



## Dilemmas of Interdependence: Autonomy, Prosperity, and Sovereignty in Ukraine's Russia Policy

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# Dilemmas of Interdependence

## *Autonomy, Prosperity, and Sovereignty in Ukraine's Russia Policy*

Paul D'Anieri

Ukraine must pursue an economically beneficial relationship with Russia—the very state that poses its primary security threat. Both Kravchuk and Kuchma have sought economic cooperation with Russia, but not through supranational institutions that might curb Ukraine's newfound sovereignty.

In the five years since the declaration of its independence, Ukraine has struggled to build an economically beneficial but politically innocuous relationship with Russia. Because Ukraine benefits from trade with Russia, Moscow can injure Kyiv by severing contact. Such a cutoff would hurt Ukraine more than it would Russia, which is much larger than Ukraine. For Ukraine and the other non-Russian former Soviet republics, there is an inherent imbalance in relations with Russia. Yet despite all the turmoil in Ukraine, and some predictions to the contrary, Ukraine has managed to preserve its independence. Ukraine must pursue an economically beneficial relationship with the very state that poses its primary security threat.

### **Economic Efficiency and Vulnerability**

There is considerable literature on the politics of economic interdependence. That literature is of limited value in Eastern Europe, however, because it is based primarily on the advanced industrial states and assumes a low security threat from economic partners. Ukraine is most economically interdependent with Russia—the country posing its greatest security threat. The dictates of liberal economic theory conflict sharply with the imperatives of national security, and the implications of this different type of international political economy need to be clearly explained.

Economists, politicians, and citizens alike believed that Ukraine was exploited under Soviet rule. Thus, it made sense that breaking Ukraine's ties with Russia would end its exploitation and would ultimately benefit its citizens. Moreover, because the division of labor created under the Soviet Union was not driven by comparative advantage, it was not clear that continuing this

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### Key Events in the Establishment of Ukrainian Independence

July 16, 1990	Ukrainian parliament declares the sovereignty of Ukraine.
August 19–21, 1991	Hard-line putsch against Gorbachev in the Soviet Union.
August 24, 1991	Ukraine declares independence.
October 18, 1991	Ukraine rejects interrepublic Treaty on Economic Union.
October 22, 1991	Ukrainian parliament announces intent to form Ukrainian armed forces.
November 4, 1991	Ukraine agrees to sign Treaty on Economic Union.
December 1, 1991	Ukrainian referendum ratifies independence (90 percent of voters approve); Kravchuk elected president with 60 percent of vote.
December 8, 1991	Minsk/Belovezh Forest agreement establishing CIS is signed.
December 25, 1991	Gorbachev resigns; USSR ceases to exist.
December 30, 1991	First CIS summit is held in Minsk.
January 1992	Russia frees prices; Ukraine introduces <i>karbovanets</i> (coupons).
February 1992	Second CIS summit is held in Minsk.
March 1992	Parliament adopts policies to establish economic independence from Russia; CIS summit in Kyiv.
May 1992	CIS summit is held in Tashkent.
June 23, 1992	Kravchuk and Yeltsin hold bilateral summit in Dagomys.
July 6, 1992	CIS summit is held in Moscow: Economic coordination council established; Ukraine is the only holdout.
August 1992	Kravchuk and Yeltsin hold summit in Yalta to discuss Black Sea Fleet.
September 25, 1992	CIS summit is held in Bishkek.
October 13, 1992	Leonid Kuchma replaces Vitold Fokin as prime minister.
June 17, 1993	Kravchuk and Yeltsin hold summit outside Moscow to discuss Black Sea Fleet.
July 1993	Economic Union is established among Belarus, Russia, and Ukraine.
September 3, 1993	Summit between Yeltsin and Kravchuk is held in Massandra.
September 1993	CIS Economic Union treaty signed; Kuchma resigns as prime minister.
February 8, 1994	Ukraine signs NATO Partnership for Peace agreement.
April 1994	CIS summit is held in Moscow.
July 1994	Kuchma defeats Kravchuk in presidential election.
December 5, 1994	Belarus, Ukraine, and Kazakstan agree to surrender nuclear weapons.
February 8, 1995	Treaty on Friendship, Cooperation, and Partnership is initialed with Russia.
February 10, 1995	Almaty CIS summit.
March 15, 1996	Russian Duma tries to overturn Minsk accords.
March 29, 1996	Belarus, Kazakstan, Kyrgyzstan, and Russia sign integration agreement.
April 2, 1996	Belarus and Russia form Community of Sovereign Republics.
June 28, 1996	Ukrainian parliament adopts a new constitution.
September 2, 1996	New currency (hryvnya) is introduced.

structure would be economically efficient. Some viewed this bizarre division of labor as reason to discount the need to continue trade: "It is impossible to argue logically about why and how the republic should specialize internationally when its apparent losses of trade surpluses and incomprehensible terms of trade render the gains from trade quite dubious."<sup>1</sup>

Despite these assertions about the long term, the dominant opinion in Ukraine and among many foreign economists is that in the short term Ukraine will be injured by rapidly breaking its considerable ties with Russia.<sup>2</sup> In the last nine months of 1995, 42 percent of Ukraine's exports were to Russia and 50 percent of its imports came from Russia.<sup>3</sup> Theorists as well as practitioners have contended that, whatever the inefficiencies and inequalities of the Soviet trading system, dismantling it willy-nilly would create massive disruption and

increase, rather than decrease, inefficiency.<sup>4</sup> The solution, they say, is not to sever the trade ties on which the economy now rests, but to gradually adjust to a structure dictated by market forces and free trade.

