

# The Key to Kiev

## Ukraine's Security Means Europe's Stability

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ON JANUARY 7, 2009, after an unexpectedly severe disagreement between Russia and Ukraine, ostensibly over natural gas prices, Moscow cut off gas supplies to Ukraine. Then, Ukraine did the same to Europe. European reserves soon dwindled, and with neither Russia nor Ukraine willing to give in, it took intense European pressure to lead both parties to reach a compromise agreement, which they did on January 18. Russia got higher prices for its gas, and Ukraine got a modest price rise in 2009, relative price stability, and favorable terms for gas transit costs.

The crisis made clear—yet again—several lessons that Western policymakers routinely forget. First, although the feud apparently centered on prices, pipelines, and transit fees, it was driven primarily by geopolitics. Moscow cared less about economic disagreements than about undermining Ukraine's pro-Western president, Viktor Yushchenko; gaining control over Ukraine's energy pipeline system in exchange for forgiving Ukraine's mounting gas debts; and building support in the West for Russia's plans to bypass Ukraine's gas pipeline system with a new network by emphasizing that Ukraine was an unreliable transit country. Second, Ukraine is one of Europe's largest states, and with 20 percent of Europe's gas supplies flowing through

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it, it is of great geoeconomic and geostrategic importance. Third, deteriorating Russian-Ukrainian relations could seriously undermine the interests of the European Union, and the United States, both by stoking instability in eastern Europe and by promoting authoritarianism and ultranationalism there. Fourth, Europe can make a big difference in managing Ukraine's relations with Russia. And fifth, securing Ukraine's future as a reliable strategic partner of the West will require just as much engagement as relations with Russia will.

## AFTER THE ORANGE REVOLUTION

UKRAINE'S CURRENT troubles—a deepening economic crisis, a gas war with Russia, internal regional divisions, and a fractious political elite—suggest that the country may be headed toward a period of serious instability similar to its first years of independence, in the early 1990s. This is not what was expected in December 2004, after the triumph of the Orange Revolution—the nonviolent popular movement that reversed a fraudulent vote for president, ensured the free and fair election of Yushchenko, and helped liberate Ukraine's media from government intimidation. But hopes for fundamental reform were soon dashed by the aftereffects of Yushchenko's dioxin poisoning in 2004, which sapped his energy and limited his capacity to quickly consolidate power: he proved indecisive, and his administration seemed unable to move beyond its efforts to undermine the coalition headed by his former Orange Revolution partner Prime Minister Yulia Tymoshenko. Ukraine has had four different governments in four years.

Ukraine's Hobbesian politics have encouraged corruption, rent seeking, and the inordinate influence of special interests. These problems could be ignored while GDP growth averaged over 7.2 percent per year, as it did from 1998 through mid-2008, and personal incomes rose at an average of over 20 percent per year, which they did over the last five years. But the global economic crisis and Ukraine's economic reversals of the last few months have changed that. Industrial production has declined by 30 percent year on year amid the slowdown in global demand for steel and chemicals, two drivers of Ukraine's exports. Most analysts doubt that the state will default on its sovereign debt (which amounts to 20 percent of GDP). However, some Ukrainian

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banks are expected to fail, and Ukraine's combined corporate and government debt of \$105 billion is considered by the international market to be among the most risky in the world: Ukrainian Eurobonds trade on the open market at interest rates exceeded only by those of bonds from Ecuador. The value of Ukraine's currency, the hryvnia, has fallen dramatically, dropping from 4.5 hryvnia to the dollar last summer to over 8 hryvnia to the dollar in March 2009. This decline is particularly devastating for Ukrainian consumers and businesses. Many flocked to lower-interest dollar- and euro-denominated loans in 2007–8, when the national currency was gaining strength against those currencies, and now must repay loans whose interest has nearly doubled in local-currency terms.

