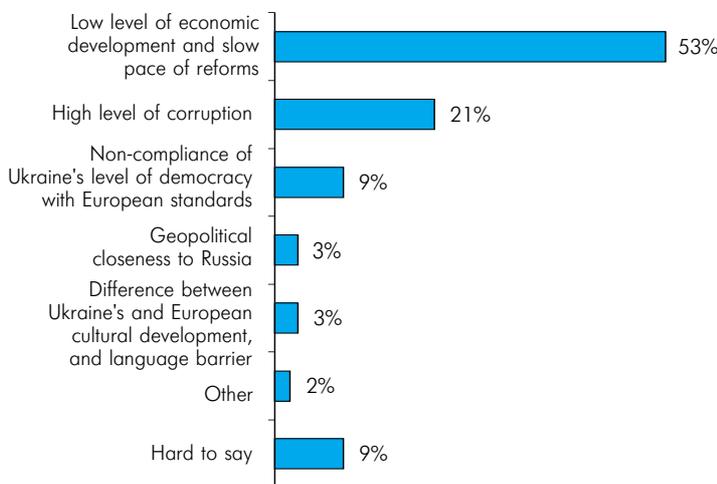
⁶ Experts assessed the factors as follows: a factor causes a significant negative influence; a factor causes an insignificant negative influence; a factor causes no negative influence; hard to say.



Factors that make a significant negative influence on the process of Ukraine's integration into the European Union, % of the polled



What do you think are the main impediments to Ukraine's integration into the EU? % of polled citizens



less attention to such 'problem areas' for the West, as the non-compliance of Ukraine's democracy level with European standards, problems related to intellectual property rights protection, and debt problems.

Meanwhile, dependence on Russia's resources, as a factor negatively impacting

Ukraine's European integration, was mentioned by only one-third of polled experts, and CIS membership is not perceived as an impediment to Ukraine's movement toward Europe (80% of experts considers this factor to be of little or no significance). By contrast, the state's political elite is aware that at present, the CIS markets are objectively more promising for the development of trade and economic co-operation (this particularly concerns Ukraine's participation in the creation of the trans-Caucasian transport corridor).

As far as the assessments of the main factors that hinder Ukraine's movement toward Europe are concerned, the positions of Ukraine's establishment and the population generally coincide. This is clearly demonstrated by the poll results presented in two diagrams.

Both experts and the population point to such main impediments as the low level of economic development, the threatening level of corruption, non-compliance of the democracy level in Ukraine with European standards. Therefore, overall assessments of the present status of Ukraine-EU relations, and the factors that impact those relations, reflect the actual situation.

In this respect, the opinion of some Ukrainian scholars is viable⁷, that the present weakness of Ukraine's position in terms of European integration is the result of: (a) the inconsistency in, and delay with, internal reforms; (b) the prevalence of political declarations over the practical implementation of the Partnership and Co-operation Agreement, and Ukraine's Strategy for EU integration; (c) inadequate administrative and institutional support for the course toward European integration⁸; (d) the lack of qualified experts on issues of European integration within Government structures⁹.

It should be added, that such pessimistic assessments of the present status of Ukraine-EU relations, also reflect the negative results of the December, 1999 Helsinki Summit of the EU: both waves of the EU enlargement bypass Ukraine. It is not by chance that, at the Economic Forum of Central-Eastern European countries held at the end of June, 2000, Prime Minister V.Yushchenko criticised the current ideology behind the European Union's enlargement, and in particular, the uncertain position of the EU regarding the prospects of Ukraine's membership in this organisation. According to him, "regions remaining outside the process of European integration are becoming destabilisers for the entire continent"¹⁰.

⁷ Burakovskiy I., Nemyria H., Pavliuk O. Ukraine and European Integration. — *Polityka i Chas*, 2000, No.3-4, p.9.

⁸ UCEPS experts discussed more than once the non-expediency of liquidating the National Agency for Development and European Integration. For comparison: in Poland, there is a special Ministry of European Integration. See: Administrative Reform in Ukraine: Will the Closed Circle Be Broken? Analytical report of the Ukrainian Centre for Economic and Political Studies. — *National Security and Defence*, 2000, No.5, p.11.

⁹ This problem is examined by the participants of the round table, the materials of which are published in this issue of the magazine.

¹⁰ See: Is the New Enlargement of the EU Imminent? — *Presydentskyi Visnyk*, July 3-9, 2000, p.3.



UCEPS experts believe that the implementation of the priority task — Ukraine's integration into the EU — is unrealistic in the near future, if the negative impact of the above-mentioned factors is not diminished.

This means that the main priority for Ukraine's state organs at the given stage should be diligent work aimed at effective structural and institutional reforms in the economy, raising the population's living standards, and the consolidation of democratic institutions in society. What is important is that the resolution of internal problems is in line with Ukraine's drawing closer to the EU.

UKRAINE'S MEMBERSHIP IN THE EU: AN ASSIGNMENT FOR FUTURE GENERATIONS?

Today, the algorithm of Ukraine's next steps toward Europe is defined: joining the WTO and obtaining market economy status; the creation of a free trade zone; associate membership in the EU. However, a number of internal limiting factors should be taken into account when going down this road¹¹.

First of all, the regulatory-legal base, existing in Ukraine, differs from general regulations of the EU in many of its parameters. Bringing it in compliance with European standards requires much time, both in terms of political efforts and practical work (the translation of over 80 thousand pages of EU regulations, their examination, and comparison with the effective legislation of Ukraine, will take years of diligent work by qualified experts).

Secondly, the basic sectors of Ukraine's industry (metallurgy, light industry, agro-industrial complex) have found no niche on the

European market: accession to this market on reasonable terms requires deep restructuring of Ukraine's economy, raising the competitiveness of the bulk of domestic goods, and the establishment of mutually advantageous relations with West European manufacturers. It is clear that those issues cannot be solved within 3-5 years.

Thirdly, most domestic non-competitive enterprises will be liquidated, swallowed by powerful European companies, which will bring about negative social consequences.

Finally, in the short run, Ukraine is unable to bear the financial burden of EU contribution.

The comprehension of those "limiting factors" places Ukraine's elite in a position of assessing the possible terms for Ukraine catching up with economically developed countries of the EU with restraint. According to expert assessments, Ukraine's positions are much worse than those of Baltic states and other East European countries. On the other hand, Russia's position is viewed rather pessimistically: 21% of polled experts believes that the Russian Federation will never achieve European level. As far as Belarus is concerned, this view is shared by 27% of experts (*see Table*).

The overwhelming majority of polled experts (65%) believes that Ukraine will be able to catch up with the developed countries of European community somewhere in the range of 20 years.

If expert assessments of the positions of different countries are compared with the results of the public opinion poll, it becomes apparent that the population assesses the prospects of other CIS countries far more optimistically than experts¹². For instance, with respect to Russia and Belarus, 33% and 25% of experts, respectively, were certain that those countries would

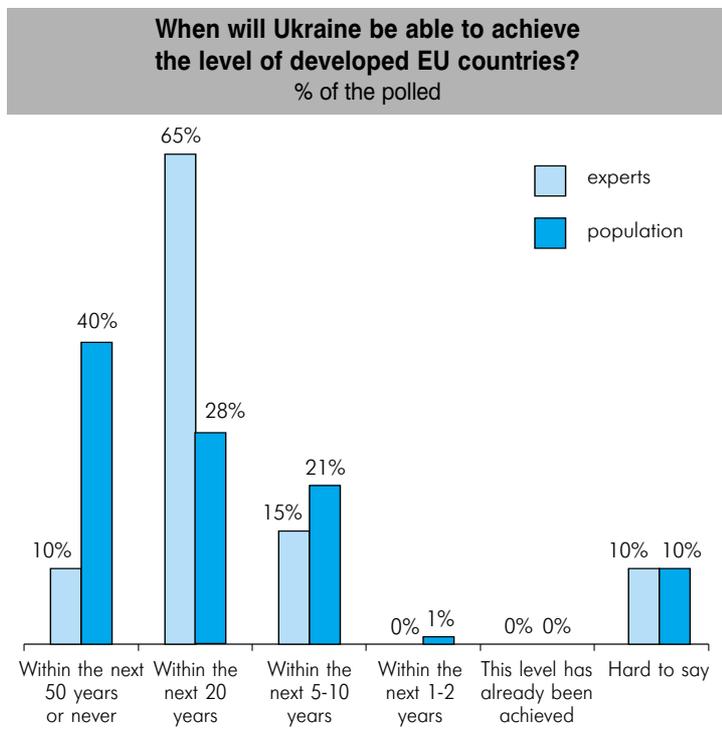
When will these countries be able to achieve the level of developed EU countries?						
	% of polled experts					
	Never	In 20 years	In 5-10 years	In 1-2 years	This level has already been achieved	Hard to say
Ukraine	10%	65%	15%	0%	0%	10%
Russia	21%	41%	25%	1%	0%	12%
Belarus	27%	39%	4%	2%	0%	28%
Other CIS countries	21%	41%	6%	1%	0%	31%
Baltic states	0%	12%	63%	22%	3%	0%
Poland	0%	11%	46%	32%	11%	0%
Romania	7%	41%	35%	6%	0%	11%
Bulgaria	3%	43%	35%	7%	0%	12%

¹¹ See the article of UCEPS expert: Chaly V. The Long Road to the EU. — *Zerkalo Nedeli*, May 27, 2000, p.2.

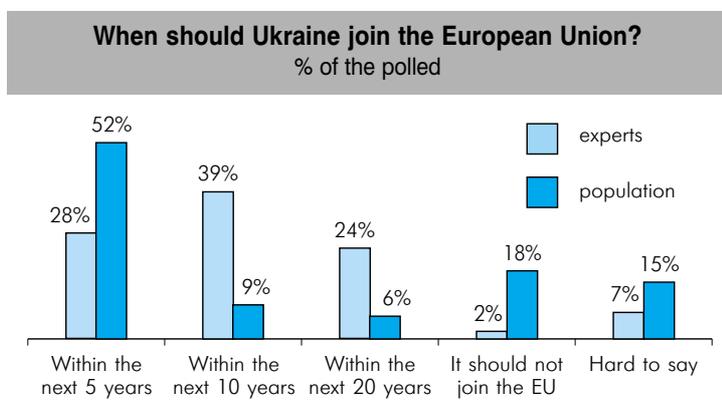
¹² It should be noted that some grounds for this exist. For example, the IMF report on the development of the world economy (April, 2000) ascertained that in 1999, out of all CIS countries, economic decline was observed only in Ukraine (-0.4%) and Moldova (-5%). IMF experts predict that in 2000, Ukraine's economic growth rate will be the lowest among all CIS countries. See: ITAR-TASS, April 13, 2000.



reach European level of development in 5-10 years, and only 5% and 7%, respectively, said that this would never happen. As far as Ukraine is concerned, the thoughts of the elite and the population coincide. Ukraine's population looks at the prospects of our state catching up with the



EU countries as follows: 28% of those polled believes that this will occur in 20 years, plus, 21% — in 5-10 years. At the same time, out of 40% of pessimists, 25% indicates 50-year term, meanwhile, 15% of them are sure that Ukraine will never achieve this level¹³. The assessments of experts and the population, regarding the prospects of our country achieving the European level of development, are collated in the Diagram "When will Ukraine be able to achieve the level of developed EU countries?".



It appears symptomatic that, while cautiously assessing the terms of Ukraine achieving the level of developed EU countries, Ukraine's elite and the population are united in the need for joining the EU in the next 5-10 years. This view is shared by 67% of experts and 61% of Ukraine's population (see Diagram "When should Ukraine join the European Union?").

One should keep in mind that a third of the population either does not consider the European choice to be the right one, or is undecided on the matter: 18% of citizens is sure that Ukraine should not join the EU at all, while 15% — abstained.

The comparison of foreign policy sympathies and the attitude of people to Ukraine joining the EU creates an interesting picture. More than half (57%) of the population consider contacts with the CIS and Russian Federation to be a priority, and two-thirds (67%) have nothing against joining the EU. This means that, although in the event of an alternative choice of the key foreign policy vector, traditional sentiments have worked, and the overwhelming majority of Ukraine's population realises the specific importance of Europe for Ukraine.

Being aware of the fact that Ukraine's lag behind the leading EU countries won't be removed in the near future, Ukraine's elite and the population desire to see our state among the developed and prosperous European countries as soon as possible. Such a desire is absolutely clear against the background of humiliating (for a European nation) indicators of Ukraine's socio-economic development.

At present, close to 70% of Ukrainians are on the brink of poverty. Average monthly per capita incomes in over one million families do not exceed \$10. In most regions, monthly wages and salaries amount to \$30-40. Hourly remuneration in Ukraine is 15 times lower than the world poverty standard. Unemployment is on the rise: in 1997-1999, the number of officially registered unemployed increased from 350 thousand to 1.4 million, and according to expert estimates, 7-8 million Ukrainians are jobless. Over the recent years, Ukraine's human development index remains stable at a low level: our country occupies 91st position among UN members. According to the UCEPS sociological survey (June, 2000), 61% of citizens believes that, in comparison with January, 2000, the wellbeing of their families deteriorated; 33% — doesn't see any changes for the better.

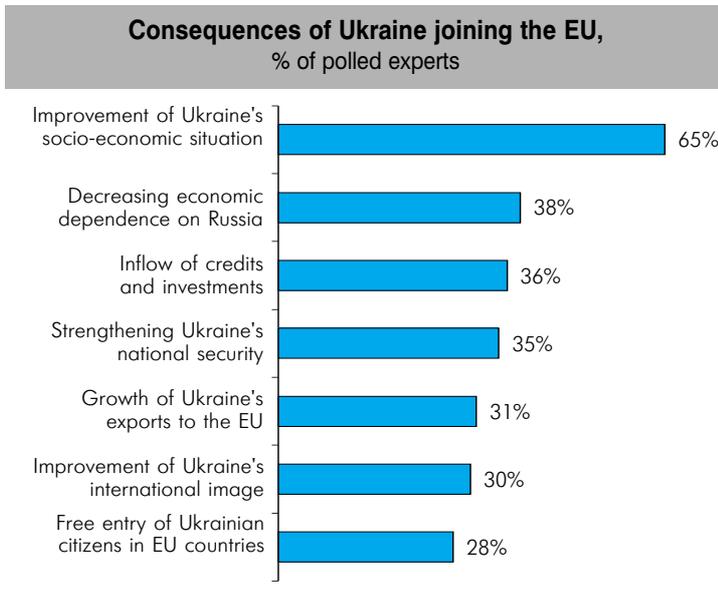
Ukraine's desire to join the EU as soon as possible is also psychologically grounded. People

¹³ Some positive dynamics is evident, if we compare the results with previous UCEPS polls. For instance, in April, 2000, only 14% of respondents believed that Ukraine will manage to make a breakthrough into Europe in the next decade, and 25% did not believe that Ukraine would ever reach the level of European countries.



understand that the European future for Ukraine is being built now. They want to live prosperously and quietly at the present moment, and not in the remote future. Therefore, the given term for joining the EU — in 5-10 years — is probably a compromise between the rational comprehension of the severe realities, and the desire to reach European level of life as soon as possible.

Ukraine's elite perceives integration into the EU as a means of solving internal problems, in the first place — to improve the socio-political situation in the country. The majority of experts mentioned this point when responding to the question "What do you expect from Ukraine's integration into the EU, above all?"¹⁴ (see next Diagram).



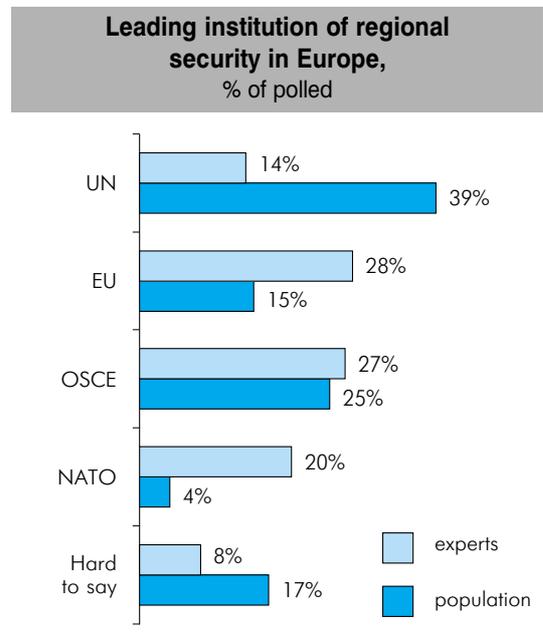
It's not difficult to notice a certain "Euro-paternalism" in the spirits of Ukraine's elite. However, Ukraine's experience on the international arena has proven more than once that all expectations of radical internal changes with Western assistance are in vain. The European Union is not a voluntary charity foundation, but an alliance of powerful states, which united to jointly withstand the tough pressure of competition on the world market. Western partners are unlikely to be interested in the promotion of Ukrainian goods (with a low degree of processing) on European markets, already saturated with such products. This fact is proven by the annual increase in the share of Ukraine's exports falling under anti-dumping proceedings: in 1995 — 28%, in 1999 — 35%¹⁵.

Ukraine must primarily count on its own forces. As Prime Minister V.Yushchenko put it, "building economic muscles" is the only way to Europe.

Another noteworthy point is that among the positive consequences of integration into the EU, Ukrainian experts give second place to the removal of the economic dependence on Russia¹⁶. However, the important and generally positive process of diversification of Ukraine's trade and economic contacts should not turn into "fetishisation" of European integration as an alternative to relations with Russia. UCEPS experts believe that the solution of urgent problems in economic relations with Russia (establishing a free trade regime, removing Russia's unilateral protective measures) is one of the main foreign economic priorities for Ukraine.

Another important positive factor of European integration, mentioned by experts, is the strengthening of Ukraine's national security. Such a stance is connected with the fact that the biggest share of polled experts (28%) considers the EU to be the leading institution of regional security in Europe. 27% of experts is certain that this function should be performed by OSCE, 20% — by NATO, 14% — by the UN. The population built a different hierarchy of key security structures for itself in Europe (see next Diagram).

As the Diagram shows, the majority of Ukraine's elite believes that security on the continent must be insured primarily by the European Union (28%), OSCE (27%) and NATO (20%), while the population gives preference to the UN (39%), OSCE (25%), the EU (15%), with NATO concluding this list with only 4%.



¹⁴ Respondents were proposed to name no more than three positions.

¹⁵ Thirteen countries have initiated over 100 anti-dumping proceedings against Ukraine in 26 commodity groups. According to expert assessments, Ukraine's losses from those proceedings, starting from 1992, amounted to nearly \$1.0-1.5 billion.

¹⁶ It should be kept in mind that despite the curtailment of trade relations with Russia (by \$3.2 billion over the last three years), 20.7% of Ukraine's exports falls on that country. At the same time, the Russian Federation remains the largest importer of goods to Ukraine — 47% of total imports. The lion's share of Russian imports is comprised of energy resources.