Ukraine still needs the Russian market: Ties with other trade partners have been slow to develop. The products of many post-Soviet industries are not suited to Western markets, and the European Union's "free market" is closed to the most competitive Ukrainian products—namely, agriculture.<sup>5</sup> According to Nikolai Petrakov, the absence of other outlets for production "dooms the newly emerged states to a common economic life for the foreseeable future. Political leaders may try to escape this, but their ambitions will not be satisfied during the lifetime of this generation."<sup>6</sup>

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## Dilemmas of Interdependence

Ukraine faces four dilemmas in its economic relations with Russia.<sup>7</sup> First, Ukraine must decide whether it will attempt to “balance” (resist) or “bandwagon” (accommodate) Russian power.<sup>8</sup> Second, Ukraine must decide what degree of dependence it is willing to endure for an increase in economic prosperity. Third, Ukraine faces a somewhat paradoxical tradeoff between sovereignty (the ability to make one’s own decisions) and autonomy

***Either the CIS will constrain Russia through rules, diluting its power by giving it only one vote out of twelve, or the CIS will empower Russia by transferring other states’ sovereignty to an institution that Russia will dominate simply by virtue of its size.***

(the ability to do what one wants).<sup>9</sup> Shunning the Commonwealth of Independent States (CIS) preserves Ukraine’s legal sovereignty, but leaves the state to face Russia on its own.<sup>10</sup> Moreover, it would mean that relations between the two states are conducted not according to the rules of an international institution, but according to bargaining power, where Ukraine cannot prevail. Fourth, Ukraine will be forced to resolve a debate about the value of international institutions. Either the CIS will constrain Russia through rules, diluting its power by giving it only one vote out of twelve, or the CIS will empower Russia by transferring other states’ sovereignty to an institution that Russia will dominate simply by virtue of its size.

Neither balancing nor bandwagoning has proved a viable policy for Ukraine in its attempts to resolve these dilemmas. The 1993–94 “energy war” demonstrated Russia’s power to wreck Ukraine’s economy and the political repercussions in Kyiv. Trade and currency cooperation show how Ukraine’s focus on political independence injured its economy, causing Ukraine to reconsider the tradeoff between prosperity and autonomy. Ukraine’s refusal to participate in the CIS highlights Kyiv’s emphasis on sovereignty over autonomy and lack of faith in CIS ability to constrain Russia.

### The Energy War, 1993–94

Ukraine relies on Russia for much of its energy supply; thus a cutoff would be devastating—as the Russian

government is well aware. Russian energy is priced below the world market, credit terms have been liberal, and other sources are not readily available. In a strictly economic sense, the energy trade with Russia is highly beneficial to Ukraine. This economic benefit, however, is a political liability, because it can easily be removed at a comparatively small cost to Russia.

In March 1993, Ukraine’s inability to pay for energy deliveries became acute, and Russia’s state-run gas firm, Gazprom, threatened a complete cutoff if arrears were not paid. Ukraine’s prime minister, Leonid Kuchma, accused Russia of inducing “a full paralysis” in the Ukrainian economy. Soon it became clear that Gazprom’s actions were part of a concerted Russian effort to use Ukraine’s energy dependence to coerce Kyiv on a range of issues.<sup>11</sup>

At the Massandra summit in early September 1993, the energy war intensified between Ukraine’s president, Leonid Kravchuk, and the president of Russia, Boris Yeltsin. A week before the meeting, Gazprom cut its supply of gas to Ukraine by 25 percent, citing Ukrainian non-payment as justification. At Massandra, Russian negotiators proposed a cancellation of the Ukrainian gas debt in return for full control of the Black Sea Fleet and the surrender of Ukraine’s nuclear warheads. If Ukraine did not agree, the Russians said, gas supplies would be halted. Faced with the prospect of dark factories and cold, hungry voters, Kravchuk conceded: “We had to act on the basis of realism. Suppose we had slammed the door and left. The gas would have been turned off, and there would have been nothing else left to do.”<sup>12</sup>

Most Ukrainians, however, refused to be realistic, and parliamentarians from across the political spectrum accused Kravchuk of selling out Ukrainian interests—even of treason.<sup>13</sup> Kravchuk furiously back-pedaled and asserted that the agreements were only discussed, not actually signed (although the evidence appeared otherwise). In any event, the agreements had to be ratified by parliament, which clearly was not going to happen.

The Massandra summit demonstrated how much was at stake in the energy relationship. Russia’s control over Ukraine’s energy supplies gave it a powerful lever, which it would use to intimidate Ukraine.<sup>14</sup> Massandra forced Ukraine to confront the tradeoff between autonomy and prosperity and prompted a search for alternate suppliers, perhaps Iran. The search encountered two major obstacles. First, Middle Eastern suppliers wanted hard currency and cash, neither of which Ukraine had.<sup>15</sup> Second, Ukraine lacked the infrastructure to transport Iranian oil and gas to Ukraine. While ambitious plans

for a pipeline from Iran to Ukraine via Azerbaijan were announced in early 1992, little real progress was made.<sup>16</sup> The idea of relying on Iran rather than Russia was considered “utopian” by some energy officials.<sup>17</sup>

Ukraine was forced to adopt drastic conservation measures. By October 1993, the energy crisis had forced the closure of half of Kyiv’s industrial enterprises, and the coldest November in fifty years made matters worse.<sup>18</sup> Through the winter of 1993–94, public buildings were not heated; street lights were extinguished; and Ukrainian television began operating on a reduced schedule. Residential heat was maintained in most places, but many industries were idle through the winter. Ukrainians chose autonomy at a very high cost to prosperity.

In early 1994, Russia changed tactics and sought ownership of Ukrainian gas and oil facilities rather than

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political concessions. When Ukraine’s debt to Russia for natural gas reached one trillion rubles, Gazprom reduced deliveries to one-fifth the normal level, and Russian officials demanded either full payment in cash or property rights to Ukrainian pipelines as a substitute.<sup>19</sup> A senior Ukrainian official denied accusations that Ukraine was siphoning gas from pipelines to Western Europe, but threatened that Ukraine might do so if its own supplies were cut.<sup>20</sup> At a meeting with Gazprom and Russian government officials on March 10, Ukraine’s deputy prime minister, Valentyn Landyk, agreed that in return for the resumption of gas deliveries, Ukraine would pay the debt already accrued in 1994, in rubles or hard currency, and would pay half the debt from 1993 in cash and the other half by transferring ownership in Ukrainian gas facilities. In particular, Gazprom would receive a majority stake (51 percent) in the pipelines crossing Ukraine.<sup>21</sup>

If implemented, the arrangement would have removed one of Ukraine’s strongest bargaining chips. Ukrainians strongly resisted surrendering sovereignty over any national asset. Not surprisingly, this plan was subject to criticism from Ukrainian nationalists similar to that of the Massandra deal. The contract was to be signed on April 10, Gazprom’s deadline for payment or

cutoff, but it was never finalized because the Ukrainian side refused to make concrete commitments on which facilities it would transfer to Russia.<sup>22</sup> The gas has kept flowing, and Ukraine (with the help of Western donors) has paid its bills more punctually, easing the situation.