In an internal government memorandum issued January 6, 2009 (and published online by *Ekonomichna Pravda*), Ukraine's finance minister, Viktor Pynzenyk, a staunch adherent of fiscal discipline, warned that Ukraine's GDP could decline by well over five percent in 2009 and that state revenues would also decline sharply. He predicted that although there should be enough revenues to pay for state-sector wages and pensions, virtually all other government expenditures—funds for the maintenance or development of infrastructure, subsidies for home energy and electricity costs, contributions to local and regional budgets—would not be financed. Pynzenyk declared that government receipts from taxes, tariffs, and fees would be nearly 30 percent lower than the projections made in September 2008. Just over a month after his forecast, Pynzenyk resigned, citing his unwillingness to implement politically motivated economic policies.

Not all analysts make such dire predictions, but it is clear that Ukraine's economic trajectory is veering steeply downward and that the severity of the crisis will test the country's fragile internal balance. Unfortunately, Ukraine's squabbling elites are not up to the task of dealing with the crisis. Underlying their fractiousness are personality differences and competing political ambitions: Yushchenko and Tymoshenko, for example, appear to hate each other, and both want to be president.

Worse, Ukraine has significant institutional weaknesses. Its flawed constitution divides power between the president and the prime minister in a manner destined to produce conflict. (This dysfunctional

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system was a parting gift from the old regime, an arrangement negotiated in return for Yushchenko's victory in the Orange Revolution.) The presidency is strong, but the roles to be played by the president, the government, and the parliament over many state functions are not clearly delineated. The prime minister is responsible for economic policy and government performance, for example, but the president has the right to appoint key officials, including not only those associated with foreign policy, defense policy, and national security but also governors who are responsible for implementing economic policy at the local level.

The two leading pro-Western party alliances—the Yulia Tymoshenko Bloc and the formerly pro-Yushchenko Our Ukraine–People's Self-Defense Bloc—do not trust the leading opposition force, the Party of Regions, which still has a strong pro-Russia constituency that is suspicious of Europe and the United States. That distrust has precluded grand coalitions and unity governments. Although all three parties broadly agree on the desirability of democracy, a free market, and good relations with both the West and Russia, they function as accessories to rent-seeking interest groups, business oligarchs, political entrepreneurs, and ideological subgroups—meaning that they display little discipline and much incoherence. Regional differences in Ukraine between the largely Russian-speaking eastern and southern parts of the country and the largely Ukrainian-speaking central and western parts inject identity politics into everything, making compromise difficult. Unlike in other, equally fractious central and eastern European countries, the postcommunist elites in Ukraine have never been given a clear signal from Brussels regarding Euro-Atlantic integration. And without this, they have nothing around which to rally despite their differences.

## A NEW COUNTRY

AGGRAVATING THESE already difficult circumstances is the fact that Ukraine faces yet another political transition: the 2010 presidential election looms. Just after the Orange Revolution, Yushchenko's approval ratings were well over 60 percent. Today, only between 2.4 percent and five percent of the public supports him. Although

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Yushchenko has been a strong defender of civil society and the freedom of the press and generally has reduced state interference in the economy, his record on combating corruption has been disappointing and his staff has sought to pressure the judiciary. He is a strong advocate of energy diversification and NATO integration (the latter a policy that only 28 percent of the Ukrainian public supports), but his efforts on both have yielded little result. He has even lost control of his own political movement, Our Ukraine—People’s Self-Defense: last fall, a majority of his bloc’s legislators ignored his calls to bring down the Tymoshenko government. As one high-ranking Ukrainian minister put it, “How can you manage a country when you can’t even manage your own party?” As Yushchenko’s political star has fallen, Tymoshenko’s has risen. But with the Ukrainian economy in free fall, her recent victory over Yushchenko may prove pyrrhic. Charismatic, self-confident, and highly skilled, Tymoshenko has withstood the combined pressure of the president and a powerful opposition and has managed to consolidate power at a time of economic crisis. Tymoshenko is something of a political chameleon. She is both a populist who has sometimes called for nationalization and a frequent proponent of rapid privatization; she flirts with and then rejects social democracy. She argued in a 2007 article in these pages that Ukraine should be considered a bulwark of the West against an expansionist Russia, but just 18 months later she declared that Russian concerns about Ukraine’s place in NATO needed to be taken into account.