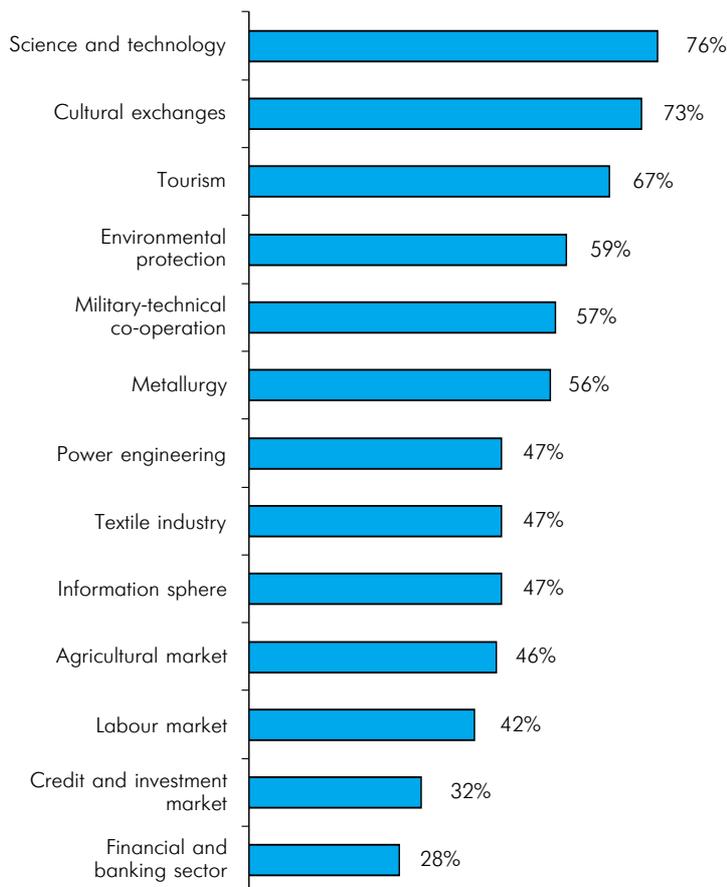


DIRECTIONS FOR CO-OPERATION: LIGHT AT THE END OF THE EUROTUNNEL?

The euphoria of the previous years, the attempts made to force the way into the group of new passengers on the European express, gradually gave way to a realistic comprehension of the fact that a ticket to the platform is at least something. It is clear now, that even under conditions of radical structural reforms, the period of adaptation to the EU's political and economic requirements will last for many years. To be sure, the EU will not tolerate waiting for Ukraine, and the requirements for contender countries will get tougher with time. However, this in no way means that Ukraine is perceived as eternal outsider.

Indeed, it would be correct to admit that today, our country's starting position is weak. This conclusion is based on economic indicators and supported by expert opinion polls¹⁷.

Areas where possibilities for real co-operation between Ukraine and the EU exist,
% of polled experts



It is evidently not by chance that the Ukrainian elite names the humanitarian sector among the main directions where possibilities for real co-operation with the EU exist: the majority of experts points to co-operation in the field of science and technology (76%), cultural exchanges (73%), tourism (67%), and environmental protection (59%).

As the Diagram "Areas where possibilities for real co-operation between Ukraine and the EU exist" shows, experts are much less enthusiastic about co-operation with the EU in the field of power engineering, textile industry, on the markets of agricultural produce, labour, credits and investments, and in the financial and banking sector. Only 28% of the polled experts believes in the reality of effective co-operation between Ukraine and the EU in the financial and banking sector, 32% — on the credit and investment market. Less than half of experts is optimistic regarding Ukraine's co-operation with the EU on the market of agricultural produce (46%), in energy (47%) and textile (47%) sectors. In our view, this can be explained by a number of reasons.

First of all, those sectors of the economy are subject to the EU's protective measures. **Second**, in those sectors, no strong Ukrainian companies capable of competing with European manufacturers have been formed. **Third**, the admission of the new EU members will raise the competitiveness of their enterprises in the "sensitive" areas of Ukraine's exports (metal products, textiles, foodstuffs). **Fourth**, in Ukraine, no attractive investment climate for foreign capital has been formed thus far. (*It is not by chance that experts are most sceptical about contacts with the EU on the credit and investment market, and in the financial and banking sector*).

Therefore, **Ukraine's elite has doubts about the existence of preconditions for equal and mutually beneficial co-operation between Ukraine and the EU in many areas of foreign economic relations**. At the same time, the assessments given in the course of the expert opinion poll produce a clear picture of the strategic directions of Ukraine's authorities for the strengthening of Ukraine's position with respect to European integration. They are: the acceleration of reforms, struggle against corruption, building of civil society and the improvement of economic legislation.

In the course of the poll, experts were proposed to define the priority measures for the acceleration of Ukraine's integration into the European Union. The obtained results are shown on the Diagram below.

¹⁷ According to UCEPS poll held in February, 2000, the majority of Western, Polish and Russian experts pointed to the minimal or insignificant influence of Ukraine on the markets of credits and investments, information resources, agricultural produce, energy resources, high technologies and industrial goods. See: Ukraine's International Image: Myths and Realities. Analytical report of the Ukrainian Centre for Economic and Political Studies. — *National Security and Defence*, 2000, No.3, pp.54,64.



The overwhelming majority of experts (71%) placed the acceleration of Ukraine obtaining the status of a country with a market economy in first position. This is surely an important factor, for Ukraine remaining in the group of transitional economies weakens its position in foreign economic relations, and places it into an unfavourable position in its contacts with Western partners¹⁸. Other priorities named included Ukraine's membership in the WTO (61%) and the limitation of mutual restrictions on export and import operations with EU countries (55%).

Most experts (65%) consider the more active execution of Ukraine's commitments within the framework of the PCA to be an important factor. What is meant is **the need to close the gap between the declared intentions and concrete actions of the authorities for their implementation within the shortest possible term.**

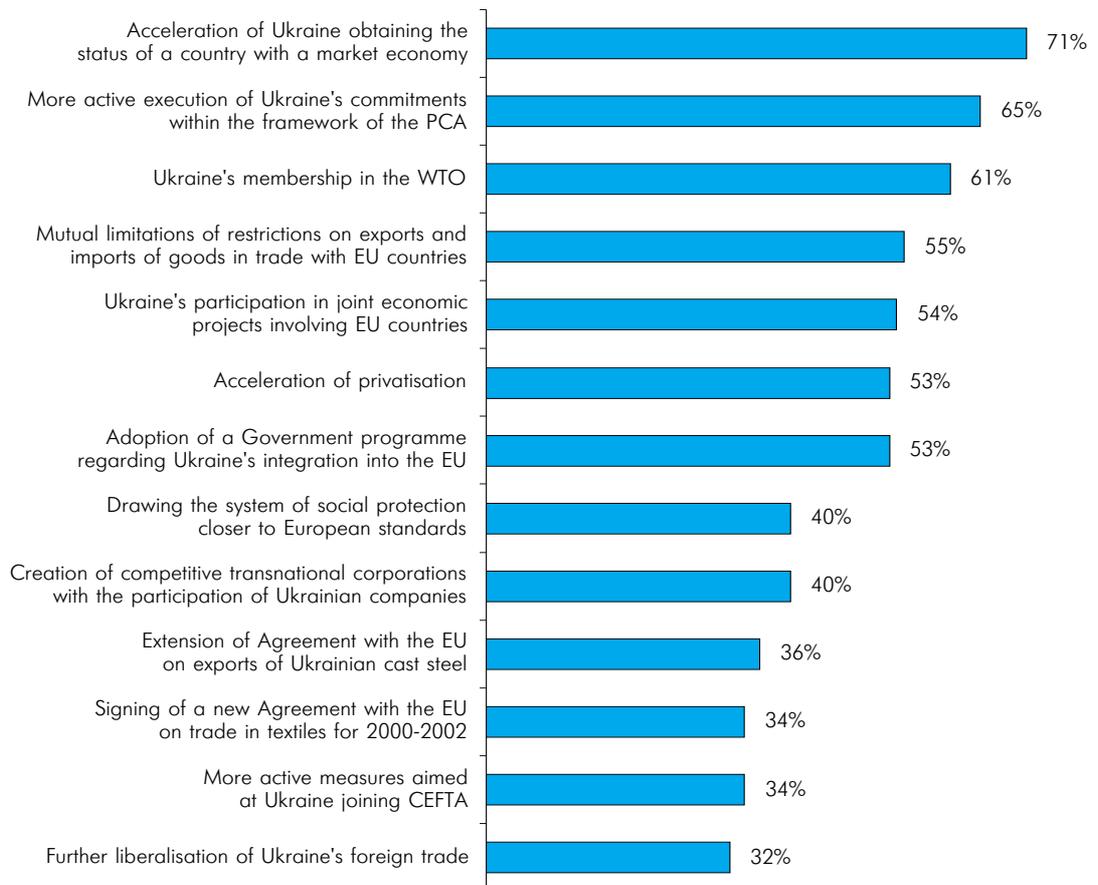
UCEPS experts believe that the opening of economic borders should be undertaken cautiously, given the problems of economic security.

Prior to that step, Ukraine should implement deep structural reforms in the economy, and form strong national companies capable of withstanding tough international competition.

To be sure, the process of Ukraine's integration into the EU (as a structure) cannot be viewed in isolation from the consolidation of bilateral relations with EU member-states. In this respect, it is interesting to look at the expert definition of separate EU countries, co-operation with which has a priority significance for the implementation of Ukraine's integrational strategy (see Diagram "Countries of the EU, co-operation with which is of priority importance for Ukraine"). It is accompanied by statistical data of Ukraine's foreign trade according to 1999 results.

Experts clearly distinguish the leading trio of the most important countries — Germany (93%), France (72%) and Great Britain (42%). Today, it is exactly these countries that, to a great extent, determine the present image of the EU and define its future. The high rating of

Priority measures for the acceleration of Ukraine's integration into the EU, % of polled experts

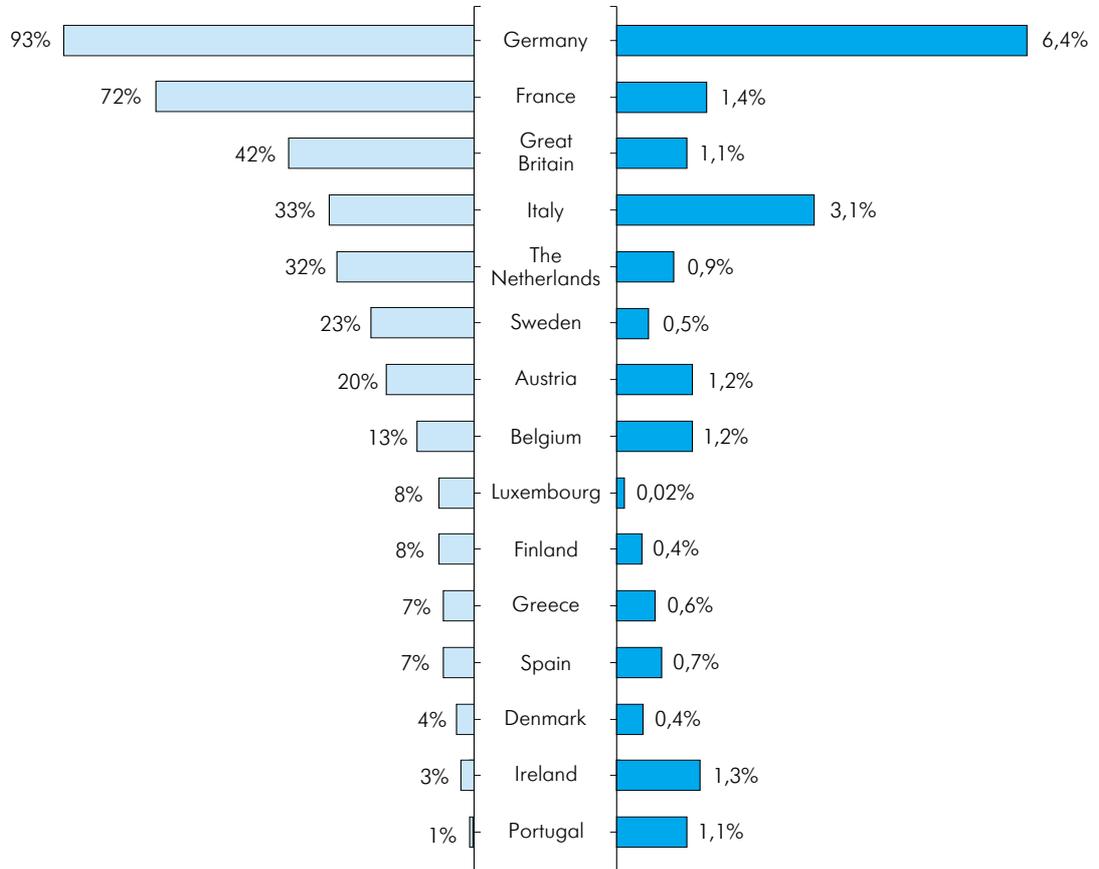


¹⁸ Among other things, the status of a country with a non-market economy leads to the anti-dumping margin rising from the minimum level of no more than 10%, to 125%, which has been restricting the access of Ukrainian goods to relevant markets for years.



Countries of the EU, co-operation with which is of priority importance for Ukraine,
% of polled experts

The country's share in Ukraine's foreign trade in goods,
% of total turnover in 1999



France in the eyes of Ukraine's elite can probably be explained by its significant influence on pan-European processes, and by the fact that this country will chair the EU until the end of 2000¹⁹. It should also be kept in mind that the next Ukraine-EU summit is to take place in September, 2000, in Paris.

The importance of contacts with Italy, the Netherlands, Sweden, and Austria, pointed out by experts, can be explained by the fact that those countries actively support Ukraine's intention to integrate into the European Union.

Apart from the political factors, such a rating of EU countries, drawn by experts, is also conditioned by the level of trade and economic co-operation of Ukraine with those states.

For instance, Germany has been one of Ukraine's main trade partners in Europe for years.

In 1999, its share in Ukraine's total foreign trade turnover amounted to 6.4%. For comparison: Italy's share was 3.1%, France — 1.4%, Great Britain — 1.1%, and the Netherlands — 0.9%.

Certain parallels can be drawn between expert assessments and the amounts of direct investments from those countries into Ukraine's economy. For instance, if German investments in 1999 amounted to \$230 million, Great Britain — \$243 million, the Netherlands — \$301 million, then the investments of the countries from the bottom of the list of important partners were much lower: Spain — \$18 million, Denmark — \$17 million, Portugal — only \$920 thousand.

Therefore, expert assessments can be considered as quite objective: they take into account both the political and economic weight of a country in the European Union, and the level of its economic co-operation with Ukraine.

¹⁹ In this connection, the Ambassador of France to Ukraine Mr.P.Fieski said that revival of contacts between Ukraine and the EU should be expected. See: Drach M. France Chairs the EU: Prospects for Ukraine. — *Ukrainske Slovo*, July 12, 2000, p.8.



Among the contenders for EU membership, Poland may promote Ukraine's integration into the European Union the most: this view is shared by 77% of the polled experts. Ukraine's elite counts on the support from other countries to a smaller extent: Czech support is expected by 8%, Hungary's — by 4%, Slovak — by 2%. Such assessments are not difficult to explain, as it is with Poland that Ukraine has the most positive dynamics of bilateral relations. (*It is sufficient to recall the active political contacts at the top level: the presidents of the two countries met more than 20 times*). Furthermore, the majority of Poland's elite actively supports Ukraine's European choice²⁰.

CONCLUSIONS

Among Ukraine's three principle foreign political priorities, integration into the EU enjoys the greatest support of the state-political elite (48% of those polled). However, the majority of the population of Ukraine traditionally views co-operation with the countries of the CIS and Russia as a priority (31% and 26%, respectively). Only 11% of experts and 4% of the population called Ukraine's relations with the U.S. a priority. Of significance is that two-thirds of the population are not against entry into the EU: 67% of respondents understands the need for Ukraine to take the European direction.

The expert poll reflects the complex realities of the process of Ukraine's European integration. The vast majority of Ukraine's elite and the country's population critically assesses both the stance of EU countries toward the prospects for the entry of our country into this organisation, and the current state of Ukraine's relations with the EU. Such a situation, according to the experts and the population, is conditioned by the influence of a number of negative factors, above all, of an internal character. These are: the slow pace of reforms, the high level of corruption, an inadequate taxation policy and normative-legal base.

The awareness of these "braking factors" is forcing the elite and population of Ukraine to take a cautious approach to the evaluation of the time-frame for Ukraine drawing closer to the level of economically developed countries of the EU: the majority of those polled defines that period to be

20 years. However, the overwhelming majority of both Ukraine's establishment, and its population (67% and 61%, respectively), who desire to see Ukraine among European countries with a high level of wellbeing in the soonest possible time, are convinced of the need for joining the EU in the next 5-10 years. This desire is completely understandable against the background of the complex socio-economic situation in Ukraine.

The main strategic directions of the activities of the state bodies with respect to the strengthening of Ukraine's position regarding European integration are the acceleration of the pace of reforms, the fight against corruption, building of civil society, and the improvement of economic legislation.

Experts outline the set of priority measures for accelerating Ukraine's integration into the EU. The overwhelming majority of experts (71%) places the measures with respect to accelerating the process of recognising Ukraine as a country with a market economy in first place. Among other important measures, the following were named: activating Ukraine's performance of its obligations within the framework of the PCA; gaining WTO membership; decreasing limitation on export-import operations with EU countries; Ukraine's participation in mutual economic projects with the European Union.

The process of Ukraine's integration into the EU envisages the strengthening of bilateral contacts with EU member-states. In this respect, Ukraine's elite places emphasis on the priority significance of contacts, above all, with Germany (93%), France (72%), and Great Britain (42%). That is, the issue concerns improving contacts with the most powerful and economically developed countries which define the "face" of the EU and its future. At the same time, the level of their trade and economic co-operation with Ukraine, and the investment volumes into our economy, are taken into consideration.

In the view of UCEPS experts, the positions of the population and the elite, their views with respect to Ukraine's integration into Europe, are useful, and deserve the attention of the power structures. The expressed proposals should be utilised for purposes of the more active movement of Ukraine along the European path.

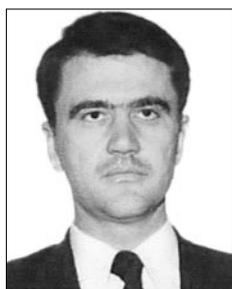
²⁰ This is demonstrated by the results of the expert poll held by UCEPS jointly with the sociological firm *GFK Polonia* in February, 2000, among representatives of the President's and Prime Minister's offices, Polish ministries and agencies, members of specialised committees of Sejm and Senat, representatives of business circles. See: Chaly V., Pashkov M. Ukraine's International Image: the View from Poland. — *National Security and Defence*, 2000, No.3, p.53-54.