The energy war between Russia and Ukraine illuminates several important facets of the international political economy in the former Soviet region. First, economic interdependence in the newly independent states is not merely a matter of states battling over wealth, but of states’ continued independence. Second, the energy issue has highlighted how dangerous Ukraine’s economic dependence on Russia can be. Third, rather than transfer ownership of Ukrainian assets, Ukraine repeatedly decided to cut its consumption of energy, forcing the closure of many industries in an already reeling economy. Ukraine’s handling of the issue has shown that Kyiv values autonomy and sovereignty highly and is willing to sacrifice prosperity to achieve these goals. While long-term efforts to reduce reliance on Russian energy supplies will continue, in the short term Ukraine remains vulnerable.

## Trade and Currency Cooperation

Breaking with Russia and the other former Soviet republics obviously damaged Ukraine’s economy. However, while this has led many Ukrainians to question their desire for economic separation, others have remained steadfast that Ukraine must not make its renewed prosperity dependent on cooperation with Russia.

December 1991 was perhaps the crucial month for the early history of Ukrainian–Russian trade relations. Russia had just announced its intention to free prices as of January 2, 1992, but Ukraine was preoccupied with its upcoming referendum on independence and did not react until December.<sup>23</sup> Prime Minister Vitold Fokin asked Russia to delay the price liberalization for two weeks so Ukraine could prepare, but the Russian government refused. Ukrainian leaders accused Russia of not living up to previous commitments to coordinate economic policies.<sup>24</sup> Interdependence meant that, ready or not, Ukraine would have to cope with Russia’s economic reform.

When Russia freed prices at the beginning of January 1992, neighboring economies were thrown into turmoil. Goods—food in particular—flowed from other states to Russia, where prices were higher. The other states could either raise prices to match those in Russia or institute

export controls. Ukraine did some of each, freeing prices on many commodities and instituting export controls, which were later matched by Russia.<sup>25</sup>

The liberalization of prices also created a liquidity problem. With the drastic increase in prices, there was no longer enough currency circulating to conduct trade. While Ukraine could issue ruble credits, the only facilities to actually print more rubles were in Russia, and Russia increased its share of currency emissions from two-thirds under the Soviet Union to 80 percent in 1992.<sup>26</sup> A massive currency shortage ensued. According to Aleksandr Yemelyanov, first deputy chairman of the Government Economic Council of Ukraine, "Welcoming the Minsk accords, we thought we did away with the diktat of the center. We did do away with administrative diktat, but the economic one remained. It is in the hands of those who own the money-printing machine."<sup>27</sup> Because banknotes were not forthcoming, Ukraine began to introduce the *karbovanets* (coupon) in January 1992.<sup>28</sup> These coupons were a temporary substitute for rubles, used so that workers could be paid and could buy

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food when there was insufficient supply of genuine rubles.<sup>29</sup> Ukraine continued to use the coupons until the hryvnya was introduced on September 2, 1996.

From the perspective of economic reform, Russia may have been doing the other republics a favor by forcing them to embark on a politically unpopular price liberalization. In Ukraine, however, Russia's unilateral measures confirmed that Ukraine could not really choose the pace of its reform. Having established Ukrainian sovereignty at the beginning of December 1991, Ukraine's leaders were dismayed to find out at the end of the month how little de jure sovereignty really amounted to in conditions of extreme interdependence. The desire to establish economic autonomy commensurate with Ukraine's juridical sovereignty drove Ukrainian policy in the following months.

In March 1992, the Verkhovna Rada (the Ukrainian parliament) adopted a measure on the "Fundamentals of National Economic Policy." Offering little reform, the

policy focused instead on establishing economic independence from Russia,<sup>30</sup> based on the contention that:

At a time when Ukraine has become an independent state and the Union center has ceased to exist, our economy continues to be managed from afar. . . . In practice Ukraine has not taken, indeed has not been able to take, any serious independent decisions on the economy. . . . Ukraine's complete dependence on the existing integration in the two states' economies, Russia's usurpation of functions bequeathed by Union financial, banking, and other systems, and its monopoly on ruble printing facilities across the whole ruble area—all of these things place our economy in a very difficult position, which is growing steadily worse.<sup>31</sup>

The program contained four main policies.<sup>32</sup> First, it called for the establishment of a Ukrainian currency and a rapid exit from the ruble zone, a policy motivated by ongoing currency shortages and the symbolic appeal of a Ukrainian currency. Second, it called for a restriction on imports from Russia. Third, it called for a reorientation of exports to other, less-imposing states of the former Soviet Union as well as the West. Fourth, it advocated using Ukraine's economic power to negotiate favorable deals where possible, by taking advantage of its monopoly position on certain goods and the large amount of transit through Ukraine.<sup>33</sup>

Economic isolation from Russia proved catastrophic for Ukraine. Severing trade ties, combined with the absence of economic reform and the energy problems described above, paralyzed what remained of the Ukrainian economy. It has been estimated that 67 percent of Ukraine's final production contains inputs from Russia,<sup>34</sup> and while Ukraine's policy of isolation did not completely stop trade, it significantly restricted it. Figures on Ukrainian foreign trade are unreliable, but it is clear that trade with Russia fell substantially and by mid-1993 had "hit rock-bottom."<sup>35</sup> Anecdotal evidence abounds of Ukrainian factories going idle because some key component could no longer be obtained from Russia, or because a key Russian market was no longer available. Lack of access to markets along with the energy shortage led to a 31.2 percent decline in industrial output in the first three quarters of 1994.<sup>36</sup>

Currency incompatibility also jolted the economy. With no convertible currencies, interrepublic trade was limited either to barter or hard-currency transactions. The story of regional currency cooperation was much the same as that for trade: A mixture of nationalist

sentiment and intractable coordination problems convinced Ukrainian leaders to take a course of action that inevitably undercut their republic's prosperity.