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Erstwhile allies during the Orange Revolution, the president and the prime minister now engage in endless mudslinging, and neither is willing to compromise. Yushchenko and his staff have accused Tymoshenko of “treason” because of her efforts to reach accommodation with Moscow. Last December, a top Yushchenko aide denounced Tymoshenko’s ties to the American billionaire George Soros, whom he described as “an international currency speculator.” In February, Yushchenko and his National Security and Defense Council directed the prosecutor general and the state security service to investigate the gas agreements that ended last winter’s stalemate with Moscow, which

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Tymoshenko helped broker. They were eager to show that she had made secret agreements that injured Ukraine's interests and endangered the country's control over energy pipelines. In early March, Yushchenko's security service appointees launched highly questionable operations against Tymoshenko, including raids of the State Customs Service and the state oil and gas company, Naftohaz Ukrainy, which are subordinate to the prime minister's office. Ostensibly investigations into criminal violations of customs procedures and property rights, these operations in fact seem to have been conducted on behalf of the shadowy business interests that back Yushchenko and seek to undermine Tymoshenko.

In reality, the gas deals that Tymoshenko helped broker may very well be in Ukraine's interest. Although Ukraine agreed to pay a high price for Russian gas in the first quarter of 2009—\$360 per 1,000 cubic meters—it will have purchased only a little over ten percent of its annual import needs at this price. According to Ihor Didenko, first deputy chair of Naftohaz Ukrainy, in the second half of this year, when Ukraine will purchase over 60 percent of its annual gas from Russia, it will be paying around \$200 per 1,000 cubic meters, only about 11 percent more than the below-market prices it paid in 2008.

Meanwhile, Tymoshenko has struck back at Yushchenko with equally loaded claims. She has accused the president—and the head of the central bank, whom he appointed—of conspiring to bring down the value of the hryvnia. She has also charged Yushchenko with being an agent of RosUkrEnergo, a secretive private gas-trading group that has made billions of dollars as an intermediary for transactions that require no intermediary. Since the new Russian-Ukrainian gas deal eliminated the company as the middleman, RosUkrEnergo has been making common cause with the president's key advisers and segments of the opposition Party of Regions in order to bring Tymoshenko down.

The Party of Regions, which derives most of its electoral support from Russian-speaking eastern and southern Ukraine, should be the primary beneficiary of the incessant infighting within the formerly united Orange camp. Instead, it has been incapable of serving as an effective opposition and has been beset by factionalism under the influence of different business lobbies. Some analysts suggest it may

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even be on the verge of a formal split. The party's leader, Viktor Yanukovich, is currently the presidential front-runner, according to most polls, but the level of support he enjoys, which hovers somewhere around 25 percent, is generally about ten percentage points lower than the share of the vote that his party has garnered in past elections. This is probably because the economic crisis has cost him some support from the party's traditional electorate, in Ukraine's eastern industrial heartland, which has been hit hard.

Unsurprisingly, polls indicate that most Ukrainians want new leaders. Arseniy Yatseniuk, another presidential contender, who is touted by some as the Ukrainian Obama, was removed as Speaker of parliament in November 2008 with the help of his former patron, Yushchenko. An English speaker and someone who projects an image of a modern European politician, at 35, he has already served as an effective acting head of the central bank, economy minister, and foreign minister. A strong proponent of social liberalism and much admired by younger voters and entrepreneurs, Yatseniuk has injected a refreshing tone into Ukrainian politics by refraining from calumny and promoting competence and professionalism. Because he was jettisoned by the president and his allies, he has the reputation of an outsider—a highly valued commodity at a time when the public is likely to blame insiders for the economic downturn. His approval ratings have moved from several percentage points in the fall of 2008 to 12 percent last winter. If he maintains such support, he has a legitimate chance to make it to the runoff in the 2010 presidential election. And at least one poll, conducted in March 2009, showed that if he made it that far, he would then defeat either of his likely rivals, Tymoshenko or Yanukovich.

