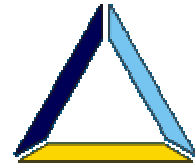


**INSTITUTE FOR ECONOMIC RESEARCH AND  
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**Working Paper No.1**

Bohdan Hawrylyshyn

**Ukraine between East and West, North and South:  
Geopolitical options and constraints**

**August 2000**

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# Ukraine between East and West, North and South: Geopolitical options and constraints

**Bohdan Hawrylyshyn**

## 1 Introduction

*East and West options exist. North and South cannot be the primary geopolitical orientations. They can be a useful complement to the European choice of Ukraine. Choosing the right option and transforming it into reality is a vital question for Ukraine. It is a choice for the future nature of the societal architecture/order, a choice of values (Weltanschauung), of political institutions, of an economic system, of the structure of social relationships, of the role of the individual in society, of the nature and the control of power, of economic efficacy and social justice. In fact the choice may determine the very existence of Ukraine as a distinctive, sovereign, and free society. It is a question of *to be or not to be*.*

## 2 The Eastern options: CIS and E.S.U.

1. *The Commonwealth of Independent States (CIS)* is not the type of entity which is capable of acting as a genuinely integrative institution that could lead to the creation of a type of European Union, a Eurasian union comprising Eastern European, Eurasian and Central Asian states, in all 12 republics of the former Soviet Union. All but one of these countries have been conquered by force, subdued to tsarist imperial and later to Soviet rule, integrated politically and economically to make them indissociable. Yet, they did dissociate. The CIS was seen by Ukraine as a friendly divorce procedure and not as a way to resuscitate the Soviet Union, which was dying peacefully. Ukraine is even now just an associate member of CIS. CIS can, at best, become an uncommon common market.

2. *A Slavic Union*: Is it an option? What are the driving forces, advantages, and constraints?

The only realistic Eastern option can thus be a Slavic Union. More correctly such an entity would have to be called *E.S.U.*, i.e. *Eastern Slavic Union*. The historical Slavic Union based on Pan Slavism, a 19<sup>th</sup> century ideal for some Slavs, is now dead. Perhaps even Bulgarians, but certainly Czechs and Slovaks, having lived under the benevolent supervision of the "big brother", have lost their illusions. Poles never had them, and neither did Croats or Slovenians. Some Serbs are ambivalent about it, but they were disappointed when Russia let them down during the NATO intervention. Also, given its geographical location and its political ambitions, including



the desire to hang on to Montenegro, Serbia is hardly a real candidate for a potential Eastern Slavic Union.

What then are the *driving forces behind the creation of E.S.U.*? The main ones are: President Lukashenko, big power nostalgia in Russia, some veterans, pensioners and Russophiles in Ukraine. The logic for creation of E.S.U. is based on geographic proximity, cultural and linguistic similarities, fairly intertwined economies, and, of course, a common history.

## **2.1 Perceived advantages of E.S.U.**

*For Belarus:* The most obvious advantages seem to be access to cheap energy and other natural resources, to a big market for its less than world quality goods and the feeling of being part of a big power.

*For Russia,* it would mean the return to big power status as a counterweight to Western alliances, reconstitution of Mother Russia, regaining its collective self-esteem, protection of and perhaps even assuring a privileged status for Russian minorities in all member states of the E.S.U., and control over a big market with near monopoly/monopsony positions vis-à-vis Belarus and Ukraine.

*For the Ukrainian side,* the prospects of cheap, domestically priced energy and free access to a big market also seem tantalising. For parts of the Russophone and Russophile populations (there is no close overlap of these two sectors of Ukraine's population) return to the preferred status sounds attractive. To some Russified Ukrainians the comfort of servility may be appealing.

*There are however clear disadvantages to such a Union, some of which translate into constraints.* These constraints are based on the credible assumption that E.S.U. would be dominated by Russia, be somewhat authoritarian, be likely an anti-Western - or at least not pro-Western - political entity, and be without a true market economy that is properly guided by laws.

*For Belarus* it would result in insufficient exposure to the outside world culturally, economically, intellectually and politically. The country would thus likely remain economically backward, politically under-developed with a weak civil society, and would suffer further loss of its national identity.