As the Ukrainian economy continued to crash into 1993, domestic opposition to Kravchuk's isolation policy increased. There was talk of secession not only in Crimea, but in Donetsk Oblast (in predominantly Russian eastern Ukraine). Residents of eastern regions lamented the "abnormality of relations between the neighboring oblasts of Ukraine and Russia"—for example, local phone lines had been cut, so that calls to neighboring cities had to go through Kyiv and Moscow—and called for the "liquidation of artificially created barriers."<sup>37</sup> Local governments in Kharkiv and Luhansk negotiated association treaties directly with neighboring Russian cities such as Belgorod "to restore the traditional, above all, economic ties."<sup>38</sup> These movements did not protest Ukrainian independence per se (more than 80 percent of eastern Ukrainians had voted for independence),<sup>39</sup> but rather the cut of economic ties.

Early in 1993, Kravchuk stated, "We obviously overestimated the potential of our economy. We overlooked the fact that it was structurally incomplete. . . . It took us too long to realize how much the monetary system of Ukraine depends on the money issue policy of the Central Bank of Russia."<sup>40</sup> By backing off from economic isolation, he was able to immediately reverse some of the collapse in trade. Import and export quotas were cut in May and June 1993, and in August 1993 the government eliminated value-added tax and excise taxes on trade with other CIS members. Export incentives and trade liberalization, including lifting central control of prices and foreign trade, ending fixed exchange rates, and lowering taxes, helped increase exports 40 percent and imports 27.6 percent in 1994. In the first three quarters of that year, Ukraine amassed a trade surplus of \$1 billion.<sup>41</sup>

But there were still limits on how far many were willing to go. Kravchuk's supporters in the ruling "party of power" defended the status quo, while western Ukrainian nationalists opposed renewing trade ties with Russia. In July 1993, Prime Minister Kuchma signed an economic union agreement with Russia and Belarus that envisioned integrating production, investment, trade, credit, and currency, areas in which the earlier Ukrainian plan had severed ties. However, both Kuchma and the treaty were attacked, and while the CIS economic union progressed, Ukraine's part in it diminished. Parliamentary speaker Ivan Plyushch found the agreement "absolutely unacceptable," viewing it as "an attempt to

restore not only a single economic space, but also a single state administration."<sup>42</sup>

The energy shortage through the winter of 1993–94 and the concurrent steady economic decline increased pressure for action, and Ukrainians increasingly viewed the breakup of the Soviet Union as responsible for their troubles, at least in part. The relationship with Russia was the dominant issue in the Ukrainian presidential election in June and July 1994. With his support based in the east, former prime minister Kuchma's platform advocated an economic union with Russia, while President Kravchuk moved toward the western/nationalist position, which viewed economic union as a sellout of Ukrainian sovereignty. Kuchma's victory reflected not only a shift in political power but a fundamental reassessment of Ukraine's ties to Russia. In his inaugural address, he declared:

Ukraine's self-isolation and its voluntary refusal to campaign vigorously for its own interests in the Euro-Asian space was a serious political mistake, which caused great damage, above all, to the national economy. . . . In this context normalizing relations with Russia, our strategic partner, is of principal significance.<sup>43</sup>

However, Ukraine's Russia policy has changed much less than expected. Kuchma's policies as president have been much more wary of Russia than those he espoused on the campaign trail. In particular, he has sought increased economic ties with Russia only as a component of reform, not as a goal in itself. Contrary to expectations, Kuchma has steadfastly refused to bring Ukraine into any new central structure, rejecting anything that would "limit our sovereignty."<sup>44</sup> At the same time, he has strengthened Ukraine's position by courting the West—the International Monetary Fund in particular—and by finally initiating economic reform.<sup>45</sup>

The policy of cutting ties with Russia has now largely been reversed as the price of economic independence has proved high. A Ukrainian trade official declared early in 1996, "Russia is our number-one strategic partner," particularly in economic relations.<sup>46</sup> On the issue of economic sovereignty, however, Ukrainian opinion is still relatively unified. Ukraine has remained highly protective of its sovereignty, even as the economic costs of that policy have become obvious, and even as it has become more realistic about accepting interdependence with Russia. This suggests that sovereignty is Ukraine's first priority in considering international cooperation



and that the focus on sovereignty is a fundamental rather than a transitory phenomenon. Ukraine's policy toward the CIS confirms this finding.

## Unhappy with the CIS

Debate over the ideal relationship among union republics was the immediate cause of the 1991 coup precipitating the dissolution of the Soviet Union. While most republics, including Ukraine, used the occasion of the August putsch to declare their independence, other leaders (including Boris Yeltsin) envisioned some type of political and economic union among the newly independent states. Ukraine remained aloof from these discussions, awaiting the outcome of its December 1, 1991, independence referendum before taking any action.<sup>47</sup>

Ukrainian leaders had other ideas, particularly about maintaining integrated structures. In September, Defense Minister Konstantyn Morozov announced that Ukraine would build its own army.<sup>48</sup> While ten other republics agreed on a draft Economic Union treaty written by liberal Russian economist Grigorii Yavlinskii, the Verkhovna Rada immediately denounced it for providing Russia with as much control over the economies of the republics as the Soviet Union had possessed previously.<sup>49</sup> Dmytro Pavlychko, chairman of the Verkhovna Rada's Committee on Foreign Relations, stated that Ukrainian independence must have "top priority over all other issues."<sup>50</sup> Here the dilemma between prosperity and sovereignty was evident. Yavlinskii based his plan on economic rationality and copied the most successful model to date: the European Community. In Ukraine there was no opposition to the economics in the plan, but because the economic logic had a political logic as well, the plan was rejected. This resistance to formal economic coordination has persisted.

The December 8, 1991, treaty creating the Commonwealth of Independent States had two significant features.<sup>51</sup> First, it dissolved the Soviet Union in international legal terms, accomplishing a goal sought by Yeltsin as much as by Kravchuk. As long as it existed, the USSR had a powerful leader in Mikhail Gorbachev and control over most of the levers of authority in both Russia and Ukraine. Yeltsin and Kravchuk shared a common threat to the legitimacy of their governments and their individual power, and they cooperated, at least implicitly, against the center. The dissolution of the USSR gave Yeltsin authority to force Gorbachev from office a few weeks later. Second, the treaty's signatories stated their intention to coordinate policy on a range of

government activities, from ecology to foreign policy.<sup>52</sup> The significance of these provisions was not their breadth, but the "intentional" nature of them. Nothing concrete was resolved. Russia, Ukraine, and Belarus had destroyed the Soviet Union but reached no real agreement on what to do next.