## THE RUSSIA PROBLEM

DESPITE THESE weaknesses and political uncertainties, Ukraine will not collapse, as Russia's ultranationalists have predicted. Ukraine is now an established member of the international community, and if some internationally recognized states do fail, other than after a foreign invasion, they rarely disappear. In the years since independence, Ukraine has developed political and economic elites who identify with Ukrainian statehood, see immense economic benefits in the country's

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independence, and define themselves as Ukrainian. The allegiances of some may tilt toward Russia, and those of others, toward the West, but almost no member of these elites actually wants Ukraine to disappear as a state. The vast majority of Ukraine's population also regards Ukraine as its homeland. Although significant minorities identify with Russia, especially in eastern Ukraine and in the Crimea, the political and economic elites that rule these regions are generally loyal to Kiev, not Moscow. Ukraine's population is deeply divided along overlapping regional, linguistic, cultural, and political lines, but such divisions are common for almost all modern states and do not, in and of themselves, portend collapse.

Systemic weakness means both that Ukraine's flawed democracy is unlikely to fix itself in the short term and that the situation is equally unlikely to deteriorate. Ukraine is too fractured and too weak to have either a strong democracy or a strong dictatorship. Politically and economically, Ukraine will probably continue to muddle through, more or less as it has since 1991. The difference is that whereas muddling through may have been good enough in the 1990s, it no longer is today. Back then, Russia was weak and quiescent, its leadership was democratic, its relations with the West were generally good, and the world economy was growing. Today, Russia is standing tall after a long period of high growth, it is stronger and appears to be getting more aggressive, its leadership is authoritarian, its relations with the West are generally strained, and the world economy is in free fall. Just how Russia would respond to a further weakened and possibly brittle Ukraine is impossible to forecast with any accuracy, but given Russia's regime type and its power today, a nondemocratic Russia might well take advantage of Ukraine's increased weakness.

The regime created by Russian Prime Minister Vladimir Putin has been called everything from a "managed democracy" to a "fascist-like state." Whatever the exact designation, it is surely nondemocratic, authoritarian, and assertively nationalist. Civil society and the media have been curbed, elections are neither free nor fair, the legislature is subordinate to the executive, and real power lies not in the hands

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of President Dmitry Medvedev but largely in those of Putin, the ex-president. Freedom House has labeled Russia “not free” since 2005.

According to polls conducted in January 2009, some 62 percent of Russians are negatively inclined toward Ukraine and 24 percent are positively inclined. (In contrast, the same polls showed that only 9 percent of Ukrainians have negative feelings toward Russia, whereas 71 percent have positive ones.) This is not surprising. During the recent gas crisis, the Russian media—now pliant government instruments—almost uniformly portrayed Ukraine as an aggressive and greedy state that wanted to ally with Russia’s enemies and exploit cheap Russian gas. Anti-Ukrainian attitudes in Russia also derive from anger at Ukraine for having precipitated the Soviet Union’s collapse by pressing for independence and for having thus deprived Russia of its historic and imperial legacy. Moreover, Ukraine’s 2004 Orange Revolution challenged Putin’s authoritarian model of government in Russia by suggesting that democracy was possible, even in post-Soviet conditions, in a neighboring Slavic state.

Ukraine’s current weakness presents Putin’s Russia with three targets of opportunity: energy, minority rights, and control over the Crimea. The current gas agreement between Russia and Ukraine is supposed to last for ten years, but that is unlikely to deter either side from attempting to renegotiate its terms. The Russian-Ukrainian gas war is not over; the current cease-fire will eventually break down.

Leading Russian politicians and Russia’s lower house of parliament, the Duma, have repeatedly insisted that Ukraine is persecuting its Russian minority by depriving it of language and cultural rights. Russian language and culture actually dominate Ukraine’s public sphere, but Moscow nonetheless portrays the Ukrainian government’s desultory attempts to expand the use of Ukrainian in the media and schools in the traditionally Russian-speaking eastern and southern parts of the country and the more Ukrainian-oriented central and western parts as outrageous violations of human rights. Most Ukrainians generally manage to communicate in some combination of both languages, but charges of anti-Russian discrimination can serve as effective rallying cries for antigovernment opposition movements. More important, perhaps, they could easily become pretexts for Moscow’s interference on behalf of Russia’s supposedly oppressed ethnic brethren.