*For Russia* creation of E.S.U. would also be a step backward. Its authoritarian temptation would likely grow stronger. The joys of big power status would be diminished, not just by its military cost, but by the amount of leadership energy that would have to be wasted on governing a semi-empire, instead of focusing on modernising and building a contemporary nation state. Russia, as it is, faces some serious predicaments. The first one is the crisis of identity. Is the Russian Federation a nation state, is it still an empire, what is the common denominator, what is the root foundation of the state, what is the glue that holds the Federation together?

Another dilemma is that Russia is still a nuclear giant but an economic dwarf. Reconciling these two realities is not easy. Also, the Russian Federation is a Eurasian country, neither fully belonging to, nor excessively



loved by either Europe or Asia. Finally, the Russian Federation is not only populated by orthodox Slavs. Other ethnic and religious groups might feel rather uncomfortable, rather restless in a Slavic Union.

Some of the Russian elite accepts the notion that it does not pay to be an empire in the contemporary era, that it is better to dominate other countries economically, rather than politically or territorially. Also, and this is a very important notion, *the cost of governance increases exponentially with geographical spread and cultural diversity*, which more than off-sets the economic advantages of scale. This is one of the reasons why many small and homogenous Nordic European countries, or Slovenia, have been economically successful. When I predicted the disintegration of the Soviet Union in a book published in 1980 entitled *Road Maps to the Future - toward more effective societies*, which appeared later in 7 other languages, the high "overhead" cost of managing a geographically spread, culturally diverse country, was one of the factors on which my prediction was based. The present Russian Federation is still highly spread geographically, and culturally and ethnically rather diverse. Does Russia really need to add the management of a Slavic Union to the difficulty of managing the Federation?

What are the constraints *for Ukraine* arising from the creation of E.S.U.?

First, there is no strong pro-union constituency in Ukraine. A party with a clear pro-union stance failed dismally in past elections. Although some leftist leaders talk about re-unification, they do not appear too anxious to consummate a union. They would loose their present autonomy under a numerically and intellectually stronger Russian communist party. A significant part of the population, virtually everybody in Western Ukraine, many in Central Ukraine and some in the Southeast too, would oppose a reunification with Russia, even at the cost of civil war.

The main constraints for Ukraine are rooted in its common history with Russia, because it was an imposed rather than a chosen common history. (Khmelnysky's treaty of 1654 notwithstanding). The heritage of tsars and commissars has been debilitating to Ukraine and particularly to Ukrainians within Ukraine, though some minorities such as the Tartars have suffered even more.

Nearly three centuries as a colony of Tsarist Russia - with political, cultural and linguistic oppression - significantly diminished Ukraine's cultural, intellectual and political potential. Seventy years of Soviet regime resulted in the destruction of the peasant class and decimated the cultural and political elites either by extermination or through a brain drain to Russia. Upon the break up of the Soviet Union, Ukraine was left:

- Without any foreign currency, gold or precious metals reserves, or any part of the common Soviet assets abroad (e.g. many valuable buildings including banks), or part of the debt owed to the USSR, although there was an agreement that Ukraine should receive about 17% as its share of the common assets;
- With an economic system that had already disintegrated, and a declining GDP;
- With an economic structure that was integrated with the other republics, but mainly with Russia, based on political rather than on economic or



technical criteria, and designed to maintain total interdependence controlled by Moscow;

- With over a third of its industry dedicated to the military sector. The rest of its industry was capital, energy and material intensive, included very little light consumer industry, and was technologically outdated;
- Without a real banking system;
- Without contemporary management know-how, or knowledge of markets;
- Politically, economically, and culturally isolated from the outside world;
- With a colonial type of administration rather than a real government. 85% of Ukraine's economy had been managed directly from Moscow, the government of the Ukrainian SSR being a branch office of that in Moscow, passing orders down and information up, often with distortions in both directions;
- With Russification. All university and 70% of the secondary level education was carried out in Russian even though 75% of population was Ukrainian;
- With an exceptionally high proportion of the population drawing pensions, including some from Russia;
- With the Tchernobyl disaster and its traumatic psychological, social and financial consequences.

To conclude the review of the Eastern option, one can state that close economic relations with Russia are unavoidable and even desirable, given the economic interdependence and in particular Ukraine's dependence on Russian energy. A political union, however, would likely have catastrophic consequences. Ukraine would be condemned to economic backwardness, political subordination, and social strife. It would be deprived of an opportunity to develop into a truly free, democratic society, with an efficient economy, a strong collective self-respect, a sense of common identity, and being part of the progressive world society.