ROUND TABLE BY CORRESPONDENCE

PROBLEMS AND PROSPECTS OF UKRAINE'S INTEGRATION INTO THE EU

Ukraine's co-operation with the EU occupies a special position within the system of Ukraine's foreign policy priorities. Ukraine's European choice opens new prospects for co-operation with the continent's developed countries, provides opportunities for economic development, and strengthens Ukraine's positions within the global system of international relations. Nevertheless, the current state of relations between Ukraine and the European Union is an issue that needs to be given serious consideration.

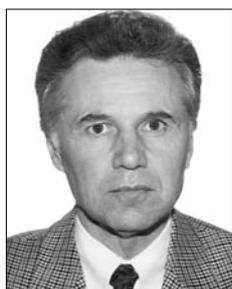
The problems of Ukraine's co-operation with the EU, and the possible directions for deepening mutually beneficial co-operation, became the topics of the panel discussion, organised by UCEPS experts.



Andriy FIALKO,
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Ihor OSTASH,
Head, Committee of
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Verkhovna Rada of
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Assembly



Viktor MASHTABEY,
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Serhiy TOLSTOV,
Director,
Independent Centre for
Political Analyses
and Forecasting



Ihor BURAKOVSKY,
Ph.D, Professor,
Main Economist,
Kyiv Centre of the
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UCEPS experts proposed that the round table participants respond to the following questions:

1. How would you characterise the present state of relations between Ukraine and the EU?
2. What, in your view, impedes Ukraine's integration into the European Union?
3. What priority measures need to be applied to accelerate Ukraine's integration into the EU?

UCEPS experts believe that the process of comparing views for purposes of this round table is a productive one, especially as the views, regarding the current status of Ukraine-EU relations, and the prospects and priority directions for integrating our country into the European Union, were expressed by representatives from different branches of power, independent experts and scholars.

CURRENT STATE OF UKRAINE-EU RELATIONS

Andriy Fialko. The time for new possibilities, as well as new risks, has arisen in Ukraine's relations with the EU. New possibilities, because, during elections in Ukraine, the President won on the European choice platform, European integration. Truly, in our country there was an alternative, or rather, a dilemma — which direction to move in? And to a certain extent, it is fair to say that the Ukrainian people made the European choice during the presidential elections. This is a serious mandate for decisive steps toward European integration. If earlier, Ukraine was blamed for the apparent uncertainty of its course with respect to the EU, then I think that the election results give the answer to the question of this course. Furthermore, both the appointment of a new Government, and the formation of a parliamentary majority, took place,

in principle, namely on the basis of the European choice. And this is not just declarations, but definite, real acts. In particular, thanks to the necessary assignments of the President and decisions of the Government, many issues regarding relations between Ukraine and the EU were resolved. Realistic steps began to be taken regarding the reformation of our society, in particular, those regarding administrative reform and reform of the agro-industrial complex, as well as a number of other important steps. This strengthened Ukraine's positions in its relations with the EU, and led to the appearance of new expectations on the part of the European Union and its member-states. Against this background, it is possible to discuss a certain amount of credit given to Ukraine in the form of trust, and the creation of new possibilities in our relations.

On the other hand, this creates new risks as well; if we do not take advantage of the favourable situation now, Ukraine may have to wait for a long time for its next opportunity. At the same time, we must look at things more realistically. At this time, the European issue is discussed in terms of the long-term perspective. In the nearest-term future, there will be no major movements in this direction. We will only be laying the foundations for our future relations, but this, in its turn, is fully in line with our internal priority tasks. Therefore, reforming the economy, and achieving the criteria for EU membership, are steps in the same direction.

Ihor Ostash. Presently, Ukraine is at the stage of implementing the Partnership and Co-operation Agreement (PCA) between Ukraine and the EU signed on June 14, 1994, in Luxembourg.

After the PCA came into force on March 1, 1998, the mechanism for bilateral dialogue was finally formed with regular political discussions at the top level. The bodies envisaged by the Agreement began to function — the Council and Committee on issues of co-operation between Ukraine and the EU, and the Committee for parliamentary co-operation. On June 11, 1998, a Decree of the President of Ukraine approved the Strategy for Ukraine's integration into the EU, which is being implemented by bodies of the executive branch. In response to Ukraine's request to the EU that it recognise our country's right to gain EU membership after achieving the necessary criteria, the common EU strategy toward Ukraine was adopted at the EU summit in December, 1999.

Thus, it is possible to speak about some progress in relations, especially at this time, when a consensus has started to form within Ukrainian governmental bodies with respect to Ukraine's need to integrate into European





structures. As for the EU, it is also ready to move forward on such issues. An example of this, in particular, is the speech of the Minister of Foreign Affairs of Portugal (which chaired the EU in the first half of 2000) Gzame Gama during the Brussels visit of Ukraine's delegation headed by Prime Minister of Ukraine Viktor Yushchenko. Among everything else that was said in the speech, the idea was voiced that in the event that Ukraine fulfils its commitments properly, the Partnership and Co-operation Agreement between Ukraine and the EU could evolve into associate membership. This idea was also supported by the President of the European Commission Romano Prodi.



Viktor Mashtabey. In the first place, it should be noted that despite all the difficulties associated with the period of transformation, we succeeded in achieving political recognition of Ukraine's European choice by the EU. In the Common Strategy of the EU toward Ukraine, adopted at the EU Helsinki Summit on December 10-11, 1999, it was declared that "the EU acknowledges Ukraine's European aspirations and welcomes Ukraine's pro-European choice". It should be emphasised that this is an official EU document which defines the strategic directions for the development of our bilateral relations for the next four years.

Today, daily intense work is being conducted with respect to the principal directions of Ukraine-EU relations. In greater detail, this involves the following:

1. Fulfilling the Partnership and Co-operation Agreement on an ongoing basis. Meetings of the Council, Committee, and profile subcommittees are conducted, as determined, on issues of Ukraine-EU co-operation, as well as meetings of the Parliamentary committee on issues of co-operation, political dialogue between Ukraine and the EU troika at different levels — from the top, down to the expert level. Under discussion is the next Common programme for the PCA

implementation for the year 2000 and subsequent years, with account of both the positive and negative experience of the previous programme for 1998-1999.

2. Much work has been done for bringing national legislation in line with EU norms and standards. A number of resolutions were adopted by the Government that provide for the legal basis of this process. In particular, the 1998 Resolution of the Cabinet of Ministers of Ukraine on introducing a mechanism of adapting Ukraine's legislation to that of the EU, and the Concept of adapting Ukraine's legislation to the EU's, ratified on August 16, 1999. At the 4th meeting of the Interdepartmental Co-ordination Council (April 14, 2000), the Working Plan for adapting the legislation for 2000 was approved. It envisages the working out of over 50 draft laws of Ukraine and resolutions of the Cabinet in course of the year, with account of the main provisions of the EU legislation.

3. The contractual-legal base for co-operation is expanding. Today, four branch agreements between Ukraine and the EU on co-operation in the steel and textile industries, and nuclear power engineering, were concluded. Additional opportunities have appeared with the signing of the multilateral framework INOGATE Agreement (July 22, 1999) by Ukraine and the EU regarding the creation of legal foundations for international co-operation on the provision of energy to the countries of Western Europe, including provisions that take into consideration Ukraine's transit possibilities. Work is ongoing on the preparation for the signing of the Agreement on scientific-technical co-operation and nuclear materials trade.

4. Special attention should be paid to the work aimed at the realisation the EU Common Strategy on Ukraine. The originality of this document, as compared with the basic PCA agreement, lies in that the Strategy broadens the possibilities for bilateral co-operation over areas that were previously not utilised to the fullest extent in Ukraine's dialogue with the EU. These are the foreign and security policy areas, as well as those of justice and internal affairs.

Within the framework of the first Working plan for the implementation of the Common Strategy, which was effective during Portugal's chairing of the EU, a series of consultations was commenced at the expert level on issues of disarmament, exports of conventional weapons, global security, non-proliferation, OSCE problems, etc.

Ukrainian representatives took part in the conference on drugs in Europe (February 28-29, 2000). Based on the results of the EU expert mission to Ukraine (January, 2000), a joint report was prepared regarding the struggle with illegal immigration and traffic in human beings,

as well as recommendations that were agreed to at the Third meeting of the Ukraine-EU Co-operation Council (May 23, 2000). Technical-economic studies were initiated for purposes of preparing projects in the area of the struggle against "money laundering" in Ukraine.

5. The experience of the development of trade and economic relations between Ukraine and the EU convincingly proves the need for making efforts with the goal of solving existing problems, and to accelerate Ukraine's integration into the European and global economic space.



Today, as a result of the hard work assigned to specific ministries and agencies of Ukraine, as well as the fruitful co-operation between Ukrainian and EU experts within the framework of Subcommittee No. 1 on trade and investments, the majority (14 out of 21) of the EU's existing trade and economic claims was resolved. Work was begun on implementing the Memorandum of the Ministry of International Development of Great Britain regarding the provision of technical assistance to the Government of Ukraine in the formation and implementation of its trade policy.

Ukraine has defined for itself the following priority tasks for purposes of ensuring its integration into the European economic space: (1) WTO membership; (2) joining the European Free Trade Association (EFTA) and the European economic zone; (3) creating a Ukraine-EU free trade zone. It should be noted that on June 19, 2000 in Geneva, Ukraine - EFTA Declaration was signed, which concerns the main directions and institutional foundations for co-operation between the sides.

Therefore, if the above (far from complete) list of developments over the last two years is summarised, the answer to the question posed regarding the current state of relations between Ukraine and EU is quite definitely, and without a doubt, a positive one.

Serhiy Tolstov. If we consider the EU itself, that is, that of the executive and co-ordinating bodies of the integrated community (and not the position of the governments of individual EU countries), then the current state of relations with Ukraine can be defined in terms of a definite pause, which reflects a wait-and-see mood. On the one hand, the executive and co-ordinating structures of the EU realise that Ukraine does not meet the criteria for integration, and study the reasons for Ukraine's delays in fulfilling the provisions of the PCA. On the other hand, they have taken an observer position with respect to the measures of the Government of V.Yushchenko, awaiting from him at least some significant economic successes. This is the main thing, since the remainder of the context of mutual relations consists of contradictions of a secondary character related to narrower, more egoistically directed differences in the interests of individual business groups and countries.

The situation could change for the better only in the event that the Government and Parliament create real conditions for accelerating economic growth and taking measures necessary for Ukraine joining the WTO. The latter envisages bringing Ukrainian legislation in line with the standards of countries with a market economy. Achieving this will be extremely difficult, given the absence of clear ideas regarding the strategy of economic development, and catastrophically low GDP.

Ukraine will fulfil PCA provisions only through joining the WTO, which will allow it to begin a new round of negotiations with the EU in principle, and bring the issue regarding the creation of a free trade zone with the EU to a practical level, as envisaged in the 1994 Agreement. This measure should not be interpreted as an obstacle to the creation of a free trade zone within the CIS. In the West, the liberalisation of international trade is understood from the point of view of "globalisation", that is, as a positive phenomenon. Thus, the Head of the Representative Office of the European Commission in Ukraine A.Vanhaeverbeke emphatically stated: "We support the idea of the creation of a free trade zone between Ukraine and Russia"¹.

It can definitely be asserted that at this time, Ukraine has lost the possibility of joining the EU on the same basis as the countries of Central and Eastern Europe (countries of the Visegrad group, Slovenia, the Baltic states and, possibly, Bulgaria and Romania). What is characteristic of these countries is that they have partnership agreements (of a European standard) with the EU, which recognise their status as candidates for EU membership, they are CEFTA

¹ "Evening News — 7 Days", April 29, 2000, p.6.

Everyone knows that Ukraine's questionable reputation in the world is that of one of the most corrupt countries. This is not only an obstacle on our path into the civilised world and an impediment for economic development, but also a real threat to Ukraine's national security.

More exactly, the existence of certain obstacles at the legislative level should be recalled. Claims against Ukraine in the area of the protection of intellectual property rights, the state's overwhelming interference in the regulation of trade, etc., are well known.

Viktor Mashtabey. Without getting into detail, it is possible to identify two principal groups of factors which stand in the way of Ukraine's soonest possible integration into the EU — external and internal factors.

The external factors include, first of all, the undefined position of the EU itself with respect to the geographical borders of the future European Union, and even the timeframe for admitting new members. If the dispute with respect to the first question today has a mostly long-term character, and the nature of that polemic allows for a certain lag prior to the final answer, the second one requires quick, efficient actions that have been thought out in detail.

Nevertheless, over the recent period, even the EU has become increasingly aware of the growing disparity between the real speed of the enlargement process and declared political ambitions. Even those EU politicians considered to be "Euro-enthusiasts" are beginning to speak openly about this. An example in this respect is the speech of the EU Enlargement Commissar G.Ferhoigen at the World Congress of the International Chamber of Commerce (May 4, 2000, Budapest). He recognised the slow progress of the EU's institutional preparation for enlargement which, in its turn, automatically postpones the acceptance of new members into the EU. Another example is the opinion of Sweden's Foreign Minister A.Lind who, in commenting on the results of the informal meeting of the EU foreign ministers on the Azores (May 6-7, 2000), in particular, stated: "I feel the real risk in the delay, or even postponement, of the process of the EU enlargement".

On the other hand, the results of a survey conducted by the German Chamber of Commerce and Industry on the basis of an analysis of the dynamics of the economic parameters of candidate countries, also point to their real readiness to join the EU no earlier than 2004, or even later.

Despite a certain paradoxical component of these developments, the EU's undefined stance at the present moment can turn into a positive development for Ukraine: the application of the

EU's criteria for defining the individual readiness of a given country for membership, as well as the process of the EU's own internal reforming being put off in time, under certain conditions, provide Ukraine with the possibility of catching up with its Central and Eastern European neighbours with the goal of joining candidate countries for EU membership.



In this context, it would be logical to define the second group of factors that hold back Ukraine's European integration — the internal factors.

It should be noted that we are still experiencing the consequences of insufficiently coordinated measures for economic reforms and the assignments of the European integration. At the same time, today's dynamics of overcoming these consequences inspires optimism.

In particular, the nature of the tasks defined in the Message of the President of Ukraine to the Verkhovna Rada "Ukraine: Entry into the 21st Century. The Strategy for Economic and Social Development for 2000-2004", as well as those formulated in the Programme of action of the Cabinet of Ministers of Ukraine for 2000, demonstrate the decisive determination to coordinate measures with respect to the above-mentioned directions of the transformation processes in Ukraine.

Another internal factor that requires daily attention is the insufficient, to date, understanding of the advantages of Ukraine's integration into the EU on the part of the population. However, even this limiting factor is demonstrating a decreasing tendency. As a result of the implementation of a number of goal-oriented programmes directed at deepening Ukrainians' familiarity with the European Union, positive acceptance by the population is on the rise regarding the prospects of Ukraine's European integration. Presently, new educational, scientific, and cultural programmes are being developed



in Ukraine, and the number of business trips and training programmes for specialists in EU countries is growing.

And the last thing: no one has any doubts that the EU is, above all, an economic union, and the decision-making process regarding EU membership is conditioned, not least of all, by economic parameters. That is namely the reason why the undefined character of Ukraine's trade and economic policy (whether it should be liberal, or have a number of restrictions with respect to competitors on the national market) should be removed as a first step. The backing of this conclusion with a number of practical actions by executive bodies would become an effective catalyst in the process of Ukraine's integration into the single European economic space.

Serhiy Tolstov. The state and tendencies dominating Ukraine's economy and society are holding back Ukraine's integration into the EU. Many factors can be named: economic, political, and social.

It is worth noting that the EU is not a charitable organisation. Realistic chances for membership (under conditions of certain criteria of political expediency) are possessed by countries whose per capita GDP volume amounts to no less than 35-40% of the average EU level. Presently, these countries are Slovenia, the Czech Republic, Poland, Hungary, Estonia, as well as Malta and Cyprus.

Thus, the long-term (more than 10 years long) period of ruination of the country's economic potential, and the absence of an effective economic development strategy, above all, at the governmental level, draw a line through the prospects of Ukraine's integration into the EU. Let alone, the absence of any significant progress in establishing a civil society, legal state, party-political channels of co-operation between the

authorities and the people, and deepening of the socio-cultural and regional economic imbalances.

Annual per capita GDP in Ukraine, based on different calculations, now amounts to \$350-\$617, which is less than half than the same indicator for Bulgaria, the poorest among the Central and Eastern European countries - associate members of the EU. The GDP level of the "glorious" year of 1990 can be renewed no earlier than in 2008-2010, under conditions of achieving an economic growth rate of no less than 6-7% annually. So, if that's the case, what, then, can we talk about?

It then becomes clear, that over the next decade, Ukraine possesses the prospects of either developing according to the example of Central and Eastern European countries (accelerated economic reform on the basis of European standards, democratisation of social relations, promotion of economic growth with the help of tax regulators and fiscal policy, and the application of European legislative norms), or according to the so-called Latin-American model, whereby a country usually makes several attempts at transforming society on the basis of a market economy and political democracy, although these attempts only partly achieve their goal, and are broken off when regimes of a populist, oligarchic-authoritarian nature, come to power.

In the first case, relations between Ukraine and the EU will become activated and have clearer prospects. In the second case, they would become "frozen", or even curtailed in the spirit of establishing "new dividing lines" in the post-bipolar Europe.

Of course, another factor to be considered is the state of affairs inside the EU itself after the introduction of the non-cash Euro, and the next phase of enlargement. If the subsequent transformations within the EU take place without complications, the EU's role in Europe, including Eastern Europe and the Black Sea region, will become stronger. Such a development of events will lead to the strengthening of the EU's direct influence on Ukraine and the internal processes in our country. If the transformations within the expanded EU will be of a more complex character, this will lead to a more clearly introverted strategic orientation of this integrational community, and will limit the activity of the EU in neighbouring sub-regions.

Ihor Burakovsky. The main obstacle to Ukraine's integration into the EU is the absence of a broad consensus regarding the European choice. For example, although the President has defined integration into the EU as a strategic priority in Ukraine's policy at the level of state institutions (Parliament, ministries and agencies), the



problems of the integration process have not only different interpretations, but in many instances, are not yet being seriously discussed.

Separate mention should be made of the situation that today, there is no more or less clearly defined position with respect to co-operation between Ukraine and the EU among Ukrainian businessmen. It is evidently possible to discuss the absence of influential political forces and business circles in Ukraine that seriously identify their future namely with the EU. The basis for such a consensus should become the understanding that the road into Europe lies through the choice of a concrete model of socio-economic and political development. Such a model is convenient, above all, for Ukraine, and is not implemented under European pressure (or imposed by the EU).