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Then there is the disputed status of the Crimea. Russian nationalists decry Soviet leader Nikita Khrushchev's decision in 1954 to grant the Crimea to Ukraine. They also insist that the peninsula is of enormous importance to Russian identity—citing, among other things, the Crimean War and the World War II conference in Yalta—and point to the large Russian population there, as well as the long-standing presence of the Russian Black Sea Fleet in Sevastopol. A source of complication is a rapidly growing, disproportionately young, and largely Islamic Tatar population in the Crimea, which blames the Russians for seizing their property in the aftermath of Stalin's ethnic cleansing in 1944 and the Ukrainians for doing too little to redress past injustices. With its deep ethnic rifts, its hosting of a foreign military base, and its great economic potential (as a tourist area and as a zone for offshore drilling for gas and oil), the Crimea could easily become the target of Russia's expansionist policies or, at a minimum, remain the target of Russian nationalist agitation. Either way, it may be a source of major instability for Ukraine.

## MANAGING MOSCOW

RUSSIA'S TREATMENT of Ukraine carries risks for the West. Just as the West's relations with Russia require a stable Ukraine, so, too, do they require that the rest of Russia's "near abroad" be stable. Europe and Russia cannot be secure, and their relations cannot be stable and mutually beneficial, if the security of Russia's neighbors is neglected. Indeed, relations between Europe and Russia can be secure only if Russia's neighbors are secure, and those states can be secure only if the pivotal state of Ukraine is secure.

But Putin sees many of these states as Russian dependencies with a weak sense of their own identity, whereas western Europe, in particular France and Germany, see Ukraine, as well as Belarus, Moldova, and the Baltic states, as obstacles to its ability to acquire cheap Russian gas and preserve peace in its backyard. Hence, these states' interests are often neglected or even openly violated. On Moscow's orders, there was the August 2008 war against Georgia; Estonia was the target of a cyberwar; Belarus, Latvia, Lithuania, and Ukraine have been the objects of debilitating energy cutoffs; and Georgia, Moldova, and Ukraine have

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been punished through trade sanctions. In all these cases, the West has responded mildly, at best.

Yet states such as Georgia, Moldova, and Ukraine, or Azerbaijan and Kazakhstan, or even Russia-friendly Belarus, will not just roll over and accept a *fait accompli* crafted in Moscow, Berlin, Paris, or Brussels. More likely, they will seek radical solutions to perceived existential threats. At a minimum, this would mean substantially beefing up their defense expenditures, crafting anti-Russian alliances, and subordinating economic reform to the exigencies of security. The states that feel most threatened by Russia could eventually ask for shelter under the United States' nuclear umbrella or follow in Israel's footsteps and seek security guarantees from the United States.

If western Europe remains willing to subordinate Ukraine and the other states of Russia's near abroad to Russia's great-power aspirations, these states, predictably, will become increasingly indifferent to, say, Berlin's focus on ensuring reliable gas supplies or Paris' concern with developing counterweights to U.S. power. At some point, integration into Europe may well be abandoned as a policy goal, and democracy may be discarded for the same kind of authoritarianism and ultranationalism Russia has embraced. Soon thereafter, in the countries of the former Soviet Union, including some of the central and eastern European states that already belong to the EU, public opinion could easily drift toward anger, suspicion, and militarism and threaten the stability of all of Europe. Another risk for the West is that Russia might actively attempt to interfere in Ukraine or other countries in its near abroad. Under one plausible scenario, a strong Russia with a strong economy, a strong military, and a strong state would take military action and succeed in reasserting hegemony, perhaps by defending the rights of the Russians in the Crimea, fomenting secessionist tendencies in eastern Ukraine, or plunging Ukraine's economy into a depression by further raising prices on its gas sales to Ukraine and raising tariffs on its Ukrainian imports. Were a strong Russia to transform Ukraine into the equivalent of its vassal—taking control of Ukraine's oil and gas pipelines and of its foreign policy—it would be virtually impossible for Europe and the United States to establish a genuinely cooperative working relationship with Moscow.