### 3 The Western option: Integration into the EU

*The advantages and the attractiveness* of this option for Ukraine are overwhelming, perhaps obvious, but worth reiterating:

<i>Security:</i>	Even without becoming a member of NATO Ukraine would be safe from aggression and territorial claims. Its accession to NATO would, however, be more than likely.
<i>Governance system:</i>	Full institutionalisation and maintenance of a pluralistic society and of individual freedom, a government of the people, for the people, and by the people, rooted in sound legislative and judicial foundations.
<i>Economic efficacy:</i>	Both the system and the structure would be internationally competitive, supplying and distributing



quality goods and services on the domestic market with an increasing prosperity of the whole population.

*Technological innovations:* Highly improved conversion of scientific knowledge into useful technologies, through the "market pull" on the traditionally large inventory of theoretical knowledge in Ukraine for commercially useful innovations.

*Social:* Access to the best educational expertise in Western Europe, adequate health care, old age security, and hopefully, a social partnership between government, business, and employees.

*Cultural:* Free interchange with the Western humanist cultures, borrowing from them and contributing to them. Sharpening what is uniquely Ukrainian, yet becoming part of the global society.

*A third way:* The currently dominant thought driving globalisation is: "What is good for shareholders is good for the world".

There is ample proof that the single-minded pursuit of shareholder value increases the gap between rich and poor, between countries and within countries.

Western Europe with its experience in social democracy provides a good model for the reconciliation of economic efficacy and social justice. The mobilising motto could become: "People are the purpose, profits are the means". This could eliminate any nostalgia in Ukraine for an "egalitarian" society of the Soviet kind.

Many of the benefits listed above can be achieved via the process of accession to the EU, through better technical assistance, harmonisation of standards, laws, administrative procedures, and increased trade.

*Constraints on the European option:* They are significant, particularly on the Ukrainian side, but not insurmountable. Among the main ones are:

- The current state of Ukrainian political institutions: the legislative, the executive and particularly the judicial;
- Bureaucratic barriers, and corruption;
- The economic system and structure, i.e. ownership of the means of production, the nature of markets, sectoral distribution, and poor management (in particular of state owned enterprises);
- Above all, with the low level of GDP and income per capita, Ukraine would be a potential burden on the EU, particularly regarding future claims of Ukraine on the structural fund of the EU;
- A constraint of a different kind but an important one is the insufficient surface of contacts with Western Europe. These are adequate at the diplomatic level, but not in the intellectual, cultural and business domains. *There is, therefore, no real pro-Ukrainian lobby in the EU.* The USA, for strategic security considerations, is advocating a Euro-Atlantic option for Ukraine, but would not likely have to deal with its costs. *Poland* is genuinely supportive but not yet a member state itself. The



political leaderships of EU member states, and some of the think tanks, are well aware of the geopolitical importance of Ukraine's integration into the EU, but this awareness does not translate into any vigorous action to facilitate such integration. *Germany's* position on this issue, given its economic weight and the convergence of its national interest with Ukraine's western aspirations, will be of real importance;

- *Russia* officially cannot, and officially does not oppose the accession of Ukraine to the EU, though it is not a candidate itself. Russians, however, "love" Ukraine too much to feel happy about Ukraine being a willing bride of the European Union. Russia is likely to exert some pressures on the EU and in particular on Ukraine not to be too expeditious with the integration agenda, even though Ukraine's membership in the EU would probably allow Russia to draw more benefits from its own partnership relations with the EU. Nevertheless, the EU's policy towards Ukraine has not been sufficiently dissociated from its relations with Russia, which is one of the constraints on the European option of Ukraine.

### **3.1 How should Ukraine pursue this only real option?**

Some rapprochement or drawing closer has already occurred as manifested by the conclusion, ratification and the first steps in the implementation of the *Partnership and Co-operation Agreement (PCA)*. The *Common Strategy of the EU* of December 1999 was a further step in the right direction.

Effective membership in the *Partnership for Peace Program (PPP)* and the *Special Charter with NATO* have also contributed to the rapprochement.

### **3.2 What needs to be done to transform Ukraine's European option into reality?**

Ukraine must shed any ambivalence, if only implied, about its European choice. Statements that Ukraine's foreign policy is multi-vectoral or that it is neither pro-Western, nor pro-Eastern, but pro-Ukrainian may help maintain reasonably friendly relations with its Eastern neighbour, but can also confuse the Ukrainian people and raise questions in the West about Ukraine's determination to pursue its chosen Western path. The policies, pronouncements and actions of Ukraine's government must be subordinated to its strategic, geopolitical Western choice.