In purely technical terms, the declaration of the goal to integrate into the EU means that the regulatory basis of industrial and business activity should be built on the principles similar to those that have been introduced within the European Union. In other words, today, Ukraine and the EU possess economic mechanisms that are in many ways incompatible, which complicates the development of co-operation. This problem is, to a large extent, conditioned by a deficit of specialists on integrational processes in general, and European integration, in particular. Therefore, there is no proper training of public servants, who would have the necessary "European" qualification.

PRIORITY MEASURES FOR ACCELERATING UKRAINE'S INTEGRATION INTO THE EU

Andriy Fialko. There is no need here to reinvent the wheel, there is only a need to fulfil undertaken commitments. Neither more, nor less. And this, as it turns out, is always the most

problematic. We have the Partnership and Co-operation Agreement with the EU, which contains very concrete obligations. We have the internal documents, above all, the Decree of the President of Ukraine from June 11, 1998, on the approval of the Strategy of Ukraine's integration into the EU, where it is clearly stated what needs to be done, by whom and when. We only have to accomplish the decisions that were adopted. The goal is in place, as well as the mechanisms for its achievement. Unfortunately, at this time, the only thing missing is serious results.

Ihor Ostash. The process of accelerating integration into the EU needs to begin from the point of realising the Partnership and Co-operation Agreement. In general, for purposes of full integration into the EU, Ukraine needs to pass through two stages: the free trade agreement, and associate membership. The PCA, among other things, envisages a number of conditions that Ukraine must fulfil in order to begin negotiations regarding the free trade agreement. Foremost, this relates to Ukraine strengthening the protection of intellectual property rights (for which the necessary legislation needs to be adopted, as well as becoming party to the necessary international agreements), liberalising foreign trade, and bringing Ukraine's legislation in line with the EU legislation in general.

It is worth noting that the Verkhovna Rada of Ukraine and the Committee of foreign affairs are taking definite steps for introducing the above-mentioned measures. In particular, a draft resolution was submitted to the Verkhovna Rada for review, which provides for the adoption of the programme for harmonising Ukraine's legislation with that of the EU, and the creation of a Commission on issues of European integration, which will be charged with the task of verifying the legislation of Ukraine regarding the extent to which it corresponds to the EU legislation.

Furthermore, it is necessary to strengthen co-ordination between the branches of power, and carry out the co-ordinated policy of integration into European structures. This involves the creation of a National Committee on Issues of European Integration, which would be headed by one of the Government's leaders.

Viktor Mashtabey. In the first place, it is necessary to intensify the full-scale work within the country regarding the fulfilment of undertaken obligations with respect to the PCA and the Strategy of Ukraine's integration into the EU. The Programme of action of the new Government, together with the realisation of the Strategy of Ukraine's integration into the EU, should provide real impetus to Ukraine's movement along its chosen European path.

Secondly, today, the financial factor of the movement toward European integration is



obviously becoming more important. The understanding is natural, that in order for the soonest possible implementation of economic reforms to come about in Ukraine, the country needs financial support from international financial institutions and the largest donor countries. The process of shifting the country to the norms and standards of the highly developed European society, being organically related to economic reforms, still remains without the necessary financial support. At present, the issue is to provide a special item in the state budget of Ukraine, whereby internal financial resources are accumulated (together with technical assistance, donor contributions, and other forms of international assistance), which would be directed toward fulfilling the measures of bringing the country in line with EU norms and standards.

Furthermore, the intensification of relations between Ukraine and the EU, which had taken place over the last two years, and the expansion of co-operation in connection with the realisation of the EU Common Strategy on Ukraine, also demonstrate the urgency of bringing the organisational component of the preparation for European integration in line with present-day demands. Ministries and agencies need a clear structuring of administrative bodies (departments), which would work exclusively on the problems related to Ukraine's integration into the EU. It is perhaps worth forming a separate structural sub-division under the aegis of the Cabinet of Ministers of Ukraine, which would implement the inter-branch co-ordination of co-operation between Ukraine and the EU. Together with this, it is necessary to clearly define the roles and functions of the structures formed within the PCA framework, and in particular, work out the means for increasing their effectiveness.

Thus, the idea is for the country's preparation for European integration to be carried out comprehensively, and in terms of an integrated system in which each element performs its clearly defined function. It is only in this manner that we can make this mechanism work to its fullest capacity.

Serhiy Tolstov. Within this context, the issue should primarily concern not measures, but rather the general model for the development of the state and society. These measures are relatively transparent and well known:

1. The creation of favourable conditions for economic development and accelerated (post-industrial) modernisation of the economy and society.

2. The introduction of market relations, the formation of the necessary property relations in all economic spheres, without exception.

3. A general review of economic and civil legislation, and the introduction of European legal standards.

4. The strengthening of the foundations of a political democracy and civilian control over power structures, and defeating corruption.

If it is necessary to define the priorities, the acceleration of economic development, tax and budget reforms, joining the WTO, and the fulfilment of Ukraine's obligations before the Council of Europe, are the most important.

The project of transporting Caspian oil along the Georgia - Ukraine - Poland route, which could attract European capital, might be of great significance.

Nevertheless, taking into consideration the specific character of European and world processes, I am convinced that the path of Ukraine's European integration lies through its deep integration into the Euro-Atlantic community beforehand, including NATO, the Euro-Atlantic Partnership Council, the "Partnership for Peace" programme, and the EU/WEU. This path toward the EU was taken by Greece, Poland, the Czech Republic, and Hungary. Turkey is going down this path, also.

Ukraine's participation in the Euro-Atlantic community will probably have an important positive effect, since it rules out senseless divergences with no future from the model of development and integrational orientation declared at the highest level of Ukraine's executive branch. With respect to a certain degree of limited sovereignty, characteristic of countries participating in European and Euro-Atlantic structures, it is doubtful whether we have anything to lose. In the first place, no one in Europe is forcing the members of NATO and the EU to give up their national interests. On the other hand, in '60s - '70s, it was NATO and the EU that played an important role in the democratisation and economic revival of Greece, Portugal and Spain, helping them to overcome the heritage of dictatorial regimes and prolonged economic isolation. It is unlikely that Ukraine will lose anything. In the '90s, the country has enjoyed sufficient sovereignty, but could not achieve decent European standards. Political and military-political accession to the community of developed democracies could become an essential factor of internal transformation for the achievement of European integration criteria.

Ihor Burakovsky. Priority measures lie in the area of large-scale economic transformation. Stable economic growth is the best way for Ukraine to integrate into the EU. We can hardly expect a serious attitude from the EU to a country whose prospects of development remain uncertain and undefined. That is why it is so important for Ukraine to back the declaration of its European choice with real positive arguments.

One such argument should be the completion of the negotiation process concerning the

entry of Ukraine into the World Trade Organisation, carrying out well thought-out and effective tax reform, securing the observance of current legislation (it is namely in this area that Ukraine is experiencing the greatest difficulties).

The recognition of Ukraine as a country with a market economy would provide a strong impetus toward the development of relations with the European Union.



In summing up the results of the panel discussion, it can be stated that its participants assess the present state of relations between Ukraine and the European Union with cautious optimism. Such noticeable restraint in assessments is conditioned by today's realities.

In their opinion, the current relations between the EU and Ukraine can be defined as a wait-and-see period. The EU realises Ukraine's non-compliance with the integration criteria, and takes a reserved position concerning Ukraine, waiting for some kind of noticeable economic successes.

With respect to the factors that impede Ukraine's movement toward Europe, the round

table participants highlight a number of internal problems. Foremost, this applies to the sluggishness in carrying out economic reforms, and the absence of noticeable results of internal socio-economic transformations. In the absence of this, experts emphasise that EU membership will remain an unattainable dream. Secondly, the high level of corruption and economic crime is alarming. Ukraine has an evil reputation of one of the most corrupt European countries. Thirdly, they emphasise the discrepancy between our legislation, and the standards and norms extant in the European Union. Fourth: in the opinion of most of the round table participants, a serious obstacle to Ukraine's integration into the EU is the absence of a consensus regarding the European choice, among the population, and state institutions (Parliament, ministries and agencies). At the same time, there are no influential political and business circles in Ukraine which seriously associate their future with the European Union. Fifth: experts point to the evident deficit of experienced specialists on European integration, above all, among Ukraine's political elite and state officials.

Experts define a set of measures designed to accelerate Ukraine's integration into the EU: the creation of favourable conditions for economic progress; modernisation of the economy and society; implementation of market relations, tax and budget reforms. At the same time, they speak of the need to consolidate the foundations of political democracy, strengthen the struggle against corruption, improve protection of intellectual property rights, and implement European legal standards.

Among the important conditions of Ukraine drawing closer to the EU, they named joining the WTO, and the full performance of the obligations taken within the framework of the PCA and the Strategy of Ukraine's integration into the EU.

Experts drew attention to the need for strengthening co-ordination between the branches of power and carrying out the co-ordinated policy of integration into European structures. They emphasised that ministries and agencies should clearly structure the departments that would deal only with the problems of Ukraine's integration into the EU. It was proposed to establish a National Committee on European Integration.

The experts' proposition to strengthen the financial component of Ukraine's European integration deserves attention. What is meant is a separate item in Ukraine's state budget (which would accumulate internal financial resources, donations, and other international assistance) for adapting internal regulations to EU norms and standards.

UCEPS experts are grateful to the representatives of Government structures, independent experts and scholars, who took part in the discussion of the issue of Ukraine's co-operation with the European Union.

EXPANSION OF THE EUROPEAN UNION EASTWARD: CONSEQUENCES FOR UKRAINE



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The beginning of official negotiations between the EU and the first wave of countries applying for membership¹ in this most powerful integration union in the world, and the determination of contenders for the second wave of membership², have placed complex problems before Ukraine. What will the economic and political consequences of EU enlargement to the east be? How will this influence the prospects for Ukraine's European direction of development? Will the selective process of enlargement to the east not lead to a new economic division of Europe, and the construction of a veritable economic barrier on Ukraine's western borders? These questions are well-founded, given that the Common Strategy of the European Union toward Ukraine, actually denied Ukraine pretensions for rapid integration into the structure of the EU, despite all the diplomatic gestures contained in its language. For the foreseeable future, Ukraine will have to resolve far less ambitious issues — achieving membership in the World Trade Organisation (WTO), and fulfilling all the obligations appropriated according to the Agreement on Partnership and Co-operation of Ukraine with the EU and its member-states. Only then will it become possible to begin negotiations on the creation of a free trade zone, and Ukraine's admission as an associate member of the European Union.

Clearly, it is very difficult today to provide exact and detailed answers to all of the questions posed. One can only make an approximate assessment, and mostly with respect to the direct, short-term factors of this process. Even a perfunctory analysis of this problem indicates that we will have to deal with a rather complex process which combines both positive and negative aspects for Ukraine.

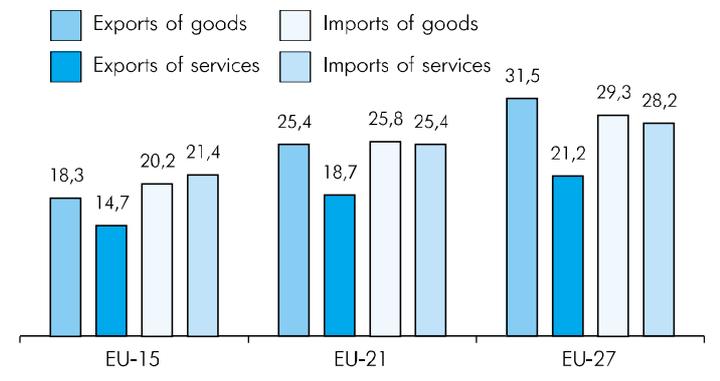
The positive influence of EU enlargement to the east lies, above all, in that it will definitely lead to a substantial strengthening and increasing the trade potential between Ukraine and the EU (see Diagram).

Calculations demonstrate that after the first wave of EU enlargement, the share of its member-states in Ukraine's foreign trade would grow by 38.8% for the exports of goods, while for the exports of services, the figure would be 27.2%. For imports, the figures would be 27.7% and 18.7%, respectively. The second wave of enlargement might increase the share of the EU in Ukrainian exports of goods by another 24%, while for services, the figure would be 13.4%; with respect to imports, this additional increase would amount to 13.6% and 11%, respectively. In general, as a result of the enlargement, the EU goods market has all chances of becoming Ukraine's main market, while the market of the CIS countries will take the second place.

¹ This group includes Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia.

² The second wave is comprised of Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia.

Share of present and potential EU member-states in Ukraine's foreign trade³, %



However, the effect of the enlargement on the services market will be significantly smaller⁴.

Second, the implementation of a single trade regime in the new EU member-states will lead, in most instances⁵, to a lowering of import tariffs for the new EU members, since the latter should introduce a single European customs tariff rate in their countries. In addition, these countries will introduce the current EU General System of Preferences. The overall results will be improved



conditions for the entry of Ukrainian exporters into the markets of the new EU members.

Third, EU enlargement will lead to introduction in the new EU member-states of more developed institutions of market regulation which will result in an increase in trade. Inclusion of those countries into the system of European Law will, without a doubt, ease conditions for the commercial activity of Ukrainian exporters and importers on their markets, decrease expenditures on implementing foreign trade agreements and, therefore, increase competitiveness of domestic goods. On the other hand, the introduction of a better defined system of regulation can lead to a partial decrease in smuggling, illegal migration⁶, and other shadow activities, which would have a definite positive influence on Ukraine's state budget.

Fourth, the enlargement of the EU along with a single currency system would lead to the increase in the use of the Euro in Ukraine's foreign economic relations and, therefore, to a partial weakening of the one-sided dependence of Ukraine's Hryvnia on the U.S. dollar. A more active use of the Euro (focusing on that currency when deciding exchange rate policy) can become the factor that ensures greater predictability in Ukraine's currency policy, and a decrease in currency risks for Ukrainian companies that trade with EU countries. Also, this would be a clear sign of Ukraine's greater orientation toward the norms and requirements of the EU.

Fifth, given the tighter political ties between Ukraine and its neighbours⁷, as compared with the majority of present-day EU members, Ukraine can achieve greater influence over the process of approving EU decisions that are advantageous to it. This applies, in particular, to the assessment of Ukraine's fulfilment of the obligations it has taken upon itself under the Agreement on Partnership and Co-operation, and its easier access to European funds.

At the same time, enlargement of the European Union to the east will also have certain

³ The Diagram is based on Ukrainian foreign trade data for 1999, and does not take into account the future creation of additional possibilities for trade with the EU and the overall tendencies over the last years toward increasing the share of current EU members and decreasing the CIS share and, to some extent, the countries of Central and Eastern Europe in Ukraine's trade.

⁴ This is connected with the dominant position of the export of transport services to Russia which comprises 60% of all exports of services.

⁵ Such a positive effect is clear, particularly with respect to Poland where through agreements reached at the Uruguay round of negotiations within the GATT framework, an average import tariff of 9.9% was implemented at the time when the average rate for the EU should not exceed 6.6%, even with the system of agricultural protectionism measures taken into account. There will be, however, virtually no positive effect from the lowering of tariffs in trade with the Czech Republic and Slovakia since, even without this, they have low import tariffs. Trade with, say, Estonia, will have the opposite effect, whereby the import regime can become significantly tougher, besides, since Estonia had introduced an unusually liberal national import regime with a 0.5% customs duty level, and its membership in the EU can mean that its agreement on free trade with Ukraine may lose its validity.

⁶ The last is mostly related to requirement to candidates for EU membership to introduce visa regimes in their countries with respect to non-member states (which is a necessary precondition for their participation in the Schengen Agreement on unrestricted movement of citizens within the European Union, and the introduction of European standards for labour force regulation).

⁷ Poland can play a special role in this instance, as one of Ukraine's true, rather than declarative, strategic partners.



negative effects for Ukraine's economy. Among them, the following ones can be expected.

❖ With the admission of new EU members, **EU regulatory norms with respect to individual "sensitive" sectors of the economy will apply to them:** metallurgy, the textiles industry, where at present, quantitative limitations (quotas) are in use, and the agricultural sector, with its developed arsenal of protective measures and collective subsidising. Therefore, **increasing the level of non-tariff protectionism** will have its definite effect. However, the influence of these measures on Ukraine's economy will be limited due to the following reasons: (a) the general tendency toward the liberalisation of import regulations in the EU as a result of measures within the framework of the WTO, including with respect to the agricultural sector; (b) the tendency toward the greater application of current European quotas with the prospects of having a significantly more liberalised regime for the trade of metals and textiles on the EU market as early as 2002.

❖ **The admission of new EU members can increase their competitiveness in comparison to Ukrainian suppliers to separate EU markets,** such as the metals market (Poland, Slovakia), textiles (virtually all contender countries), agricultural production (Hungary), foodstuffs (Poland, Hungary, Bulgaria), beverages (virtually all contender countries). Furthermore, given the high rates of restructuring the machine-building sector in Poland, Hungary, the Czech Republic, and Slovenia, **the prospects for Ukraine entering the corresponding EU markets can worsen significantly,** if no measures are taken to establish cooperation with new EU member-states.



❖ **With the entry of new members into the EU, a single system of European technical standards and consumer safety standards will come into place in these countries. This, without a doubt, will complicate the supply of machinery, equipment, any high-tech products, including components for joint assembling, from Ukraine to the indicated markets.**

❖ EU membership will also mean that the anti-dumping rules and practices will be introduced in the new member-states, which (under conditions of the retention of Ukraine's present status of a non-market economy) would mean **the greater application of anti-dumping proceedings and restrictions to Ukraine.**

❖ **The introduction of visa regimes in contender countries with respect to Ukraine's citizens (and, respectively, the introduction of a visa regime on the part of Ukraine) can limit the number of private business trips between countries, and increase expenditures for implementing foreign economic agreements, which can negatively impact the volumes of mutual trade and investments.** At the same time, Ukrainian export with its present structure is unlikely to suffer significantly, since Ukraine has been concentrated on those positions which make up, using the Ukrainian terminology, the critical imports of our foreign partners⁸. Meanwhile, the competitiveness of companies from contender countries on the Ukrainian market can become, to a large extent, weakened, since their significant share is taken up by relatively inexpensive (as compared with Western European) consumer goods. Thus, **the existing deficit of trade with Ukraine for our Central European partners can increase.** But this will, evidently, also do injury to Ukrainian small business which is active in the area of import trade, and with this, also creates a significant number of jobs.

