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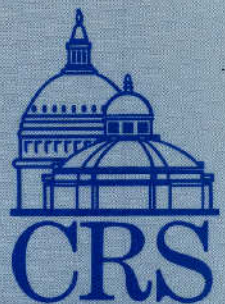
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by  
Steven Woehrel  
Foreign Affairs and National Defense Division





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## Ukraine

### SUMMARY

With a land area and population larger than Poland, Hungary and Czechoslovakia combined, the newly independent Ukraine may in the future become an important European power. At present, however, Ukraine is faced with serious political and economic problems and is locked in increasingly tense disputes with Russia.

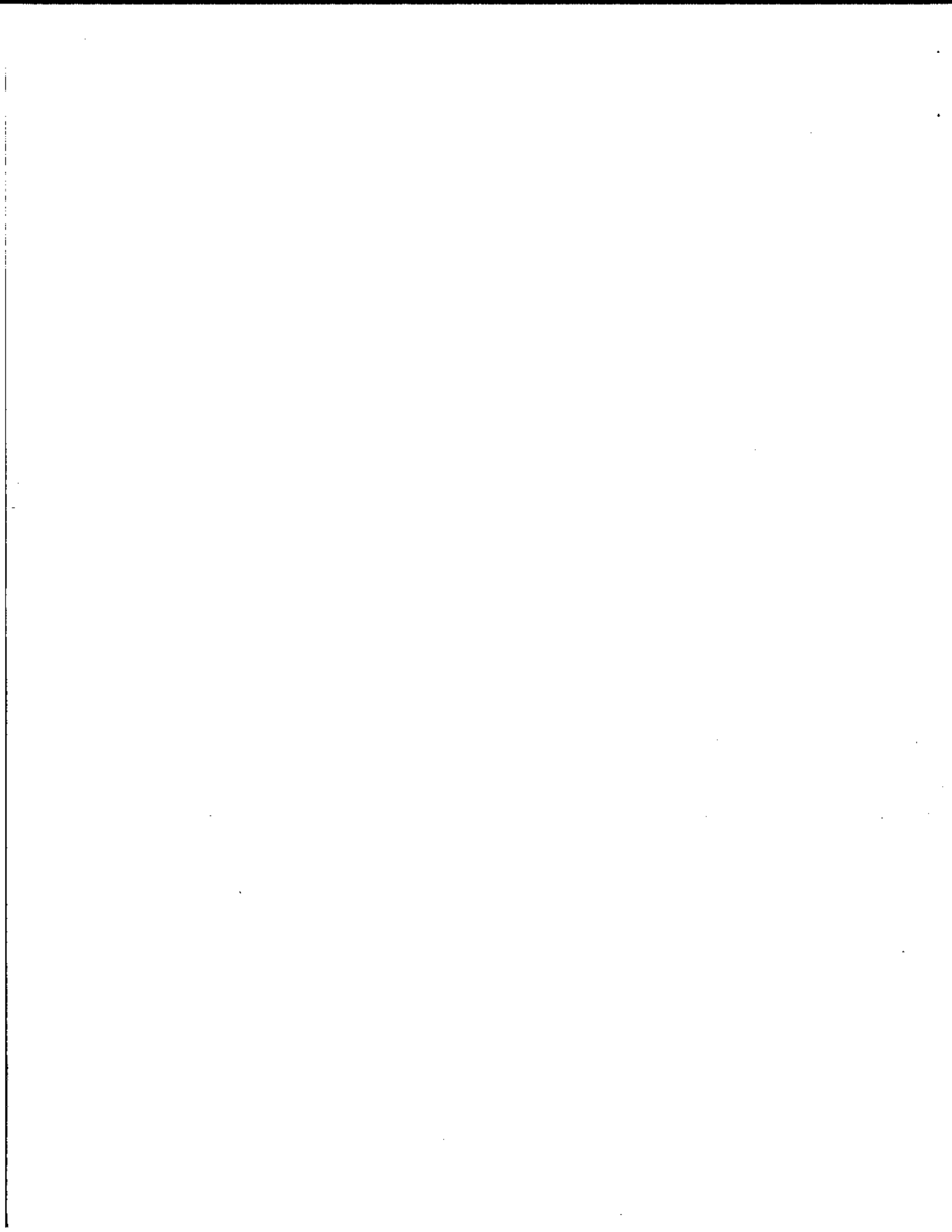
Ukrainian President Leonid Kravchuk's current political strategy seems to be to hold on to the passive support of the "silent majority" of party functionaries, while trying to garner support among the opposition by accepting many of its positions. The nationalist Rukh movement is split over the extent to which it should support Kravchuk. A further split within the opposition is between the groupings like Rukh and those that put less emphasis on national issues and stress the need for rapid economic reform and on continuing economic ties with Russia. This division mirrors regional differences between a more nationalist western Ukraine and Russified eastern and southern regions. By far the area of greatest tension is in the ethnic Russian-majority Crimea region. While demands by some for independence from Ukraine could create an explosive situation, a solution may be found in negotiations to allow wide-ranging autonomy for Crimea.