To fulfil some of the key preconditions for entry into the EU, Ukraine must complete its administrative reforms and the transformation of its agriculture into a more productive and competitive sector, carry out privatisation in important sectors such as energy, and achieve a higher degree of price liberalisation. Ukraine must also repair relations with the IMF, attract more direct foreign investment, in particular from Western Europe and encourage flight capital to return. This can only be achieved:

- By stabilising legislation and making it predictable;
- By the reduction of barriers to imports and of corruption;
- By the reduction of the number of taxes and tax rates;





- By the removal of special privileges for many entities;
- And by bringing more of the shadow economy into the official one.

The *EU can do much* to help Ukraine's leadership mobilise the society's energy to complete the transformation process and thus approach its long-term accession objective. The EU should:

- Be less "iffy" about future accession to membership of Ukraine;
- Expand technical assistance to facilitate the harmonisation of laws and procedures;
- From its end, energetically pursue the implementation of the Partnership and Co-operation Agreement;
- Grant Ukraine "market economy" status as soon as possible, to help it with its foreign trade;
- Help Ukraine to achieve associate status with the EU;
- Support Ukraine's accession to the World Trade Organisation;
- Open up the possibility of a free trade zone agreement.

#### **4 Are there other options open for Ukraine?**

The *Baltic-Black Sea Union* is a nice dream but it is not a reality. Improvements to the north-south transportation system are clearly desirable, but are an insufficient basis for a union.

*GUUAM* – has some geopolitical connotation because it represents the joint flexing of muscles by five independent countries (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova), without seeking the benediction of Russia. This consultative forum of five states has some fairly concrete objectives:

- The creation of a Eurasian transport corridor particularly for oil and gas;
- The peaceful settlement of conflicts and combating secession;
- Military technical co-operation;
- The co-ordination of actions in international organisations;
- Economic co-operation;
- The creation of a Black Sea Trade and Development Bank (headquartered in Greece).

Neither of the above arrangements are alternatives to the Western integration option. Their objectives are not constraints on Ukraine's European choice. On the contrary, their effective functioning would strengthen Ukraine's position in dealing with the EU.



## 5 Conclusions

Many *historical bridges* have existed between Ukraine and Western Europe. In the 11th century, four of Prince Yaroslav's children were married to Western royal courts. Anna of Kyiv became the Queen of France not just because of her beauty, but because she was the most literate at the court. Yaroslav set a sort of precedent for Western Europe by ordering a codification of laws. Western Ukraine was never fully detached from Western Europe. Even during the New Economic Policy (NEP) period in the twenties, a Ukrainian literary figure from the Eastern part of Ukraine was preaching "our face to Europe and our back to Russia". This pro-Western declaration was squashed along with its author.

In reality, though, the bridges between Ukraine and Western Europe are old. They have to be rebuilt. This building should be done from both sides, the Ukrainian and the Western European. For Ukraine the objective of joining the EU is really a question of to be or not to be.

Ukraine will be a burden to the EU, but it will ultimately also be of benefit:

- It has a highly educated population, much of it with the type of education that can fit into the knowledge civilisation;
- It has a network of scientific institutions that can be revitalised;
- It has the most fertile soil in the world;
- It has established friendship treaties with all its neighbours;
- It has no imperialistic or aggressive past;
- It has achieved inter-ethnic peace, which given the historical context, is an exemplary accomplishment;
- Ukraine asserts strongly its multi-ethnic status. This is being taken rather far. The Ukrainian ethnic majority seems prepared to remain a linguistic minority for a long time in order to preserve interethnic intercultural peace.

If Ukraine were to join a Slavic Union, the psychological confidence and resolve of reactionary forces in Russia to strive for big power status and create an anti-Western block, could be reborn. By joining the EU, Ukraine would lessen this danger significantly for the benefit of Russia, which could thus more readily transform itself into a normal federal nation state with peaceful relations with EU and others. The benefit of this alone would more than offset any cost of Ukraine's accession to the EU.

Am I, are we dreaming? Yes, but only partly. Do great things not start with a dream? Did the EU not come into being because of Jean Monet's visionary dreams? At this historical juncture for Ukraine we have to dream big, transform the dreams into mobilising visions, and then work hard, pragmatically, to transform the vision into reality. This is the challenge before us.