The temporary coincidence of interests soon evaporated. Russia, now the leading actor in the region, advocated centralized authority. Ukraine was relieved to see the Soviet Union gone, but still feared domination by

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Moscow. Its leaders stated consistently, "If there is any attempt [for one state to stand above others], then the commonwealth will fall apart, because Ukraine will never agree to be subordinated to anyone."<sup>53</sup>

Initially, the relationship among the CIS, the USSR, and Russia was unclear, particularly in the military realm. Because Yeltsin's government took over many of the institutions and functions of the USSR, Russia appeared to be a continuation of the USSR, which worried the other states. What Russia did not claim went primarily to the CIS, making the new organization suspect. Finally, it was difficult to distinguish between Russia and the CIS, because many USSR institutions that had officially devolved to the CIS were obviously controlled by Russia. Ukrainian fears of a "new center" were not unfounded, regardless of Russia's protestations.

Largely because of this concern about recreating the center, the CIS remained weak for most of its first year, and even the agreements with firm commitments were often disobeyed. Ukraine refused to sign 40 percent of the agreements and signed another 10 percent only with qualifications.<sup>54</sup> After the May 1992 summit, in which Kravchuk expressed his lack of support for the CIS, there was speculation that the organization would collapse entirely, but its prospects improved after the Yeltsin-Kravchuk agreements at Dagomys in June.<sup>55</sup> Nonetheless, in September, Kravchuk reasserted that Ukraine opposed "all attempts to turn back the wheel of history and revive the old imperial center by camouflaging [these attempts] with deceptive slogans about a single economic or some such space, the need for more coordination of activities, and the like."<sup>56</sup>

Russia's and Ukraine's positions regarding the CIS



changed significantly in 1993. Russia still pursued CIS integration, but increasingly used coercion rather than incentives to persuade others to go along. Ukraine, while maintaining its fundamental opposition to meaningful integration, became more willing to participate in economic agreements and to acknowledge the utility of the CIS as something other than a mechanism for divorce.

In the spring, Russia de-emphasized cooperation through the CIS and focused more on unilateral leadership.<sup>57</sup> The change was shown most clearly in Russian policy toward CIS defense structures. Before this time Russia had advocated maintaining a strong joint military, even as other republics formed their own armies. In May 1993, however, Russia rejected two draft proposals on increased integration proposed by the CIS joint command. In particular, Russia opposed creating standing CIS forces during peacetime, a significant reversal from its original objective of an "Eastern NATO." The goal of a highly integrated military appeared dead, and Russia now concentrated on funding the Russian army. However, Moscow's reluctance to pay for joint CIS troops did not indicate that Russia was decreasing its military role in the region. Instead, Russia sought to use Russian troops as regional peacekeepers.<sup>58</sup>

Ukraine's policy was evolving simultaneously. Until 1993, opposition to the CIS commanded support across the Ukrainian political spectrum. After independence was declared the dominance of nationalists eroded as pro-Russian forces regained their balance and economic isolation incurred hardship. Kravchuk admitted at a press conference in January 1993 that Ukrainians were now divided, with the pro-Russian group (including many members of the Verkhovna Rada) advocating acceptance of the CIS Charter and the nationalists advocating not only rejection of the charter but a Ukrainian exit from the CIS as well.<sup>59</sup>

Kravchuk recognized the need to strengthen economic ties, but still resisted giving the CIS a significant role. Although he recognized the importance of the CIS, Kravchuk was less than enthusiastic: "If there were no CIS, things would be worse." The continuing gap between Russian and Ukrainian goals was shown at the February 1992 Minsk summit. Russia promoted the CIS Charter, which focused on collective security (a non-starter for Ukraine) and political coordinating bodies (a difficult sell at best). Ukraine focused much more narrowly on resolving the economic crisis.<sup>60</sup> Ukraine's willingness to participate in central organs reached a new high when it signed an agreement on an interstate economic bank that gave a great deal of control to Russia

(50 percent of the votes and the use of the Russian ruble as a common currency). The bank did not preserve the ruble zone, as many had hoped, but Ukraine's agreement to participate demonstrated a significant policy realignment.<sup>61</sup>

Ukraine steadfastly rejected any reduction of its sovereignty for the sake of increasing trade. Cooperation would be strictly limited to economic affairs. When the CIS Economic Union was negotiated in September 1993, Ukraine insisted on creating a special "associate membership" for itself. According to details worked out at the Moscow CIS summit in April 1994, Ukraine will take part only in the institutions it finds useful and will be bound only by agreements it signs; other CIS decisions will be viewed as mere recommendations.<sup>62</sup> While

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Ukraine sought to participate in the Economic Union, it still refused to delegate authority such that Ukraine might be legally committed to something it opposed. Ukraine's reluctance has seriously undermined the Economic Union's ability to deal with any but the most trivial issues.

The issue of CIS integration played an important role in the 1994 presidential campaign. Kuchma, responsible for signing the Economic Union treaty in September 1993, advocated full rather than associate membership, while Kravchuk adopted the nationalists' position. Kuchma's convincing victory seemed to indicate that the second phase of Ukrainian-CIS relations would end the belligerency that characterized the first phase.<sup>63</sup> Instead, Kuchma has adopted a much less friendly line, stating his opposition to central organs and refusing to play a full role in the new CIS Interstate Economic Committee or to participate in a new payments union.<sup>64</sup> In this respect, Ukrainian policy toward the CIS has been consistent from Kravchuk in 1991 through Kuchma in 1996.