Under another scenario, a weak Russia with a flagging economy, a decrepit military, and a brittle state would become aggressive either

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because it believed it was stronger than it really was or because it thought that a quick little crisis might enhance the government's popular legitimacy at home. Russia would then run the very serious risk of engaging in imperial overreach. Despite Putin's bluster and the Russian army's quick victory over tiny Georgia last summer, Russia is at root a flawed, corrupt, and potentially unstable petrostate. And with its propensity for belligerent and nationalist propaganda, such a Russia may continue to engage in militaristic adventurism and experience internal turmoil. Russia resembles more a Third World country that has a nuclear bomb and raw materials than a mature postindustrial state. The more it extends its reach, the more it will get embroiled in military adventures—and the greater the likelihood of economic, military, or political disaster. If nothing else, more adventurism on Russia's part would be an invitation to its own repressed minorities, such as the Chechens, to reactivate their struggles.

Thus, Ukraine's further weakening in the context of an aggressive Russia would be bad for both countries, their neighbors, and the West. Thankfully, the United States and Europe can help avert this dangerous drift. Although the global economic crisis has hit hard, both the United States and the EU remain strong and powerful political actors and are certain to recover. Both appear to be willing to work together to tackle the world's problems, especially with the recent election of a new U.S. president, who seems multilaterally inclined. Washington and Brussels were both alarmed, although to different degrees, by Russia's aggression against Georgia last summer. And both are looking cautiously to see if anything can be made of the small differences between the authoritarian and aggressive Putin and the more pragmatic-sounding Medvedev.

## MUTUALLY ASSURED CONSTRUCTION

THE UNDERPINNINGS of an effective Western policy toward Ukraine are more clear-cut today than at any time since the Soviet Union's collapse in 1991. Were the EU, supported by the United States, simply to declare, "Ukraine is European, and once it is rich and fully democratic, it will enter the EU," Ukraine's squabbling elites would finally have a goal around which to unite. Such a statement would cost

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Europe nothing, and it would entail no risk: it could not possibly be interpreted as being anti-Russian. More important, it could help Ukraine's president and prime minister find a *modus vivendi* and give the country's political elite an incentive to consolidate. Since the EU has not issued such a declaration in the 18 years of Ukraine's independence, there is little cause to think that it will anytime soon. Part of the reason is that the EU is deeply divided over its future course, but most of the reason is that Berlin and Paris seem to think that virtually unconditional support for an authoritarian Russia will create a benign geopolitical and economic environment in Europe.

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Since such a proactive statement appears unlikely at the moment, the next best step for the EU is to develop a Ukraine policy premised on two realities. First, Western leaders should appreciate that Ukraine is a permanent entity, a state with legitimate interests that will not let its security and stability be sacrificed to Russian, European, or U.S. interests. It might be easier to deal with Russia if Ukraine did not exist, but Ukraine does exist and will not go away. Russia and Ukraine are like India and Pakistan or Israel and Syria, and the West can never just craft a Russia policy; it must always craft a Russia policy and a Ukraine policy.

Europe and the United States must also understand that even with all its imperfections, Ukraine is not a failed state, nor is it likely to become one. Ukraine's citizens have courageously defended their basic rights and created a society with a high degree of pluralism, political competition, and democratic practice. Of course, theirs is a flawed market economy tainted by corruption and cronyism and dominated by a few large oligarchic groups, which are in fierce competition with one another. But although it is a dysfunctional democracy and an imperfect market economy at present, Ukraine has all the building blocs to become a mature European market democracy.