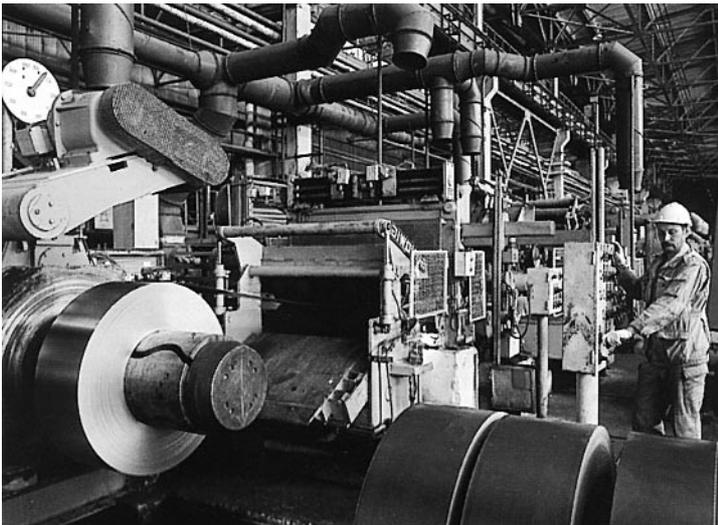
❖ With their entry into the EU, new member-states will take on the obligations of granting privileges to developing countries according to the General System of Preferences effective within the European Union. That is, developing countries will gain greater access to these markets, which will improve their competitive positions. Considering that such privileges will be higher than Ukraine can take advantage of, in the end, **this can lead to the weakening of the competitive positions of Ukrainian suppliers.**

❖ The membership of the new members in the EU, and the related liberalisation of their investment regimes, will make them more attrac-

⁸ In 1999, in Ukraine's exports into Poland, iron ores and concentrates made up 28.1%, 9.6% fell on gas and gaseous hydrocarbons, 6% — electricity (these three export items accounted for 43.7% of total commodity exports); in exports to Hungary, 16.1% fell on crude aluminium, 11.1% — electricity, 9.2% — timber (three items accounted for 36.4% of total commodity exports); in exports to the Czech Republic, 43.3% were iron ores and concentrates.

tive for foreign investors, and lead to the reorientation of foreign direct investments, from Ukraine to new EU members.

Ukraine's trade volumes with present-day contenders for EU membership have lately shown a tendency to decrease. This should be taken into consideration when planning new mechanisms which could potentially limit mutual trade, as well as when evaluating the possible positive consequences of EU expansion. For instance, in 1999 alone, as compared to the previous year, Ukraine's exports to Estonia decreased by 11.1%, to Poland — by 3.7%, to Slovenia — by 25.1%, to the Czech Republic — by 17.5 %, while the same indicators for imports were 38.9%, 46.8%, 38% and 37.1%, respectively. To this should be added that imports from Hungary decreased by 36.2%. The significant asymmetry in the trade decrease points to the fact that **the positions of the countries of Central and Eastern Europe on the Ukrainian market are far more vulnerable than Ukraine's positions on the markets of Central and Eastern European countries.**



The more long-term consequences of the EU's eastward expansion will depend on a number of important factors whose impact is hard to predict today. The following issues are the most significant in this respect.

❖ *Will the enlargement process be successful, and will it be possible to avoid the negative effects of this process for the EU?* Clearly, serious complications will have an apparent negative influence not only on Ukraine's prospects for EU membership, but also on its possibilities to utilise European funds and credit lines for financing structural reforms. Ukraine can be kind of pushed aside by the EU's new members, who will "eat up" the greater share of EU funds that are meant to accomplish the goals of structural adaptation and regional development.

❖ *What kind of structural evolution will the economies of the new EU members see, and in what areas will these countries be able to increase their competitiveness?* In the event of an increased pace in the development of high-tech branches and industries, new possibilities appear for deepening co-operation between them and Ukraine, with the active reliance on the advantages of intra-branch co-operation.

❖ *What model for future mutual relations will the EU propose to Ukraine for what will clearly be a long period until Ukraine acquires EU membership?* If the discussion concerns only a free trade zone, this will evidently have a limited (and not always positive) influence on Ukraine's economy. The positive effect will be far greater if Ukraine is involved in European sectoral co-operation projects, including in science-intensive branches.

❖ *What will be the new geo-economic and geopolitical balance of power on the European continent after plans of EU expansion are implemented?* The discussion here mostly concerns the relations along the line of "enlarged EU - Russia". This will have a very large influence on Ukraine, in terms of both its foreign economic policy and foreign policy in general.

But the main factor with respect to the long-term consequences of EU eastward expansion for Ukraine will be its own ability to transform its economic relations with the EU and to raise them to a qualitatively new level — with a change from partnership and co-operation to an actual participation in the process of European integration. This, however, directly depends on Ukraine's success in reforming its economy based on market principles.

EASTERN EUROPE REFORMS: WHY THE OUTCOMES HAVE DIFFERED SO SHARPLY?



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It has been 10 years since the *annus mirabilis* of 1989, when the Berlin Wall came down and millions of people throughout Eastern Europe celebrated their freedom from Communist rule. It has been eight years since throngs defended Boris Yeltsin atop a tank outside the Russian Parliament to win Russia's freedom from authoritarian rule.

There have been great triumphs in the intervening years, such as Poland's stunning economic growth and vibrant democracy, but bitter disappointments as well spiraling economic decline in much of the former Soviet Union, war in the Balkans and the Caucasus, rampant Russian corruption, and now terrorism in Moscow.

A decade later, important questions are being asked: Could things have gone better, and how? Was the economic reform strategy flawed, perhaps by pushing capitalism too hard and too fast, as critics of my own views have repeatedly charged? Did the Clinton administration turn a blind eye to Russian corruption? Was foreign aid too much — the proverbial money down a rat hole — or too little, or perhaps poorly timed and improperly allocated?

It is good that we ask these questions: few events in the world will effect us more than the

success or failure of democracy and economic reform in Russia and its neighbors.

A recent report of the United Nations Development Programme (UNDP), "Transition 1999: Human Development Report for Europe and the CIS", puts much of the responsibility on the economic reform strategy: too much too fast in introducing capitalism, when gradual and sequential steps were needed. The results, says the report, were economic collapse coupled with social disaster, such as rising mortality and sharp declines in life expectancy, especially of middle-aged men caught in the economic turmoil.

I read the report with great interest. On the one hand, I might well have been flattered, since it points out that Poland and Slovenia, two governments that I intensively advise, have recouped their lost output and appear to have laid the foundations for a prosperous future. Similarly, the Czech Republic, Hungary, and the Baltic states, have made noticeable progress toward creating dynamic and efficient economies.

On the other hand, the report raises sharp questions about the strategy and outcomes of reforms in Russia, where I served as economic adviser during 1992-1993, and other parts of the former Soviet Union.



As useful as the UNDP report is in drawing our attention to the deep social and health crisis gripping Russia and many of its neighbors, it is deeply flawed in its economic and historical analysis. It charges that overly rapid economic reforms are to blame for the region's crisis, while failing to note that it is precisely the countries that made the fastest transition to capitalism — Poland, Slovenia, Estonia, Hungary at the very top of the list — that are the greatest successes.



The real issue about the region is quite different, and much more fascinating than the UNDP Report realizes. Why is it that economic, social, and political outcomes have differed so sharply among the post-Communist countries, even though they all professed the same aims of democratic and market reforms, and even — rhetorically at least — the same general strategy?

Countries closest to Western Europe have largely succeeded in economic change and democratic consolidation. These countries have also enjoyed continued increases in life expectancy, nutrition, and other social indicators. The Balkans, farther away and divided from Western Europe by a mountain range and by history (including centuries of Ottoman rule), have faced much more turmoil. The Baltic states — close to Europe and the last to be gobbled up by the Soviet empire in 1939 — have made the fastest reform and recovery among the former Soviet republics. Russia, Ukraine, and Central Asia have been caught in by far the deepest and still spiraling crisis. **Evidently, geography at least as much as economic strategy has shaped the first decade after Communism.**

How does geography keep such a powerful hold even in our supposedly globalized economy? Some links are powerfully direct. When

Germany's *Volkswagen* wants to tap into the low wages of Eastern Europe, it sets up factories or new suppliers next door — in Poland or the Czech Republic — rather than thousands of miles away in Russia or Central Asia. Small traders cross between Poland and Germany by the millions, helping to create Poland's dynamic small-enterprise sector. They cross the same way from Estonia to Finland, one hour by ferry, or from Vienna, Austria, to Bratislava, Slovakia, a 40-minute ride. This shuttling, to be sure, is much reduced for Romania or Bulgaria, not to mention Russia or Tajikistan.

Proximity to Western Europe induces better policies as well. Yes, both Poland and Russia declared rapid and broad-based economic reforms, but only Poland carried them out (it was Russia's failure to reform, as well as the West's failure to help, that prompted me to resign as Russia's advisor in January 1994).

Poland's burgeoning private sector, bolstered by its proximity to Germany, helped to keep the Polish Government focused on key reforms. Foreign investors weighed in as well. And the great prizes for Poland — membership in NATO and the European Union — prompted a seriousness, speed, and transparency of reforms. These inducements have been much weaker or nonexistent the farther east one goes.

Unwisely, NATO and the EU kept the Balkan states out of contention for early membership, claiming that they were not ready. This became a self-fulfilling prophecy, since it reduced the economic and political incentives for difficult reform measures in those countries.

Proximity also was linked to Western assistance in reforms. Poland received important help, such as a cancellation of half of its foreign debts, and a crucial \$1 billion stabilization fund for its currency on January 1, 1990, the first day of its reform programme.

Russia received no such help. Indeed, the first contact between the Bush administration and the Russian Government in late 1991 was to admonish the Russians to continue paying their foreign debts, at all costs!

Poland, next door to Western Europe, and with millions of Polish-Americans in the United States, was close to our minds, hearts, and even to our politics. Russia was much further away, still viewed by many Americans as the enemy to watch with wariness, not the victim of history in need of an urgent helping hand.

This last point may sound odd in view of the popular perception that we've given billions of dollars to Russia, much of it returned to our banks as capital flight! It's true that we urged



the International Monetary Fund to lend Russia billions of dollars, but these have been loans at market interest rates, not grants or debt cancellation as in the case of Poland. And in any



event, the IMF help arrived in Russia in large amounts only after 1994, after most of the reformers had been pushed from office.

One could speculate on a long list of other geography-linked factors: the length of time under Socialism (longest in Russia, shortest in Central Europe and the Balkans); the legacies of Ottoman and czarist rule; the religious divides between Western Christianity, Orthodox Christianity, and Islam; the past experience with multi-party rule (nonexistent in Russia and other parts of the Russian empire). Such factors may condition events, though they are rarely deterministic, as many historical reversals have shown.

For some combination of these reasons, a new political and economic divide has replaced the Iron Curtain. The westernmost states — from the Baltics to Poland, Hungary, the Czech Republic, Slovakia, Slovenia, and Croatia — are now lined up for EU membership and pro-

tection in the Western security alliance. The Balkans remain in limbo, with countries such as Bulgaria and Romania desperate for admission to the Western club, and Serbia condemning all to turmoil. To the east, alas, we have large areas of continued chaos and decline: corruption, health crisis, border conflicts, and violence.

Geography has conditioned events, but surely is not deterministic. Even now, a handful of countries in the East are seeing a nascent recovery, however fragile. Armenia, Georgia and Kyrgyzstan have achieved some notable economic recovery since 1996, after vertiginous declines in the early years. But Russia and Ukraine have seen no such turnaround, and their crises, arguably, are continuing to deepen.

If, with some luck, there will be honest and competent political leadership in Russia and Ukraine in the years ahead (following their presidential elections), the West may have one final chance to help. These countries need help in introducing new technologies, in business reorganization, in forging strategic partnerships between Western and Russian enterprises, and the Russian Government needs deep and real relief on its debts, not another IMF loan package.

The West is hardly immune to the continuing instability in the East. We could easily be dragged into corruption, violence, or worse. Time alone will not solve the problems, nor will further IMF missions. Bringing the Eastern transition economies, especially Russia, into the world political and economic order in a stable and beneficial way will be one of the great challenges facing America and Europe in the years ahead.

Both Presidents Bush and Clinton largely ducked the challenge, fearing that the American people would not pick up the tab. The American people should insist that the next president finally gets to work on this task.



MACRO ASSESSMENT OF UKRAINE'S ECONOMIC PROBLEMS



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Mankind is already coming to the understanding that the main goal of economic and social changes is to achieve higher living standards for the population, and to provide for stable, democratic development based on the principles of fairness.

SEARCH FOR THE OPTIMAL DEVELOPMENT MODEL

In no way can a market economy be in line with this principle, as the former is objectively accompanied by crises of overproduction, mass bankruptcies, depression, unemployment, and social conflicts. It is namely for this reason that absolutely all countries combine market relations with state regulation, planning, and forecasting of the economy, since only then is it possible to ensure national security, and guarantee social protection.

As early as 1992, a UN conference held in Rio-de-Janeiro at the level of the heads of states and governments¹ came to two basic conclusions:

1) regarding the impossibility of mankind developing within the framework of a market system, whose driving force is private ownership, as the latter is based on the drive toward the steady growth of consumption, and leads to a sharp polarisation in standards of living, which means that it gives rise to new, and sharpens existing, social conflicts;

2) regarding the need for a new, balanced model of socio-economic development which should be based, among other things, on the foundation of centralised, state regulation at the individual country level, and world co-operation in general, as well as on the priority of society's interests, and not those of individual enterprises.

In our view, it is namely in this direction that a search for a model for Ukraine's socio-economic development should be undertaken. Unfortunately, the conditions for the changeover from the previous command economy to market reconstruction have often been used (and are still used) by Ukraine's ruling elite for their own enrichment. This was done through criminal privatisation, the stealing of budget funds and savings amassed by enterprises and the population, by way of exploiting the country's own people, the parasitism of intermediaries upon the labour of producers, and the export of capital from the country. That's why Ukraine's present-day economic system is the consequence of an ideology that was vicious from the beginning, and laid down by our domestic reformers. Many experts

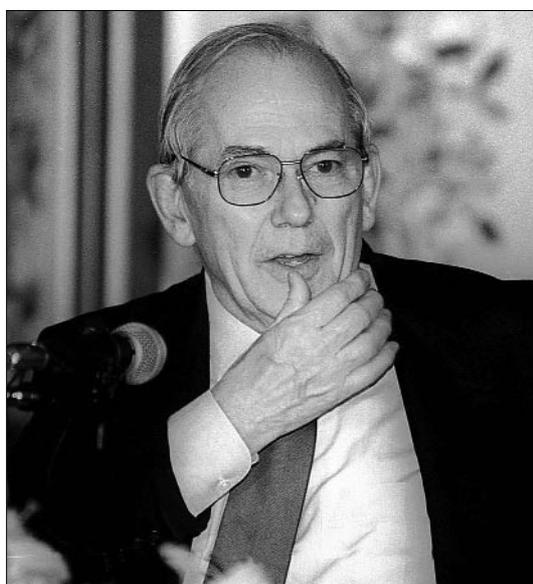
¹ UN Conference on the Environment and Development. Rio-de-Janeiro, June 3-14, 1992. — New York: UN, 1992, p.36-42.



warned of the possible negative consequences of such a policy, having evaluated the Programme of economic reforms drawn after IMF formulas, which was delivered to Ukraine in Spring of 1991.

IMF POLICY AND ITS CONSEQUENCES

The essence of the Programme proposed by the IMF came down to that international finance organisation credits can be offered to the Government of Ukraine under the following conditions: (1) the liberalisation of prices, foreign trade, and the export of capital; (2) the introduction of a national currency, and ensuring its free exchange rate; (3) macroeconomic stabilisation,



meaning decreasing and, later, paying off the budget deficit by decreasing budget support for separate branches of the economy, and social programmes; (4) the privatisation of apartments, enterprises, and land. These IMF requirements are standard for all borrower countries.

The consequences of their implementation (in virtually all countries) were: the fall in material production volumes, the growth in financial speculation, pumping enterprise turnover capital and investments out of the real economy and into the financial sector, the enrichment of a narrow circle of individuals through the creation of financial pyramids, the implementation of illegal schemes for the export of raw materials, goods, and capital resources.

The IMF initiated reforms, disturbing the fundamentals of democracy and social justice,

stimulating the development of an oligarch system and the growth in organised crime. It introduced the term of the Gross Criminal Product (GCP), alongside the Gross Domestic Product (GDP) indicator. According to IMF data, in 1996, the former stood at around \$500 billion². Today, the volumes of "dirty money" are so huge, that they are already posing a threat not only to the economies of other countries, but also to the stability of the international financial system in general.

MEMORANDUM TO MANKIND: THE FOUNDATIONS FOR THE POLICY OF PARTNERSHIP

In December of 1995, an international conference took place in Eltville at the initiative of the Schiller International Institute. World economic problems were evaluated by nearly 400 participants from 32 countries, including Austria, Bulgaria, China, Egypt, France, Germany, Italy, Nigeria, Poland, Russia, Sweden, Ukraine, the United States, and others. Delegates came to the general conclusion that the world stands threatened by the collapse of the international currency system. This is what the implementation of the IMF and World Bank policies is leading to.

The Memorandum to Mankind was worked out at our initiative and approved virtually unanimously³ by the conference.

The Memorandum pointed out that in the majority of countries' governments were devoid of any real power and became puppets in the hands of transnational financial groups and raw materials corporations. Those giants manipulate millions of people through mass media by first calling these nations "democratic" with unlimited freedom of trade, and then (having robbed these countries) installing colonial dictatorial regime in order to maintain their proteges in power. The Memorandum confirmed that mankind's true progress can be guaranteed by a radically new policy of sovereign states based on the following principles:

- ❖ declaring international financial institutions bankrupt, and creating the new world financial and credit systems for the revival of the productive economy based on the partnership of sovereign states;

- ❖ declaring state governments and central banks solely responsible for the emission of national currencies and issuing long-term credits

² See: Suetin A. Money Laundering is a Threat to the World Community. — *Voprosy Ekonomiki*, 1999, No.12, pp.110-119.

³ Of 397 delegates, only three were against — the representatives from Italy and Yugoslavia.

for the regulation of banking systems, the financing of production, and infrastructure development, based on national economic priorities;

- ❖ admission of the lead role of the state in determining economic strategies in line with its obligation to ensure the social protection of the population;

- ❖ developing economic competitiveness on the basis of constitutionally guaranteed equality of different forms of ownership, with the support of private initiative, that proved its effectiveness in increasing labour productivity and wellbeing of the population, while retaining public control over power and water supply, and the development of principal transportation systems;

- ❖ stimulating the physical (that is, natural) productivity of national economies through a flexible system of tax and customs regulators, ensuring the development of industry and infrastructure, the creation of a new type of international economic collaboration based on production and technological co-operation and partnership principles;

- ❖ introducing a differentiated system of land use by taking into account the priority of state interests in land policy, with support of effective private agricultural enterprises;

- ❖ attraction of large-scale investments in international projects of infrastructure development, including transport, power engineering and communications, which will change the world in line with the rights of people to life and the growth of living standards;

- ❖ state support for the development of fundamental science and advanced technologies, stimulating international co-operation, in particular, joint space programmes;

- ❖ creating new systems of social education based on learning the legacy of national and world cultures;

- ❖ co-operation between world monotheistic religions in the name of strengthening morals, peaceful life and development, the active participation in economic, political, and cultural activities of states.