Kuchma has followed a bilateral policy that does not reject economic interdependence or formal agreements to govern international trade but does limit the acceptable forms of cooperation.<sup>65</sup> In particular, it rejects an important role for international institutions, which become much more important in facilitating multilateral cooperation because of its complexity. It also rejects the

need for Ukraine to submit to the will of a majority of its neighbors, since majority voting is not required in bilateral negotiations. The Ministry of International Economic Relations and Trade now even has an Administration for *Bilateral* Relations with the Russian Federation. Bilateralism is Ukraine's way of accepting interdependence while preserving sovereignty by rejecting the CIS. The cost of this policy is an increase in transaction costs (which reduces economic efficiency) and a decrease in autonomy, as Ukraine must continue to make deals with Russia based on bargaining power, where it is inherently disadvantaged.

While Ukraine has readjusted its policy on trade to end its economic isolation and increase prosperity, it has been unwilling to sacrifice sovereignty for that goal. Despite policy modifications and vigorous domestic debate, the bottom line has remained constant: Ukraine will seek economic cooperation with Russia, but only to the extent that supranational institutions are not required. In this respect, Ukraine's policy has continued to be driven by the sentiments its leaders expressed even before the formation of the CIS. Russia and Ukraine will continue to be at odds over the proper role of the CIS, making the future of the organization dim.

## Dilemmas and Choices

Examining these three issues in Ukrainian–Russian relations provides some preliminary insight into the sources of Ukrainian foreign policy and the nature of international politics in the region. The basic problem—economic reliance on a potentially (or actually) hostile state—seems somewhat inescapable in the short term. These dilemmas will therefore continue to characterize Ukraine's problems, and Ukraine's early responses provide some indication of what we can expect in the future.

Ukraine has been unable to resolve the fundamental dilemma between balancing or bandwagoning a regional hegemon. It cannot oppose Russia, either militarily or economically, because it relies too much on trade with Russia. Nor can Ukraine embrace Russia, because that might undermine its independence.

Ukraine initially elected to sacrifice some prosperity in the pursuit of autonomy. It severed trade ties with Russia in order to reduce its vulnerability. However, the leadership underestimated the ramifications of this tradeoff, and the ensuing collapse of the economy spurred a partial retreat. Beginning in the autumn of 1993, Ukraine has endeavored to re-establish trade with Russia while keeping its political distance. When auton-

omy was severely jeopardized by the energy war, Ukraine sacrificed prosperity, allowing the economy to suffer rather than giving in. Despite much talk of increasing energy independence, no significant steps have been taken, and Ukraine remains vulnerable.

In contrast to its retreat on autonomy, Ukraine has remained steadfast in its drive to maximize its juridical sovereignty, most notably in its refusal to participate meaningfully in the CIS. This refusal might seem illogical, as the CIS could theoretically bind Russia with rules and dilute Russian power. But Ukraine has an unstated fear that the CIS would empower Russia and reduce Ukraine's autonomy correspondingly. Ukrainian leaders see no tradeoff between sovereignty and autonomy. As a result, Ukraine deals with Russia only in bilateral terms, a policy that maximizes the power difference between the two countries and enables Russia to subject Ukraine to extreme pressure.

The dilemmas of Ukrainian interdependence with Russia affect not only Ukraine's relations with Russia but its entire foreign policy and national security orientation. In the first half of 1996, Ukrainian policy circles focused on defining Ukraine's geoeconomic and geopolitical orientation. Should Ukraine remain neutral (as stated in its 1990 Declaration of Sovereignty), maintain a less rigorous "non-bloc" status, or attempt to join NATO, the West European Union, or some other grouping? Ukrainian discussions of the issue show that the country's options are constrained by the need to continue trade with Russia and the hope of developing economic and political alternatives.

As of mid-1996, Ukrainian–Russian relations had stabilized. Ukraine finally has a post-Soviet constitution, which should ease the institutional stalemate that has impeded development of an economic security strategy. Boris Yeltsin has been re-elected, ending speculation over reactionary communist foreign policy. But the potential for renewed economic warfare remains a fundamental problem for Ukrainian leaders.

Two factors might significantly change the situation. First, Russia could, over time, become more accepting of Ukrainian independence or more concerned with its own domestic stability. Any assessment of Russia's future intentions is risky, but it is important to remember that Russia largely determines the extent of security problems for the smaller states of the region. Conversely, should Russia reassert itself (the potential scenarios are numerous), the recent stability in the relationship, and in Ukraine's economy, could vanish quickly.

Second, Ukraine has finally embarked on the path of economic reform. If this reform succeeds, Ukraine may be able to increase prosperity without sacrificing sovereignty to the CIS or autonomy to Russia. This has been the goal of those who deny the need to keep the two economies integrated. Indeed, the role of a strong economy in maintaining independence seems to be one of the factors promoting reform in Ukraine. In some respects, however, a prosperous Ukraine will have more to lose in a trade conflict than an impoverished one. There is no escaping these dilemmas, and the politics of interdependence will continue to be the crux of the Ukrainian–Russian relationship.