The recent years of indecision, halting progress, and endless political reconfigurations inside Ukraine have frustrated U.S. and European politicians and generated diplomatic fatigue. But now, paradoxically,

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despite the distressing and frustrating patterns of Ukraine's politics, may be an opportune moment for the United States and its European partners to reengage Ukraine, its people, and its elites. The recent gas war may have persuaded European leaders that Russia will defend its perceived interests ruthlessly and that Ukraine really does matter, and the new U.S. administration is hoping to improve relations with Russia without abandoning Ukraine. The West may therefore be ready to get serious about Ukraine precisely because it is hoping to get serious about Russia. The Charter on Strategic Partnership signed by the United States and Ukraine on December 19, 2008, calls for enhanced cooperation on trade, democratic development, and efforts to help prepare Ukraine for NATO membership. It could serve as a model for Western policymakers.

Ukraine may also be ripe for a Western initiative. With the waning of Yushchenko's power and signs that Tymoshenko's governing coalition will offer some continuity, Ukraine may be entering a year of relative political stability. The severity of the economic crisis may concentrate the minds of Ukraine's political leaders, who actually agree on such big-picture items as integration into Europe, market-based solutions, democracy, and equally good relations with the United States and Russia. It could also cause Ukraine's major parties, which adhere to democratic values, reject authoritarianism, and have strong, moderate, market-friendly business lobbies, to focus more on the real issues at stake for Ukraine.

Moreover, Ukraine's elite today consists of highly competent, well-educated, market-savvy, and generally pragmatic leaders and administrators, such as the Tymoshenko allies Hryhoriy Nemyria, the deputy prime minister for international cooperation, and Serhiy Tyhypko, a prominent private-sector banker; Iryna Akimova, of the opposition Party of Regions; and Petro Poroshenko, of Our Ukraine, who serves as chair of the supervisory board of the central bank. Ukraine's wealthiest oligarchs have also matured. Rinat Akhmetov and Viktor Pinchuk have become effective philanthropists and advocates of sound economic policies. That same pragmatism is evident in elite attitudes toward NATO. Most Ukrainian policymakers understand that NATO membership, a major irritant for Russia, is far less important than growing trade with Europe and North America, integration into the EU, and

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a strong bilateral relationship with the United States. And most are willing to wait for a more appropriate time, when the Ukrainian public is sufficiently rid of its Soviet-era image of the alliance, to make a case for joining NATO.

## A WIN-WIN-WIN STRATEGY

REENGAGING UKRAINE economically would be a good place to start. The global economic crisis has hit Ukraine with special force. On the surface, Ukraine might not seem to matter to western Europe—after all, it is relatively far away, and its economy hardly is a powerhouse. Yet, European banks invest heavily in and overwhelmingly control Ukraine's banking sector. Were it to collapse, the aftershocks could be devastating for Europe. To help Ukrainian banks is therefore to help Europe. International financial institutions already recognize the need to shore up Ukraine: the International Monetary Fund has loaned a generous \$16.5 billion to Kiev. The European Bank for Reconstruction and Development has pledged to finance over \$3 billion in new investments. The World Bank's International Finance Corporation has pledged just under \$1 billion. Europe's private banks have injected \$2 billion to recapitalize and bolster their wobbly Ukraine holdings. Bilateral loans could also fill an important gap and, by directly causing individual EU member states to reengage with Ukraine, serve as a vote of confidence in Ukraine's future with the West.

In sum, the West—the United States and Europe—would serve its own interests by reengaging Ukraine. It is an indication of just how much Western policymakers have lost sight of Ukraine's importance that such a painfully obvious policy recommendation needs to be made. Ukraine must be placed back on the policy agenda, as a player in its own right, not as an afterthought to a policy toward Russia. Both the United States and Europe have to appreciate that their relations with Russia and Ukraine are not a zero-sum game. Strong relations with both countries are possible and, arguably, preconditions for each other. To favor one and neglect the other is a recipe for disaster. By producing a stronger, more secure, and more stable Ukraine, the West would effectively be laying the foundations for stronger, more secure, and more stable relations with Russia. 🌐