The preconditions for a policy of partnership based on equal rights are a constitutional parliamentary system, the protection of inalienable human rights and freedoms, recognition of the responsibilities of governments for the strengthening of national economies and ensuring a worthy standard of living for the people.

THE CORRIDORS OF DEVELOPMENT AS A PATH TOWARD CO-OPERATION

The Memorandum emphasises the need for large-scale investments in infrastructure development. The well-known American economist Lyndon LaRouche worked out projects of so-called "corridors of development"⁴. This idea is literally up in the air. For instance, in 1994, at a conference in Casablanca, the World Bank proposed an energy project for the construction of gas lines which would unite eight Mediterranean countries who were the initiators of the project — from Egypt to Italy. The project envisaged the pooling of funds from those countries and World



Bank credits. It was planned to develop an infrastructure around the gas line, as the foundation for the development of each of the project's participant countries own production capacities. Half a year later, at a conference in Morocco, when it was necessary to approve the prepared project, the World Bank backed away. Evidently, its directors came to the conclusion that the project will reach break-even point only after years have gone by, and won't bring a quick return, while the participant countries will become economically stronger, and therefore less dependent on international credits. The end result was that the World Bank refused to finance the project, and everything ended in small loans to the energy suppliers of those countries.

Provided the ideas of LaRouche and the Schiller Institute directed by him are turned into reality, and world financial resources are unified for the creation of the "corridors of development", economically developed countries could truly help weaker states. Foremost, that assistance refers to the development of power engineering, infrastructure, and routes of communi-

⁴ The Eurasian Land Bridge. The "New Silk Road" — Locomotive for World-Wide Economic Development. — Executive Intelligence Review, January, 1997, 290p.



cations. It is namely this that proves the most costly and out-of-reach for weak countries. And later, each country could strengthen its economy and orient itself toward the world market. In order to achieve this, it is completely unnecessary to dictate to a government what kind of enterprise to create, which one to close down, by how many people to cut, as the IMF and World Bank do today. Governments themselves have the right to determine economic strategy without damage to the population's social protection. And that will be the alternative to the "law of the jungle", according to which the stronger, more predatory and immoral will survive.

The "corridors of development", in permeating Europe and the world, would allow for the unification of countries, the development of their production forces, and the progress of mankind in general. Thus, the third millennium could see the creation of the foundation for development of a new type of economic co-operation based on the principles of partnership. We see it as an alternative to the present imposition of so-called 'free trade' on Ukraine where foreign economic relations are conditioned by the forced decrease in the number of enterprises and the strengthening of the unequal division of countries into extracting, processing, and consuming ones.

THE STATE AND FOREIGN TRADE

A state's foreign economic policy can vary from strong protectionism (when all import and export volumes are limited and controlled) to the complete freedom of trade (as envisaged by the notion of an 'open economy').

World experience shows that the degree of control over trade stands in inverse proportion to per capita income levels. The more effective an economy is (and, correspondingly, the higher the incomes are), the less the need exists for implementing protective measures, and the lower the country's tariff and non-tariff barriers are. The opposite occurs when the deeper the economic crisis is, the greater is the need for domestic market protection (a protectionist policy). Japan pursued a tough protectionist policy for 22 years (1945-1967) until it overcame its post-war crisis and ensured steady competitive production growth. Over the last two decades, developed countries have resorted to protectionist measures in order to mitigate the social costs of restructuring their economies.

In order to counter the protectionist policies of Third World countries, in 1947, leading states convened the General Agreement on Tariffs and Trade (GATT)⁵. What is the essence of free trade agreements imposed within the GATT system, and what can their consequences be for Ukraine?

According to a free trade agreement, a preferential customs regime is established. The contracting parties do not apply taxes, duties and tariffs, which affected the export and import of goods equally. Furthermore, the application of discriminatory measures with respect to quantitative limitations is prohibited. Such an agreement also establishes freedom of transit, i.e., the passage of goods over country territories. Parties commit themselves to resolve all disputes exclusively through negotiations, avoiding conflict situations⁶.

In 1986, at a conference in Punta del Este (Uruguay), GATT members (122 countries at that time) held a round of negotiations whereby developed countries imposed such trade conditions (tariffs and duties) that most met their national interests. When ratifying the Uruguay round documents in January, 1995, the U.S. and Japan, both of whom did not want to make any concessions, set forth special conditions. This aroused the fear in developing countries, that without protective measures, their textile industry and agriculture would be entirely destroyed.

In principle, such consequences can well be predicted, since **the policy of free trade can be justified only under certain conditions**. British economist M.Panic formulated them in the fol-

⁵ GATT was established at the Bretton-Wood conference in the U.S., in 1944. This conference also established the International Monetary Fund (IMF) and the World Bank. In 1995, in addition to GATT, the World Trade Organisation (WTO) was created.

⁶ It makes it impossible to unilaterally terminate an agreement or breach its provisions.

lowing manner⁷: countries liberalising trade regimes must be in a state of fundamental balance, and the liberalisation of trade should not break this balance; the equality of opportunities is envisaged, provided by stable production volumes, and perfect competition; an effective international financial system should be created; benefits from trade should be evenly distributed among countries.

If these provisions are assessed through the prism of the current situation in Ukraine, the following conclusions can be drawn:

- 1) Ukraine lacks a fundamental balance (between urgent social needs and the ability to meet those needs);
- 2) the interests of Ukraine and those of developed countries are far from being in harmony. For instance, if the West is interested in sunflower seed or scrap metal supplies, this may not always be good for our country;
- 3) Ukraine's production volumes are falling every year, and the industrial structure is decaying, while competition is degenerating and being replaced with the private monopoly of criminal capital;
- 4) the international financial system is shaken by global crises, and is suffering from the dictate of the American dollar;
- 5) the free trade system provides benefits to developed countries, which make their dominance even greater.



It is clear that the IMF and, above all, U.S. capitals, are interested in Ukraine's involvement in the GATT/WTO system⁸. It is natural that the collapse of national economies, with resulting mass unemployment and the population's impoverishment in the Third World have caused violent protests in Seattle (Fall of 1999) and Washington (Spring of 2000), during regular IMF sessions.

FORMULAS FOR UKRAINE

Reforms undertaken after the application of IMF formulas caused extremely deep financial, economic, and social crises in Ukraine. With its population ranking among the best educated in the world⁹, and a highly developed machine-building complex, Ukraine is losing its positions on the world market and turning into an ordinary semi-colony exporting raw materials. It is sufficient to state that between 1991 and 1999, the share of machine-building in Ukraine's industry fell from 30.7% to 13.8%, and the share of the basic industry branches (metallurgy, chemistry, power engineering, fuel industry) rose from 25.6% to 59%. This conditioned the structuring of the country's export.

The tendency toward a growing gap between the GDP dynamics and the level of the population's real incomes also looks threatening. The Yushchenko Government's Programme of Action stated that a 1% GDP decrease in 1998 was accompanied by a 1.6% decrease in real incomes; in 1999, GDP fell by 0.4%, while real incomes, by 10.9%. The year 2000 aggravated this dangerous tendency: over the first four months, GDP rose by 5.5%, but budget arrears exceeded UAH 13 billion, which is UAH 1.5 billion more than at the beginning of the year. Debit and credit indebtedness is on the rise, as well as wage and pension arrears. Meanwhile, the country's average salary (UAH 200) is 60 Hryvnias below the subsistence level, while the average pension is less than 1/4 of the subsistence level.

And where do incomes go, especially given today's alleged industrial growth? They probably settle in the accounts of the representatives of oligarchic clans. As the well-known economist J. Stiglitz put it, the iron law of oligarchy lies in that instead of decentralising the decision-making process, and creating a highly competitive environment, the organisation of management within a branch and the whole economy becomes excessively centralised, stark, and stagnant¹⁰.

⁷ Panic M. *National Management of the International Economy*. — London, 1998, pp.146-152.

⁸ This was the subject of President Clinton's speech in Kyiv on June 5, 2000.

⁹ At the beginning of reforms, out of 1000 persons employed in Ukraine's economy, 964 had higher and secondary educations. At that time, it was the highest indicator in the world.

¹⁰ Stiglitz J. *Where Do Reforms Lead?* — *Voprosy Ekonomiki*, 1999, No.7, p.21.



The expansion of oligarchic capital even began to bother the Administration of the President of Ukraine. At least, this was the subject of concern of economic advisor to the President, Mr. A. Halchinskyi, who despaired of the real danger posed by the expanded self-reproduction of oligarchic capital¹¹. But this is only a lawful consequence of the reforms implemented by Halchinskyi himself! Today, even he supports limited liberalisation¹².

That's why the solution to global macroeconomic problems and Ukraine's internal problems requires **a radical change in the world financial and credit systems, their principles, and priorities, at the level of states**. In order to overcome the crisis in Ukraine, it is vital to walk out of the IMF and freeze debts or, better still, to write them off. Only in this instance, will the country be able to take decisions on its own, aimed at economic growth in the interests of its people. For Ukraine, this will mean a radical change in the country's tax policy in order to introduce a streamlined and transparent (easy to control) tax system, with reduced tax rates and narrowed tax base; the introduction of state order and planning of the basic production nomenclature. This will serve as the basis for drawing up the balance sheet, substantiating the nomenclature of critical imports, and introducing protectionist measures to protect the domestic market.

A radical rehabilitation of the national monetary and credit systems is required; the return of enterprises' circulating assets through offsetting debts and credit emissions in the amount of the debt difference; a sharp reduction in bank fund interest rates, and a transfer to the policy of 'long money'; stopping the free circulation of the

American dollar, and eliminating barter. All settlements must be performed in monetary form only, and the volume of the money stock in circulation should correspond to the real needs of the economy.

All privatised enterprises should be thoroughly checked, and in the event of the non-fulfilment of business plans, duly nationalised and reprivatised. Public enterprises should be effectively managed, non-public ones should operate within an environment of state support for entrepreneurship, in conditions favourable for production and the sale of goods.

In order to stimulate consumption, the model of cheap labour should be replaced with the expensive labour model. This will provide for the growth of wages and pensions in accordance with the cost of living. Extremely important (from both the economic and socio-political points of view) would be the repayment of the population's labour savings, lost during the period of hyperinflation. This is possible through the mechanism of restricted emissions, which envisages (in addition to the return of indexed cash) offsets with respect to payments for housing, utilities, education, healthcare, and the purchase of domestic goods.

Only in this way will social stability be ensured. Along with resolving economic problems, this will create an attractive investment climate. Then, Ukraine will experience an economic boom. There will be no lack of investments, both internal (from enterprises and the population) and external. There will be no need to kneel before anyone and flout our national dignity: the solution to macro-problems requires macro self-respect. And our partners will treat us in the same manner.

¹¹ Halchinskyi A. How To Revive the Country's Capability. — *Den*, May 11, 2000, p.4.

¹² Halchinskyi A. The Strategy of "Postponed Liberalism". — *Zerkalo Nedeli*, May 20, 2000, p.8.

THE SCHENGEN AGREEMENT, EU ENLARGEMENT & EUROPEAN SECURITY



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As is well understood, under the terms of the October 1997 Amsterdam Treaty, the Schengen agreement on frontiers now forms a binding part of the *acquis communautaire* for states who accede to the European Union. Although it is sometimes claimed that the extension of Schengen will benefit non-member states (who will confront a unified and coherent set of regulations and requirements), the clear and overwhelming objective of the signatories of Amsterdam was to protect and benefit the Union by strengthening its integrity and by ensuring that enlargement would neither dilute the single market nor weaken the Union's defences against subsidised imports, illegal migrants and organised crime.

The coming into force of the Common Foreign and Security Policy (November 1999), the agreement to establish a Common European Security and Defence Policy (June 1999) and the growing density of ties between the EU and NATO could possibly call these priorities into question. As the EU acquires more of a security dimension, it would be surprising if there were not more recognition of the relationship between the security of the Union and the security of Europe as a whole. In the Common Strategy for Russia (June 1999) and the Common Strategy for Ukraine (December 1999), this recognition is already present. New, if quite modest efforts by the EU to assist reform of security structures in Ukraine build on this recognition. Yet a quali-

tative change in EU policy will demand new modes of thinking. Whereas NATO developed Partnership for Peace (PfP) as a mechanism to minimise the possibility that enlargement would create "new dividing lines in Europe", the EU's priority has not been to minimise the divide between members and non-members, but to deepen the integration of members. Moreover, the refrain that "the EU is not seeking new members" not only implies a grudging attitude towards enlargement; to many in East-Central Europe it also implies that the EU has limited interest in, and surely no responsibility for developments which occur outside it. The refrain is one of several indications that, to this point, the EU's internal culture has been focused predominantly on economics, rather than security and on deepening "integration" rather than expanding influence.

Today there is a distinct risk that the enlargement of NATO and the enlargement of the EU could proceed at cross purposes. Ukraine, Romania and the three Baltic states have used PfP not only to become more integrated into NATO's web of institutions and relationships, but to draw closer to the West as a whole. NATO enlargement has complemented and facilitated this process. Yet apart from the Baltic states (all of them now confidently on the path to EU accession) there is reasoned apprehension that EU enlargement could disrupt this process and reverse promising trends which are knitting regions together. There is



also a fear that Schengen could shut a number of states out of the emerging “greater Europe”.

❖ Today approximately 1.7 million people, the majority of them Ukrainians, cross the Ukrainian-Polish border each month under a visa free regime. This grey market trade is not only economically significant for Ukraine, it is an important dimension of the Ukraine-Polish



relationship. This relationship, in turn, is seen as indispensable to Ukraine's security and its “European choice” — and is therefore valued in Warsaw almost as much as it is in Kyiv. NATO, conscious that Ukraine is an “important factor” in European security, also grasps these implications, but because of their economic character, they fall outside NATO's remit.

❖ A similar growth of cross-border trade between Hungary and Romania has consigned many old antagonisms and more recent apprehensions into the background. Unlike Ukraine (whose declared vocation for EU membership the EU has not officially encouraged), Romania has been placed in the second-tier of potential members. Yet the obstacles to membership are far greater than they are in the case of Latvia and Lithuania, two other second-tier states rapidly becoming first-tier states in all but name. Will the emergence of a Schengen frontier not further retard Romania's progress?

❖ The same question must be asked about Slovakia, another second-tier state with chronic structural problems. Can the post-Meciar era realise its promise, or survive in anything but name if Slovakia finds itself confronting three Schengen frontiers before reforms take place and take root?

❖ Would a European stimulus for Romania not provide a ray of hope for Moldova, a country in which currently the most effective authorities are organised crime, Russian military forces, energy companies and

intelligence services? Inexplicably ignored by NATO and Europe, Moldova is a security problem not only for itself, but for its vulnerable neighbours, and it risks becoming a potential launching pad for “active measures” and geopolitical and intelligence “struggle” should Russia withdraw from its co-operation with NATO in the Balkans.

❖ Kaliningrad Oblast' could be either a peril or an opportunity for Europe. Nobody of consequence questions the legal status of this “subject” of the Russian Federation, yet Moscow for all practical purposes is uninterested in its welfare, the Oblast's government understands the potential contribution which its neighbours could make, and these neighbours (Poland and Lithuania, not to say the FRG) understand the risks they court if they do not make it. Would a special border regime not be to the advantage of this region? If Kaliningrad Oblast' were made to “work”, would this not make a stimulating contribution to Russia's future and Europe's relationship with Russia?

❖ Unlike Ukraine, the Russian Federation has not expressed a European vocation, but it has displayed a positive attitude towards the European Union. Unfortunately, this attitude is based on a mistaken premise: that the EU is primarily a “counterbalance to American dominance”, rather than a deepening and widening community of states becoming increasingly integrated in their business practices, legal systems, frontiers — and now their security arrangements. It is not the United States or NATO which risks being marginalised by this process, but Russia. As this truth dawns, what will Russia's response be? Might there not be a strengthening of the autarkic, “Eurasian” tendencies in Russian thinking — and with it, the nostrums that the future lies in building trans-Eurasian energy and transport corridors, reviving the defence-industrial complex and reconsolidating “former Soviet space”? If the EU treats Ukraine as a Eurasian state, why should Russia not do so?

The risk in present EU enlargement policy is two-fold: that it might encourage the tendencies (including fatalism and despair) which NATO has struggled to counter; no less regretfully, that it might fail to realise the positive potential at the heart of enlargement itself. Is the European Union intended to be a magnet or a barrier? Ukraine and other states understand that it is primarily the EU, not NATO, which will decide whether they become part of Europe or part of Europe's “grey zone”. They are also beginning to understand that in taking its decisions, the EU will not be guided by the

foreign policies of these states, but their internal policies; indeed, they are at last beginning to grasp that their “European choice” entails Europe’s growing involvement in their internal affairs¹. The approach of the EU could therefore turn out to be the greatest single stimulant to the methodical and sustained reforms which “aid” and diplomacy have had such limited success in fostering². If these possibilities are to be realised, then it stands to reason that frontier arrangements cannot be imposed on the basis of timetables drawn up to suit the convenience of Western Europe, but policies intended to strengthen EU influence in Europe as a whole, and to Europe’s general benefit.

It has long been claimed that the revision of Schengen obligations would entail the revision of treaty commitments. Even if elements of national flexibility could be preserved within the framework of Schengen, the corollary might be the establishment of internal frontiers within the EU (e.g. on the Austro-Hungarian and Polish-German borders). Yet one is bound to ask what would be unthinkable about either “worst case”. Why should new internal frontiers operate any differently from those that exist between the five EU states who are not party to Schengen and their EU partners³? On entering the UK for example, non-EU citizens join an “Other Passports” queue and present visas; holders of EU passports — British citizens included — proceed through a European Economic Area queue and display their passports, often scarcely slowing their pace. Whose freedom of movement is hindered by this procedure?

Fortunately, there are recent signs that realities might turn out to be more flexible and

more favourable than the ideology of European integration suggests. At this point, however, “might” is still the operative word. The document on Schengen procedure — a tome of over 1,000 pages rather than a “document” — is very closely guarded⁴. Poland has only received it within the past few months. The Poles as well as the Hungarians have worked assiduously to maximise their prerogatives within it. Before assessing their degree of success, one should have a clear idea of the likely consequences of opting out of Schengen or postponing it.

OPTION 1: OPT-OUTS FOR NEW MEMBERS

In an ideal world, the members of the European Union would grant Poland, Hungary and other new members the right which five members have already exercised — the right to say “no” — and allow them to join Schengen when and if they see fit. It would be up to them to decide whether and with whom to maintain visa-free regimes or, where visas are required, establish how they function. There would appear to be advantages and disadvantages in this approach.