### Notes

1. Volodimir N. Bandera, "National Income Transfers and Macroeconomic Accountability from the Standpoint of Ukraine," in *The Ukrainian Economy: Achievements, Problems, Challenges*, ed. I.S. Koropecykj (Cambridge: Harvard Ukrainian Research Institute, 1992), pp. 400–401.
2. On the crisis of Ukraine's economic ties with ex-USSR republics, see Ihor Burkavsky, "The Economic Situation in Ukraine," *Politychna Dumka* 1 (1993): 166–68.
3. O.S. Samodurov, "Z nashym stratehichnym partnerom" (On our strategic partners), *Politika i chas* 2 (February 1996): 37.
4. Constantine Michalopoulos acknowledges that although there is a need for a long-term adjustment of trade patterns, "Precipitous drops in trade volumes are worrisome because they contribute to the disruption of production and decline in incomes. The contraction of output has further negative multiplier effects on trade" ("Trade Issues in the New Independent States," *Studies of Economies in Transformation* 7 [Washington: World Bank, 1993], p. 1). See also Oleh Havrylyshyn and John Williamson, "From Soviet disUnion to Eastern Economic Community?" *Policy Analyses in International Economics* 35 (Washington: Institute for International Economics, October 1991), p. 2; Evgenii Yasin, "The Economic Sphere of the Former Soviet Union, Past and Present," in *Economic Consequences of Soviet Disintegration*, ed. John Williamson (Washington: Institute for International Economics, 1993); and Ivan Lukinov, "Radical Reconstruction of the Ukrainian Economy: Reasons, Reform, Outlook," in *The Ukrainian Economy: Achievements, Problems, Challenges*, ed. Koropecykj, pp. 32–33.
5. See Bartlomiej Kaminski, "Trade Performance and Access to OECD Markets," in *Trade in the New Independent States*, ed. Constantine Michalopoulos and David D. Tarr (Washington: World Bank, 1994).
6. Nikolai Petrakov, "Political Prospects for Preservation of the Single Economic Space," in Williamson, *Economic Consequences of Soviet Disintegration*, p. 41.
7. These dilemmas are explored in greater detail in Paul D'Anieri, "Interdependence and Sovereignty in the Ukrainian–Russian Relationship," *European Security*, forthcoming.
8. For development of these concepts, see Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987). For their application to the situation in the former Soviet Union, see James M. Goldgeier, "Balancing Versus Bandwagoning in the Former Soviet Union" (paper presented at the 1992 annual meeting of the American Political Science Association, Chicago). Here, I use the concepts slightly differently. Walt's work concerns the formation of military alliances, while the issue between Russia and Ukraine concerns economic cooperation.
9. These definitions of autonomy and sovereignty are derived from Richard Cooper, *The Economics of Interdependence* (New York: McGraw-Hill, 1968), p. 4–5.
10. The classic statement on bilateralism and the power of the strong is that of Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945). See also Peter J. Katzenstein, "The Small European States in the International Economy: Economic Dependence and Corporatist Politics," in *The Antinomies of Interdependence*, ed. John G. Ruggie (New York: Columbia University Press, 1982), p. 103; Timothy J. McKeown, "Hegemonic Stability Theory and Nineteenth-Century Tariff Levels in Europe," *International Organization* 37, no. 1 (winter 1983): 73–91; Arthur A. Stein, "The Hegemon's Dilemma: Great Britain, the United States and the International Order," *International Organization* 38, no. 2 (spring 1984): 355–86; and Steve Weber, "Shaping the Postwar Balance of Power: Multilateralism in NATO," in *Multilateralism Matters: The Theory and Praxis of an International Form*, ed. John G. Ruggie (New York: Columbia University Press, 1993), pp. 235–36.
11. The linkage was made explicit by the Russian ambassador to Ukraine, Leonid Smolyakov, at a press conference on February 5, 1993, and repeated by Deputy Prime Minister Alexandr Shokin on February 8 (*RFE/RL Daily Report* [February 9, 10, and 22, 1993]). The close ties between Gazprom and the Yeltsin administration were solidified in late 1992, when Gazprom director Viktor Chernomyrdin was named prime minister.
12. Quoted by Reuters, September 6, 1993, in John Morrison, "Pereiaslav and After: The Ukrainian–Russian Relationship," *International Affairs* 69, no. 4 (1993): 695.
13. *RFE/RL Daily Report* (September 6–10, 1993).
14. For an example of mainstream Ukrainian attitudes toward Russian pressure on energy, see *Holos Ukraïny* (March 12, 1994): 2.
15. In the first quarter of 1995, the average price of oil sold by Russia to the United States and Europe was \$110 per ton. To CIS members, the price was only \$78.80 per ton, a subsidy of nearly 30 percent. Similarly, Ukraine was paying \$50 per thousand cubic meters of natural gas, rather than the world price of \$80 per thousand cubic meters (*OMRI Daily Digest* [May 25, 1995]). Belarus, which had much closer relations with Russia, was paying slightly more than Ukraine (\$53 per thousand cubic meters). See also Oles M. Smolansky, "Ukraine's Quest for Independence: The Fuel Factor," *Europe-Asia Studies* 47, no. 1 (1995): 82–83.
16. The Iranian alternative, and the reasons it did not solve the problem, are discussed by Smolansky, "Ukraine's Quest for Interdependence," pp. 70–72 and 77–80. See also *Post-Postup* (April 29–May 6 and February 17–23, 1994).
17. *Komsomolskaia pravda* (April 24, 1992): 2, in Foreign Broadcast Information Service, *Daily Report: Central Eurasia* (hereafter *FBIS: USR*) (May 4, 1992): 64.
18. *RFE/RL Daily Report* (October 7, 1993).
19. *RFE/RL Daily Report* (February 7, March 7, and March 9, 1994). See also *Financial Times* (February 12–13 and March 8, 1994). Russia had tried the same approach previously with Latvia.
20. *RFE/RL Daily Report* (March 3, 1994).
21. Rustam Narzikulov, "Ukraine Agrees to Pay Debts to Gazprom. It Can Only Pay in Property," *Segodnia* (March 11, 1994): 1, in Foreign Broadcast Information Service, *Daily Report: Central Eurasia* (hereafter *FBIS: SOV*) (March 11, 1994): 35. (*FBIS* briefly had two versions of *Daily Report: Central Eurasia*. *FBIS: SOV* was published daily and *FBIS: USR* was twice per week.)
22. *Holos Ukraïny* (March 12, 1994); *RFE/RL Daily Report* (March 11, 1994); and *Financial Times* (March 11, 1994). Plans to transfer Ukrainian gas facilities to Russia are discussed in detail in *Post-Postup* (March 17–24 and April 1–7, 1994). See also *Post-Postup* (April 8–14 and April 22–28, 1994).
23. Alexander J. Motyl, *Dilemmas of Independence: Ukraine After Totalitarianism* (New York: Council on Foreign Relations Press, 1993), pp. 138–39.
24. In particular, Russia's unilateral reform appeared to contradict several parts of the agreement signed following the establishment of the CIS, "to conduct coordinated economic reforms . . . ; to refrain from any actions inflicting economic damage on one another . . . ; to pursue a coordinated policy of price liberalization. . . ." "Declaration by the Governments of the Republic of Belarus, the Russian Federation, and the Ukraine on Coordination of Economic Policy," TASS International Service, December 8, 1991, in *FBIS: SOV* (December 9, 1991): 48.