Advantages

1) It would afford new members the maximum flexibility in managing relations with neighbours whose difficulties are likely to be mid-to-long term and whose prospects of successful reform are still uncertain.

2) It would give substance to the EU’s declaratory respect for diversity; in so doing it would demonstrate that the EU seeks to benefit from the perspectives (and respect the interests) of all its members — that it is not a club dominated by a small group of Western European states.

3) It would demonstrate that the EU is not a narrowly focused protectionist bloc, but an entity aware of its relationships with and responsibilities in a wider world.

4) It would demonstrate that the EU does not see itself as beyond criticism, and that it is neither inflexible nor incapable of adjusting to circumstances.

5) In substantiating (2), (3) and (4), it would diminish the force of many Euro-sceptic arguments and bring many Euro-sceptics into the stable.

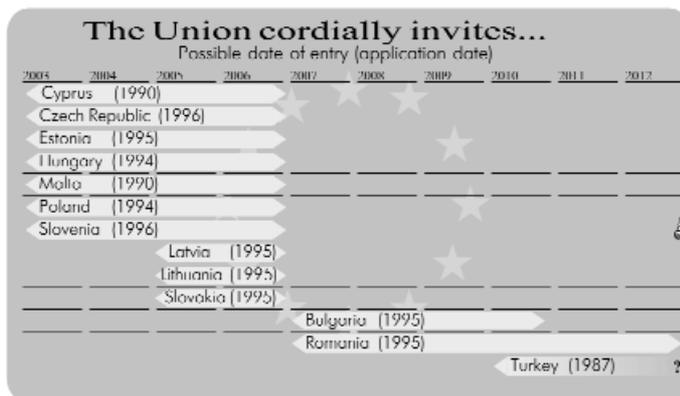


¹ The term ‘involvement’ is used advisedly, as it implies an activity that is more pervasive than “interference”, but one that takes place between equals.

² Indeed, this is one of the reasons that Viktor Yushchenko’s Government was appointed by President Kuchma after his re-election in November 1999 — although US pressure and the Putin factor played at least an important role.

³ At present the non-Schengen EU states comprise Denmark, Finland, Ireland, Sweden and the United Kingdom.

⁴ The acquis as a whole contains some 80,000 pages of Community legislation to be implemented.



Disadvantages

1) It might remove the greatest argument for change in East-Central Europe: “there is no alternative”. The clans and apparatchiks might see this as their moment to wrest authority from the reformers. We would then find ourselves returning to the familiar pattern of half measures, symbolic gestures and moral blackmail (“be nice or the Left will come to power”, “we will be forced into Russia’s arms”, etc.).

2) If exercised, the opt-outs could prove to be a burden for relatively weak states in this volatile part of the world. The problems and the geopolitical pressures faced by Poland and Hungary are not comparable to those of the present non-Schengen states, all of them well established, self-confident and capable of maintaining the integrity of their own borders.

3) With good reason, Poland and Hungary might fear that their opt-out could diminish their status and produce two categories of membership in the EU. If push comes to shove, full membership of the club is more important to them than the security of their eastern and southern neighbours.

4) It would dismay the more committed advocates of “European construction” who would view this opt-out as the first of many and as the thin edge of the wedge towards a multi-tier Europe. The appeal to Euro-sceptics would also dismay these advocates. This is probably why the European Commission has firmly and consistently refused to reconsider the additional Schengen opt-outs.

OPTION 2: POSTPONING THE IMPLEMENTATION OF SCHENGEN

In principle, there is a reasoned alternative to the opt-outs, which the European Union refuses to consider. An interval would be established between accession to the Union and the implementation of the Schengen agreement.

The Union would agree with each candidate member a firm and binding timetable. The sequencing might vary from state to state and frontier to frontier (e.g. there might be one timetable for Poland-Kaliningrad and another for Poland-Ukraine). Yet in each case, undertakings would be given to the Union, and the resulting agreements would have the status of EU policy. For this reason, the new arrangements would differ fundamentally from the five opt-outs currently in force within the EU. Again, there would be advantages and disadvantages in such an approach.

Advantages

1) In practice, Option 1 is not an option because the EU refuses to consider it. Option 2 would be consistent with the principles of Amsterdam.

2) Option 2 would still demonstrate that the EU recognised the “art of the possible” in East-Central Europe. Yet it would keep the pressure on.

3) It would be a transition to a “one speed” Europe rather than a slippery slope to two.

4) It would allay concerns about junior status — ditto anxieties that new members could find themselves in their own “grey zone” between old members and non-members.

Disadvantages

1) Given the priorities and biases of Brussels, it will be very difficult to negotiate timetables which are reasonable and realistic — and to keep security (rather than “deepening integration”) at the forefront of the discussion.

2) “Automaticity” and “binding timetables” could deprive the EU of essential tools of foreign policy in event of unfavourable developments (e.g. deterioration of relations between Moscow and Kaliningrad or worse, between Moscow and Kyiv). We dare not forget that surprise is the norm in East-Central Europe.

ONE STEP FORWARD, TWO STEPS BACK?

Whether despite or because of the complexity of the mammoth document on Schengen procedures, the Polish Foreign Ministry perceives that it affords them more autonomy than they anticipated and considerably more flexibility than they feared would be permitted. To be sure, today's non-visa regime — which Poland stiffened in 1997 — will soon be replaced by a visa requirement for all non-EU citizens who enter Polish territory. Yet it appears to be up to Poland — and one presumes the same is true of other new EU entrants — to determine its own charges for visas and, to a large extent, its own conditions for issuing annual multi-entry visas. Under any conditions, the new requirements will reduce border crossings by a definite amount, but it is far from clear just how much traffic will be curtailed. In principle, even a fair proportion of shuttle traders from Ukraine or Kaliningrad Oblast' could reasonably meet the conditions under which Poland proposes to issue multi-entry visas at \$15 per visa. Upon examining the Schengen document, Polish experts had a fur-



ther surprise. According to the procedures, new members, indeed old established ones, retain the right to issue a certain proportion of “national”, non-Schengen visas. Is this too good to be true?

Perhaps, the object of Schengen and the “logic” of it is to have one external frontier for the entire European Union and complete freedom of movement within it. If countries can vary their visa requirements considerably and even issue national visas, then what perils are they imposing upon their neighbours? This is certainly a critical question, given the perception — accurate or exaggerated — that East-Central Europe is a theatre of operations, not

to say transit, for criminal enterprise, organised and spontaneous. It is worth recalling that the UK opted out of Schengen because, in its view, Schengen controls were not *strict enough*. Given these Europe-wide concerns, it is not astounding that Poland has had a further surprise. Despite the “logic” of Schengen and Poland's status as a Group 1 entrant to the EU, it appears that the Germans are modernising the Polish-German frontier rather than dismantling it. If the appearance is borne out, this would be an ironic twist. As noted above, Schengen is designed to eliminate internal borders in the EU. The corollary of staying out of Schengen is, naturally and reasonably, the preservation of such borders. Why should new members face “double jeopardy”: the burden of imposing Schengen on non-EU neighbours and the insult of confronting internal frontiers between themselves and the older members of the Union? Would this not be a two-tier Europe by definition? Strenuously as the European Commission rejects the principle of a “multi-speed” Europe, would they not be imposing it by stealth?

There is, of course, a more benign and positive explanation: namely that the Commission is accepting *de facto* the case put forward in Option 2 above, whilst continuing to reject it in principle. This would not be unusual. In contrast to the ideology of European integration, the reality of it is full of compromises, inconsistencies and paradoxes. But if the benign explanation is the correct one, then Ukrainians should be prepared to expect:

- ✦ that in the short-to-mid term they will confront a much more hospitable visa regime than they feared: inconvenient to be sure, but very far from the “iron curtain” which many dread;

- ✦ that their closest advocates and partners might pay a price for such hospitality in the form of internal borders and other forms of *de facto* junior status which they could come to resent;

- ✦ that in the mid-to-long term these partners might feel compelled to impose strict, Western European requirements as the *quid pro quo* to becoming full members of the European club which they have moved heaven and earth to join.

The lesson would seem to be obvious. Any respite which Poland or Hungary secure for Ukraine is likely to be temporary. Unless Ukraine uses this interval to reorientate itself aggressively towards European standards of law, business and trade, it could find itself shut out of the “greater Europe”, which it seeks to join as a matter of “strategic choice” and principle.



THE WILD CARD: EUROPEAN DEFENCE

The decision of the June 1999 Cologne European Council to establish a Common European Security and Defence Policy for the Union (ESDP) has sparked a vigorous and apprehensive debate within NATO as to whether the EU could, by intention or misadventure, weaken the Alliance or divide it. This apprehension is strong not only in the United States, but in other NATO members outside the European Union — Canada, Iceland, Norway and Turkey — and within three members of both clubs, the Netherlands, Denmark and the UK. Indeed, on 11 June, the British Conservative Party announced that it would withdraw from the initiative that Tony Blair's Labour Government has been so instrumental in launching.

But from an eastern perspective, it is an open question whether ESDP will weaken NATO or reinvigorate it. After all, most of the Group 1 members on the road to EU accession — Poland, the Czech Republic, Hungary and Estonia — are either moderately or robustly Atlanticist. So are those Group 2 members most rapidly progressing towards EU membership — Latvia and Lithuania. These prospective entrants are not only Atlanticist, they are acutely sensitive to the wider security implications of Ukraine's "European choice". Given the enlargement of the Union to include these states, will ESDP enfeeble NATO, or will it Atlanticise the European Union? This is not only a battle worth fighting, but one that Ukraine would be unwise to ignore. However Schengen is interpreted, an enlarged EU is likely to be more security-minded than the European Union is at present. In this enlarged form, the Union is more likely than today's Union to:

- ❖ have a strong stake in Ukraine's successful development;
- ❖ treat Ukraine and its declared "European vocation" on its own merits, rather than as a dependent variable of EU-Russia partnership;
- ❖ contribute in practical ways to the strengthening of Ukraine's security. President Kuchma's establishment of a commission under Secretary Marchuk⁵ to reform security struc-

tures in Ukraine outside the remit of the Ministry of Defence (police and interior troops, border troops, emergency services and security forces) is an opportunity for the EU to expand its influence in Ukraine, and in its *own* interests, help Ukraine to establish secure borders, an enforceable and European-orientated customs regime, a cost-effective national security system and reliable (and largely uncorrupted) security services and law-enforcement.

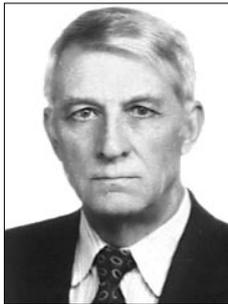
In the latter pursuit, NATO has already approached the High Representative for the EU's Common Foreign and Security Policy, former NATO Secretary General Javier Solana, as well as the EU External Affairs Commissioner, Chris Patten. Already involved in supporting Ukraine's efforts to rationalise and reform MoD subordinated armed forces, NATO has succeeded in eliciting EU interest, and the beginnings of financial support, for



some of these other security tasks. These tasks are relevant not only to Ukraine's security, but to its position in a Europe influenced by two processes of enlargement, NATO and the EU. Whether these processes become reinforcing or contradictory will depend not only on the older members of these clubs, but on the quality of collaboration established between newer and prospective members. In this enterprise, Ukraine cannot afford to be a spectator.

⁵ In November 1999, President Kuchma appointed Yevhen Marchuk to the post of Secretary of the National Security and Defence Council, that body which according to Ukraine's Constitution, "co-ordinates and controls the activity of executive bodies in the sphere of national security and defence".

UKRAINE ON GEO-ECONOMIC CROSSROADS



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The present state of relations between the European Union and Ukraine is determined by the conclusions of the Helsinki Summit of the European Council held on December 10-11, 1999. Two main conclusions can be drawn out of the decisions and provisions of the EU Common Strategy toward Ukraine, which was approved at this meeting. The first one is that a group of candidates for EU membership was clearly defined at the summit, with Ukraine not mentioned in that list. The second conclusion regards the principle attitude of the EU to co-operation with Ukraine in the near future, which will continue to rely on a general framework document — the 1994 Partnership and Co-operation Agreement. The EU's restrained attitude toward raising the level of relations with Ukraine is the result of the influence of the combination of a large number of factors related, above all, to the internal situation of each of the Agreement's parties.

The decisions of the Helsinki Summit actually defined the rational territorial structure of the European economic space, covering the entire western, central, and Balkan parts of the continent, with two bridgeheads — three Baltic countries (on the border with Russia), and Cyprus, Malta, and Turkey (on the Asian-African direction). Beyond this field, only the heirs to the former Yugoslavia are left (with the exception of Slovenia, which has been invited to join the EU), and Albania, as well as two countries

already largely integrated into the European economy — Switzerland and Norway. From the geo-economic point of view, a self-sustaining organism is being created. The orientation of the future members toward this entity restricts the influence of the EU's competitors, such as the United States and Russia, on their economies.

At the same time, the EU enlargement is also creating additional complex problems for it, related, above all, to the significant differences in the levels of economic development (*Table "Level of economic development of EU members and candidates"*).

If the EU is unable to resolve the problem of liquidating the large differences in the levels of economic development within nearly two decades (as the Table shows, according to this indicator, Spain, Portugal, and Greece demonstrate a two-time lag behind the bulk of EU members), then future acceptance of new members with an even greater, 5-20-fold gap, will significantly complicate the situation with respect to achieving a balance within the boundaries of a single European economic space. Expenditures for the adaptation of new members, along with providing support for a higher level of integration (the introduction of the Euro, and the like) will take almost all available EU funds within the next 10-15 years. It can be assumed that the stage-by-stage entry of the candidates named at the Helsinki Summit into the EU will take that long.



Level of economic development of EU members and candidates ¹			
Average group indicator	per capita GDP		
	\$	% of 1st group	% of 2nd group
1. Main group of 12 EU members	24939	—	—
2. Least economically developed EU members*	12059	48,3%	—
3. "First wave" candidates**	5283	21,2%	43,8%
4. Other candidates at a middle development level***	2782	11,2%	23,1%
5. Least economically developed candidates****	1380	5,5%	11,4%

* Greece, Portugal, Spain
 ** The Czech Republic, Estonia Hungary, Poland, Slovenia.
 *** Cyprus, Latvia, Lithuania, Malta, Slovakia, Turkey
 **** Bulgaria, Romania

Calculations based on the Hryvnia's official exchange rate give Ukraine's per capita GDP indicator in 1999 between \$619.3 (based on State Statistics Committee data)² and \$576.4 (according to the data of the consulting group of the European Commission in Ukraine)³. Advisor to the President of Ukraine A.Halchynskiy has come up with a similar figure — \$617⁴. If an average figure within this range (\$600) is taken, then the present-day ratio of Ukraine's level of economic development to EU indicators can be outlined as shown in the Table below.

Ukraine's per capita GDP, % of average indicators of EU members and candidates ⁵	
To the main group of 12 EU members	2,4%
To the group of least economically developed EU members	4,9%
To the group of "first wave" candidates	11,4%
To the group of other candidates at a middle development level	21,6%
To the group of least economically developed candidates	43,5%

Without the liquidation of such a significant gap in GDP levels, one cannot expect the EU to be really interested in accepting Ukraine as a member. Characteristically, during its last enlargement in 1995, the EU agreed to the membership of countries with a very high level of economic development. According to the per capita GDP indicator, Austria currently places second, Sweden — fourth, and Finland — sixth, among today's 15 members of the Union.

At the beginning of the '90s, the geopolitical factor had a particular influence on the EU's attitude toward the post-Soviet countries of Central and Eastern Europe. During the 1991-1995 period, among the reasons for drafting agreements on associate relations with Poland, Hungary, the former Czechoslovakia, and the three Baltic republics, their political and economic re-orientation toward the West, with the greatest possible decrease in Russia's influence within this region, was of priority importance. It is worth emphasising that the inclusion of all these countries in the list of candidates for membership bore witness to the fact that the EU has taken upon itself certain obligations regarding the future entry of those associate partners into the pan-European community.

World events of historic proportions that took place as a result of the final dismantling of the heritage of the "Soviet bloc" made it possible for the EU to shift to more pliant geopolitical tactics. One of the directions of such an approach is the differentiated employment of the possibilities of NATO, of which most EU countries are also members. Although it is not possible to dwell on the entire complex of the new tendencies unfolding in the bilateral relations between NATO and the EU for purposes of this article, it is worth mentioning one rather unique result of this process with respect to Ukraine. And that is, that **the successful development of co-operation with the North Atlantic alliance has led, in practice, to a decrease in the weight of the geopolitical factor in the EU's attitude toward Ukraine.** An example of this is that at the Helsinki Summit, the EU virtually duplicated the

¹ Calculations are made as of 1998, based on: *Rocznik statystyczny*, 1999, s.707; *Central European Economic Review*, 1999, No.4, p.28.

² Socioeconomic Status of Ukraine in 1999. — *Uryadovyi Kuryer*, March 20, 2000, pp.9,13.

³ Ukraine's Economic Trends. January, 2000. — Kyiv: Ukrainian-European Center for Legal Issues, 2000, pp.6,22

⁴ Halchynskiy A. The Strategy of 'Postponed Liberalism'. — *Zerkalo Nedeli*, May 20, 2000, p.8.

⁵ Indicators are calculated in comparison to data of the Table "Level of economic development of EU members and candidates".



directions of co-operation between Ukraine and NATO, in particular, with respect to dialogue under crisis situations, and control over the spread of weapons of mass destruction, land mines, and the like.

In practice, such duplication in the geopolitical terms puts NATO itself into a priority position. In its relations with Ukraine, the European Union is going down a parallel road, separating from geopolitics, which is of secondary significance for it, its intrinsic dominant of economic relations which, based on the practice of NATO, are beyond the scope of the Alliance's activities. Interest with respect to issues of a geopolitical character in relations between Ukraine and the EU has decreased significantly as compared to the time when the "Soviet bloc" just fell apart. That's why Ukraine, in its attempts to raise the status of co-operation with the European Union, cannot count on similar developments to those that unfolded in Central European countries at the beginning of the '90s.

Taken together, the above-described specific factors regarding Ukraine also determined the EU's present restrained attitude toward this country.

As ironic as it appears, but one of the factors behind Ukraine's Euro-centric orientation is Russia's policy toward Ukraine and other CIS countries. The Russian Federation has completely re-oriented its trade beyond the boundaries of the Commonwealth: the share of the latter comprised only 18% of Russia's overall trade turnover in 1999. While announcing the course toward the integration of post-Soviet countries, Russia itself broke the chain that formed the basis for such integration — production co-operation with its partners in Ukraine and the majority of CIS countries. Opportunities for integrating were also lost due to the separation of five members of the Customs Union dominated by the RF, as well as the formation of the Union of Russia and Belarus.