25. *RFE/RL Daily Report* (January 10, 1992).
26. James A. Durán, Jr., "Russian Fiscal and Monetary Stabilization: A Tough Road Ahead," in *The Former Soviet Union in Transition*, ed. Richard F. Kaufman and John P. Hardt (Armonk, NY: M.E. Sharpe, 1993), p. 214.
27. *Postfactum* (December 26, 1991), in *FBIS: SOV* (December 27, 1991): 57.
28. While the Russian reform explains the hasty introduction of Ukrainian coupons, it does not account for the establishment of a separate currency, which Ukraine would have done anyway. Ukraine had already discussed plans to introduce coupons in September 1991. The unplanned introduction of the currency, however, guaranteed that it would be unstable, contributing to trade uncertainty as well as domestic inflation.
29. When prices were liberalized, electricity rates were raised twelve-fold for rural customers and sixfold for urban. Price rises on many basic food items were initially limited to three times their previous price (for a list of price rises in Ukraine, see Kyiv Radio Network, December 31, 1991, in *FBIS: SOV* [January 2, 1992]: 87–89). By August 1994, wages had been increased 400 percent (Economist Intelligence Unit, *Country Profile: Ukraine* [1993–94], pp. 13–14).
30. Steven J. Woehrel, "Political-Economic Assessments: Ukraine," in Kaufman and Hardt, *The Former Soviet Union in Transition*, pp. 966–67.
31. "L. Kravchuk's Report Was a Bombshell," *Komsomolskaia pravda* (March 26, 1992): 1–2, in *FBIS: SOV* (March 27, 1992): 54. For a trenchant critique of the plan, see Mikhail Leontyev, "Couponization at a Faster Rate: The First Concept of Ukrainian Economic Reform," *Nezavisimaia gazeta* (April 1, 1992): 1 and 4, in *FBIS: USSR* (April 22, 1992): 45–47.
32. Woehrel, "Political-Economic Assessments: Ukraine," pp. 54–55 and 966–67.
33. "L. Kravchuk's Report Was a Bombshell," p. 55.
34. Alexander Granberg, "The Economic Interdependence of the Former Soviet Republics," in Williamson, ed., *Economic Consequences of Soviet Disintegration*, p. 62.
35. Economist Intelligence Unit, *Country Profile: Ukraine*, p. 26.
36. *PlanEcon Report* (December 20, 1994): 6.
37. *Donetskii kryazh* (February 11–17, 1994): 1.
38. *Ibid.*; see also *Luhanskaia pravda* (January 27, 1994): 1.
39. Taras Kuzio and Andrew Wilson, *Ukraine: Perestroika to Independence* (Edmonton: Canadian Institute of Ukrainian Studies, 1994), p. 189.
40. Interfax, March 6, 1993, in *FBIS: SOV* (March 9, 1993): 36.
41. *PlanEcon Report* (December 20, 1994): 13. It is not clear how much of this recovery occurred before Kuchma took over or as a result of policies enacted before he took over.
42. *RFE/RL Daily Report* (August 23, 1993). Plyushch's opposition may have been based not simply on the economic content of the treaty, but on some of the overtly political content that seemed to bode ill for Ukraine's independence: "The governments particularly stress that they will strictly protect the legal interests of their fellow countrymen who live outside their states" (ITAR-TASS, July 10, 1993, in *FBIS: SOV* [July 12, 1993]: 1).
43. Kyiv Radio World Service, July 19, 1994, in *FBIS: SOV* (July 20, 1994): 37.
44. *RFE/RL Daily Report* (September 13, 1994). See also *Financial Times* (August 2, 1994): 14; and Mykola Tkachenko, "Read My Lips: No New Soviet Union," *Krieble Institute Monitor* 2, no. 18 (October 15, 1994).
45. See Taras Kuzio, "After the Shock, the Therapy," *Transition* 1, no. 13 (July 28, 1995): 38–40.
46. Samodurov, "Z nashym stratehichnym partnerom."
47. This period is discussed in detail in Kuzio and Wilson, *Ukraine: Perestroika to Independence*, pp. 189–91.
48. *RFE/RL Daily Report* (September 17, 1991).
49. *RFE/RL Daily Report* (September 24, 1991).
50. *RFE/RL Daily Report* (September 18, 1991).
51. The text of the treaty is printed in *Washington Post* (December 10, 1991).
52. *RFE/RL Daily Report* (December 12, 1991).
53. *Financial Times* (December 17, 1991), quoted in Roman Solchanyk, "Kravchuk Defines Ukrainian-CIS Relations," *RFE/RL Research Report* 1, no. 11 (March 13, 1992): 9.
54. Ann Sheehy, "The CIS: A Progress Report," *RFE/RL Research Report* 1, no. 38 (September 25, 1992): 2.
55. *Ibid.*
56. *Molod' Ukrainy* and *Nezavisimaia gazeta* (September 22, 1992), quoted in Roman Solchanyk, "Ukraine and the CIS: A Troubled Relationship," *RFE/RL Research Report* 2, no. 17 (February 12, 1993): 24.
57. *Financial Times* (April 18, 1994): 2.
58. *RFE/RL Daily Report* (June 16, 1993).
59. Solchanyk, "Ukraine and the CIS," pp. 25–26.
60. Ann Sheehy, "Seven States Sign Charter Strengthening CIS," *RFE/RL Research Report* 2, no. 9 (February 26, 1993): 12.
61. The shortcomings of the Interstate Economic Bank as created are discussed in Sheehy, "Seven States," p. 13.
62. Myroslav Levyts'kyi, "Prezidenty radiat', a chyny hadiat'," *Za Vil'nu Ukraïnu* (April 13, 1994): 1.
63. On Kuchma's pre-election views, see *Post-Postup* (March 17–24, 1994): 1–2; and *Vysoky zamok* (April 12, 1994): 2.
64. *RFE/RL Daily Report* (September 14, 1994). See also Tkachenko, "Read My Lips: No New Soviet Union."
65. Ukraine's preference for bilateral cooperation was discussed by Leonid Kravchuk in detail in late 1992 (see Solchanyk, "Ukraine and the CIS," p. 25). For more recent analyses, see the roundtable discussion "A nam shcho robyty z rosieiu" (And What Are We to Do with Russia?), *Politika i chas* 3–4 (March–April 1996); and the interview with Deputy Minister of Economics Leonid Minin, "Intehratsiia dlia vzaiemnoi vyhody" (Integration for Mutual Benefit), *Uryadovyi kurier* (June 22, 1996): 5.

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