Ukraine finds itself in a particularly difficult situation in its relations with Russia, which is the main supplier of energy resources and other critical imports and, at the same time, the main market for Ukrainian goods. In 1995-1999, the deficit of the trade balance with the Russian Federation amounted to \$15.5 billion, or 134.5% of Ukraine's exports in 1999 (for comparison, the trade deficit with the EU over the same period reached \$5.6 billion, or 48.4% of the 1999 exports)⁶. In 2000, the tendency of a tougher economic stance toward Ukraine and other Russia's partners within the CIS can also be observed, including members of the Customs

Union. True, the last CIS Summit (held on June 21, 2000) demonstrated a greater application of preferences on Russia's part while implementing a free trade regime with respect to its Customs Union partners, as compared to its stance toward Ukraine and other members of the Commonwealth.

Ukraine's European choice was again confirmed in 2000 in the Address of the President of Ukraine to the Verkhovna Rada, while integration into the EU was declared as one of the strategic goals of the Programme of Action of the Government of V.Yushchenko. In taking a realistic approach to this problem, it is necessary, above all, to be aware of the fact that moving into the pan-European economic space is a long-term process with clearly defined targets that need to be accomplished at every stage of adaptation to the EU's conditions. The main tasks that need to be accomplished are not only completing market changes and substantially raising the level of the national economy's development, but also the consistent work that is needed for forming an interest on the part of EU members in integrating Ukraine in the trade, investment, transit, and other areas. Integration with the EU cannot be expected without stimulating such an interest, even if the EU agrees to draft agreements of association (Turkey, for example, has remained in this status for nearly forty years).

Orientation toward future entry into the European Union does not exclude activity in other directions. On the contrary, the process of integrating into the EU will be the more successful the more effectively economic co-operation with other partners is realised. In this sense, of great significance is Ukraine's active presence on the markets of Russia and other CIS countries, strengthening its position on new market sectors, and returning those traditional sectors of these markets which were lost not only because of objective conditions and direct discrimination against Ukrainian exporters, but mainly through their passivity and faulty trade policy. Opportunities for co-operation with China and other countries in different regions of the world are also not used properly, although a steady trade surplus with them even now makes it possible to cover a significant part of the trade deficit with the EU and Russia.

As Ukraine is not yet truly involved in the integrational processes, it can and should make more effective use of its freedom of action on the world market. At the same time, the strengthening of its position in other regional sectors of this market will be an additional factor in making Ukraine attractive for partners representing the European Union.

⁶ Calculations are based on data of the State Statistics Committee, given in the publications: *Ukraine's foreign economic activity* (1995). — Kyiv, 1996, pp.8-9; *Statistical Yearbook of Ukraine* (1998). — Kyiv, 1999, pp. 289-290; *Foreign Trade in Goods* (1999). — Kyiv, 2000, pp.6-14.

UKRAINE'S ENTRY INTO WESTERN MARKETS: MAIN ISSUES



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As an integral part of the economic system of the Soviet Union the Ukrainian Socialist Soviet Republic was secluded from the world market. After the dissolution of the Soviet Union Ukraine was abruptly torn out of this interlocking structure.

The economy of independent Ukraine needs to re-orientate itself to the world market. This process of adaptation is an enormous national task, which can only be tackled by the joint efforts of private enterprise and the state.

Ukraine has to perceive its new economic environment realistically: on the world market "fair competition" rules only in some parts; on this play ground it is seldom "the Best" who wins; more often it is "the Strongest". While in abstract models of economic theory perfect competition secures optimal benefit for society, in economic reality strong "players" use their market power to shove competitors off the market — and to refuse newcomers market access. The dirty tricks, by which potential competitors are eliminated, were demonstrated in the process of integration of the economy of the former GDR into the economy of the Federal Republic of Germany after re-unification.

However unfair the practices, competitiveness is the precondition for participation in the world market. A country's export reflects its international competitiveness. A producer, whose product finds a market abroad, will hold his own

against foreign competition also on his home market. Ukraine must make every endeavor to export its products and to open foreign markets for them.

As a consequence of the seclusion from the world market, which lasted until the end of the eighties, Ukraine — with the exception of certain military-industrial sectors — is lagging behind the technological development of Western economies.

Ukraine's entrepreneurs, left to their own resources, will not be able to close the gap between their present standards and the [permanently advancing] standards on global markets. Market forces are too slow; the pace of modernisation of Ukraine's national production as well as the pace of expansion of this country's exportation must be "forced" by the state.

This does not mean that the state itself is to act as entrepreneur; it is the function of the state to develop the "national productive forces" in the sense of the German economist Friedrich List. The "productive forces" have to be "unfettered", as Karl Marx expressed it.

Under the present conditions of Ukraine, this means, first of all, that private initiative must be freed through a radical administrative reform; although officials have long forsworn Marxism, Ukraine's productive forces are still bound by obscurely intertwined bonds.

If the present generations of Ukrainians are to live to see the positive effects of the transformation of the socialist system into a liberal economic and societal order, then the Ukrainian state must — simultaneously with the “reformation” of the economy — accelerate economic growth.

Economic competitiveness alone is not sufficient for success on the world market. Those market sectors, in which Ukraine does have potential for export, are oligopolised; in addition, private interests are connected with interests of the state in these sectors — as for example — in the market of the aircraft industry. On these markets rules not economic competition, but political interest.

Politics may be shortsighted, that is, it may not conform to the long-term interest of the respective country; politicians may come under the pressure of private businesses, which are interested in short-term profit, as demonstrated by the shortsighted political decision taken by Germany, France and Britain on the project AN-7X. It is against the long-term security interests of these three countries, and of Europe as a



whole, to exclude Ukraine and Russia from European military-industrial co-operation. But even purely political motives, without national industrial background, induce mighty nations to interfere with the export of other countries.

Thus, the USA — the protagonist of free trade and promotor of globalisation — subjects

the export of friendly nations to its own national political interests, as Ukraine learned from its own experience: up to this day, Ukraine has not been compensated for its renunciation of the delivery of turbines to Iran.

For this reason, weaker states need matter for negotiations since they cannot exert “pressure”. Therefore, Ukraine’s voluntary renunciation of nuclear weapons stationed in the country was a mistake with lasting effect. No country feared the military use of these weapons by independent Ukraine; but Western interest in its removal offered Ukraine the chance to use them “economically” in negotiations. **Good behaviour of weak countries will only be rewarded with benevolence, not with foreign currency.**

From the European Union too, Ukraine cannot expect assistance for the development of competitiveness on the European markets, although this is one of the Copenhagen criteria for integration. The EU’s support for Ukraine’s economic development is limited to liberal advice; but Ukraine must not content itself with the “creation of a climate..., that is stimulating to economic activity...”, as it says in the Common Strategy of the European Union for Ukraine. The Partnership and Cooperation Agreement between the European Union and Ukraine, which came into force in 1998, aims at the liberalisation of trade from impediments, assuming that free trade promotes economic development. The European Union itself subjects Ukraine’s exports to quantitative restrictions; this special regime affects those industrial sectors, which had in the past an ignition function for the development of export capacity of all newcomers to the world market: textiles and steel.

If the European Union is really interested in the economic development of Ukraine — and not only in the opening of its markets — then it must accept for a certain transitional period asymmetrical trade relations with Ukraine. It is in the long-term interest of the European Union, that its economic co-operation with Ukraine serves the long-term economic development of this country — and not only the short-term benefit of its own export industry.

UKRAINE BETWEEN RUSSIA AND THE WEST



Christian BEC
Expert in Foreign Policy, France

Ukraine's political and economic evolution is as important for the rest of Europe as it is for Russia. Since the beginning of its independence in 1991, Ukraine appeared to occupy a special place between Russia and the West as a "pivotal nation" with an uncertain future. Now, the fact that Ukraine is an independent state is no longer questioned. There is little doubt that the country is committed to democracy, as three presidential, as well as parliamentary, elections have proven. Furthermore, there are no real threats to Ukraine's unity. The differences that do exist on a national level are considered democratically. During its nine years of independence, the country has been successful in finding a place within a greater European context, rather than as a buffer zone between NATO and Russia, or as an appendage to Russia, and has been an important player in the region's security and political arrangements.

Despite having a multi-polar and well-balanced policy between Russia and the West, Ukraine regularly demonstrated its intentions of integrating into Europe some day. Ukraine's European choice does not stand in contradiction to the development of a strategic partnership with Russia and the United States, as the recent visits of the Russian and American presidents have shown. The Partnership and Cooperation Agreement (PCA) signed in Corfu in 1994, and which came into force in 1998, provides a legal framework and the mechanisms for the development of a close relationship. The adoption at the Helsinki Summit of a Common

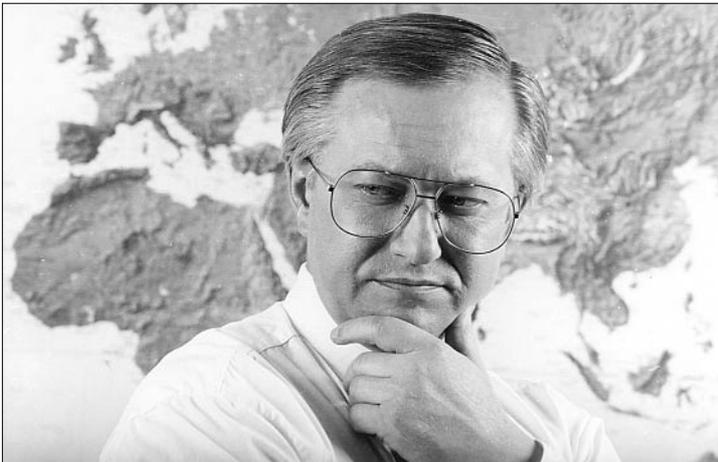
European Strategy vis-a-vis Ukraine is recognition of Ukraine's "European vocation". Visits of European state officials such as, for example, of France's Mr.Chirac, Mr.Vedrine, or recently, the General Secretary of the Quai d'Orsay Mr.Hennekine, constituted a clear political message welcoming Ukraine's European goal.

The European Union is not an international private club. It is a Union of European states that have voluntarily given up a substantial part of their sovereignty. Since the 1951 Coal and Steel Union, it has grown into an enormously complicated and powerful Union that has created a unified market of 350 million people and removed all internal borders. The Union is constantly on the move. At each period of its enlargement, the EU's rules need to be adapted to a new situation. Consequently, no one knows what the EU will become, even in the next ten years. The last Treaty of Amsterdam obligates the Union to define common strategies in areas of notable interest to the member-states. The external message of the strategies is clear: they confirm the resolve of the EU to enhance and develop its relationship with new partners.

The strategic partnership linking the European Union and Ukraine is illustrated by the fact that the EU remains the largest financial donor to Ukraine. Conceptually, the European Council Common Strategy on Ukraine is based on an analysis, which defines the promotion of the rule of law and the consolidation of democracy as the basis for future relations between the Union and Ukraine. The political message is

clear: a democratic Ukraine is a strategic partner of growing significance for the Union. Nevertheless, there are two contrasting images of Ukraine.

The first is that of Ukraine abroad. Ukraine has managed to build a reputation as a constructive interlocutor and has gained growing respect. It was the first former Soviet Union country to establish a partnership with the EU, and to sign a Charter with NATO in 1997. It took early steps to relinquish its nuclear weapons, sent peacekeepers to the Balkans, is a guarantor of peace in Moldova, and a member of the Council of Europe, and currently, of the UN Security Council.



There is however a second Ukraine. Domestically, Ukraine is in urgent need of reform. The contrast between Ukraine's external success and its internal needs is real. Ukraine's political structure is volatile, it lacks a fully developed civil society, needs to improve standards of governance and respect for the rule of law, and has an economy in urgent need of reform. Pressure to change and transform the economy toward a more open market system is building from abroad and from within Ukraine. There is now a sense that changes are about to begin with determination in Ukraine. Most important is the new reform axis between Parliament, the Prime minister, and the President, giving some hope for transformation. The recent elections may be interpreted as a sign of public support for reforms and pragmatism. But short-term concerns remain, particularly over debt repayment and the dependence on Russia in the energy sector. Ukraine is suffering from an inadequate use of the IMF's funds in financing the budget deficit in spite of constituting financial reserves, a lack of structural reforms, especially in the field of industry, and a lack of legislation to promote the private sector — especially the small and medium enterprises — and to attract foreign investors.

The fact that, thanks to its future enlargement, the European Union and Ukraine will share a common border, presents new challenges, and shows the need to overstep geopolitical considerations regarding Ukraine between Russia and the West. From a political point of view, Ukraine's European choice implies the development of a partnership with Russia in parallel, according to Mr. Tarasiuk, who said: "Instead of thinking either the West or Russia, we must say that we are ready to co-operate with the West and with the East". Closer co-operation with Russia is part of the rapprochement with the EU, as it can help the Ukrainian economy develop. It is all the more possible, as the two countries do not compete in this area because they have different goals: while Ukraine strives for full EU membership in the future, Russia is interested in deepening partnership and co-operation with the European Union.

The final target of Ukraine's application for EU membership must not be declarative only, but itself requires much preparation, and needs to involve all members of the society. Since Ukraine's European choice seems to be popular virtually within the elite — but remains theoretical for the rest of the population — a special pedagogical effort must be applied toward the population itself. In this respect, Ukraine needs deep and comprehensive societal change. A co-ordinated public awareness campaign, and broad public engagement in the process are needed. All civil society actors in Ukraine, including non-governmental organisations and mass media, should find their role in addressing relevant issues. The EU itself must make a special pedagogical effort regarding the stakes and implications of application for membership in order to develop a real "EU culture" in Ukraine.

To some extent, relationships between Ukraine and the EU can be summed up by the phrase "lots of talk, little walk". The existing gap between Ukraine's political intentions and practical actions needs to be bridged. Ukrainian decision-makers are aware that Ukraine is not ready now to integrate into the EU, and has to resolve many problems on the long road toward European integration. Ukraine's desire for a stronger statement or intent from Europe to consider Ukraine for future membership, as a motivation for reform, is considered to be premature in the EU. Ukraine should strengthen its performance, and then argue its case from a stronger position.

Even if progress has been made, with an increase in GDP for the first time in a decade, an increase in Government revenue, a restructuring and sharper focus of Government minist-



ries, and the beginning of a reduction in the bureaucracy, much more needs to be done: the Ukrainian Government's policy has to improve the quality of decision-making, speed up economic reform, support the private sector, open the economy to competition and foreign investment, fight corruption and organised crime, and reduce the size of the Government's involvement in economic activity.

In this regard, full implementation of the PCA should first serve as a solid basis for the transformation of the Ukrainian economy into a market economy. The Common Strategy of the EU, held during the Helsinki Summit, has to be implemented, all the more as it defines areas for practical co-operation in areas such as the consolidation of democracy, the rule of law and public institutions, foreign and security policy, economic and social integration, energy and nuclear safety, justice, and domestic affairs. As the instrument of the implementation of the Common Strategy, the TACIS programme is to focus on three areas which concern institutional, legislative, and administrative reforms, the private sector, and special assistance for the social consequences of the transition. This means, concretely, that the EU's financial support until 2003 is to focus on the development of a civil society and education, support for small and medium enterprises, reform of the energy sector, creation of a modern banking system, and development of a welfare policy.

The role of regional development is also important for European integration, all the more as the union of nations is tending to move toward the union of regions. Regional integration foresees the establishment of direct contacts between Ukraine's regions and those of the EU member-states and candidate-states. This process would gradually lead to a major shift in the rapprochement process to the regional and local

levels, widely involving territorial communities and individual citizens. In this regard, decentralisation has yet to be recognised in Ukraine, and the EU experience has yet to be learned and applied.

All these measures will help Ukraine to integrate into world trade, in parallel with the possibility of joining the World Trade Organisation, which itself is a first step in the prospects of a free trade agreement with the EU.

With respect to the support of international financial institutions, President B. Clinton himself stressed during his last visit to Ukraine on June 5, 2000, that the IMF's payments are also linked to the revival of reforms, especially in the areas of privatisation, collection of taxes, and energy sector reform.

The fact that relationships between Ukraine and Russia are evolving from less emotion toward more pragmatism, as could be seen during President V. Putin's visit, is a very positive development. Actually, Ukraine's obligation to pay its energy debts to Russia gives Ukraine an opportunity to implement normal and safe economic relationships, and can finally contribute to the strengthening of Ukraine's independence.

With respect to security issues, Ukraine also needs to deepen its co-operation with NATO, especially in the sphere of defence reform, in order to implement its Partnership for Peace commitments. According to the Ukrainian representative to NATO Mr. Khandogiy, "a passive posture or, even worse, an opposition to everything linked to NATO, could provoke international marginalisation, or even isolation, of Ukraine, and then deprive it of all its means of participating in setting up a global security system in Europe".

To summarise, Ukraine must continue developing the relationships it has built with the EU, North America, and Russia. Therefore, Ukraine should: focus its relationship with the EU on implementing existing agreements and planned reforms; continue to engage in dialogues on the PCA as a guide for ongoing reform and building a relationship with Europe; take a positive view of the Common Strategy, and take advantage of the assistance offered by EU partners; implement its part of the arrangements in NATO's Partnership for Peace; generate public support for reform; improve information to the public regarding the work of the executive, Parliament, and the Cabinet of Ministers; implement a public relations campaign; improve the administrative function of the civil service by





educating it about its role in the overall transformation process; continue to reduce the bureaucracy; continue to develop market mechanisms; improve transparency in the decision-making process; change the current priority of placing politics before economic reforms; fight crime and corruption through continued administrative reform and by opening up the economy.

The EU and the West also have tasks in helping Ukraine to become a strong player and partner in Eastern Europe. The EU should: not

underestimate what has been achieved in Ukraine thus far in order to encourage it to continue this difficult process; continue to place pressure on Ukraine to implement economic and other policies it has initiated; help to reform the economy through well-focused technical assistance, concentrating on immediate high priority needs; improve the effectiveness of its assistance programmes in consultation with the Ukrainian Government; focus its educational and cultural efforts, particularly on the under 35 years of age part of the population; encourage strong and healthy links with Russia.



The implementation of reforms is the best way for Ukraine to join the community of Western democracies. Ukraine must now demonstrate its willingness to integrate into the EU one day by moving toward greater democracy and economic reforms.

However, integration into the EU should not be an ultimate goal, but rather, an instrument to achieve stability, peace and welfare. The target of the Common Strategy is to show that the door remains open to Ukraine, and that EU enlargement as a whole must be handled in ways that contribute towards rather than hinder, the breaking down of barriers in Europe. The upcoming EU-Ukraine Summit in Paris will be an important milestone in this direction.

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LIST OF PUBLICATIONS BY UCEPS EXPERTS IN 2000

Author	Publication	Mass-media	Date of publication
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LIST OF PUBLICATIONS BY UCEPS EXPERTS IN 2000

Author	Publication	Mass-media	Date of publication
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