While its reserve of raw materials, rich soil, and strong industrial base give Ukraine considerable economic potential, it is now experiencing the dropping industrial production, high inflation and ballooning budget deficits of other states in the ex-Soviet Union. Thus far, Ukraine lags behind Russia in radical economic reform. A new economic plan endorsed by the parliament in April may represent a change, but

it has been criticized by some Ukrainian economists as being too protectionist vis-à-vis Russia.

Ukrainian foreign policy is oriented westward, stressing close ties with its East European neighbors and Western countries. However, it is clear that ties with Russia will remain Ukraine's most important, if not most friendly relationship. Russia and Ukraine are locked into increasingly acrimonious disputes over the division of the property of the former Soviet Union. The most difficult issues involve division of the Black Sea Fleet and other elements of the ex-Soviet military on Ukrainian territory, from which Ukraine is building its own armed forces. All tactical nuclear weapons have been withdrawn from Ukraine to Russia. Ukraine has agreed to eliminate strategic nuclear weapons by the end of 1994. However, implementation of these pledges has been hindered by the worsening climate of Russo-Ukrainian relations. This deterioration also casts doubt on the viability of the Commonwealth of Independent States.

Ukrainian independence presents U.S. policymakers with new and difficult policy issues, including balancing relations between Russia and Ukraine, ensuring the withdrawal of nuclear weapons from Ukraine, preserving conventional arms control in Europe in the wake of Russo-Ukrainian disputes on military issues, preventing the leakage of missile and other advanced weapons technology from Ukraine, deciding whether and how to aid Ukrainian economic reform efforts and assessing Ukraine's compliance with international standards of human rights and democracy.



## ISSUE DEFINITION

The breakup of the Soviet Union has led to the creation of the first independent Ukrainian state in history to be recognized by the international community. With a land area and population comparable to France and considerable economic potential, Ukraine may in the future become an important European power. At present, however, Ukraine is faced with serious political and economic problems and is locked in increasingly acrimonious disputes with Russia. U.S. policymakers face new and difficult policy issues including balancing relations between Russia and Ukraine, ensuring the withdrawal of nuclear weapons from Ukraine, preserving conventional arms control in Europe in the wake of Russo-Ukrainian disputes on military issues, and deciding whether and how to aid Ukrainian economic reform efforts.

## BACKGROUND AND ANALYSIS

### **Historical Background**

#### **Pre-Soviet Ukraine**

Ukraine's history has been shaped by its status as a border region; indeed, "border region" is the original meaning of its name. For all except a few years of its history, Ukraine has been divided between opposing great powers, who have tried to assimilate it. This has led to a fragile sense of national identity and to considerable differences between the regions of Ukraine.

Ukraine was divided between Russia and Poland in the mid-17th century, then between Russia and the Hapsburg Empire when Poland was itself partitioned in the late 18th century. When both the Hapsburg and the Russian empires collapsed at the end of World War I, two independent Ukrainian states were declared: one in former Russian Ukraine, the other in the formerly Hapsburg west. These states never gained full control of the territories they claimed for more than a few months at a time. By 1920, the dream of an independent Ukrainian state was extinguished. Eastern Ukraine, subdued by the Red Army, became a republic of the Soviet Union, while western Ukraine was ruled by newly independent Poland. As part of the Soviet-Nazi Pact that divided Poland, Stalin seized western Ukraine in 1940, which he retained after the war and which remains part of Ukraine to this day.

Because of this history, Ukraine has been marked by both Polish and Russian influences. Polish culture helped orient Ukraine to the West, although recurrent attempts to Polonize and Catholicize Ukraine have created resentment among Ukrainians. The dominant influence on most of Ukraine has been Russia. For

**Area:** 235,443 sq. mi., larger than Poland, Hungary and Czechoslovakia combined

**Population:** 51.4 million

**Ethnic Composition:** Ukrainians 37.4 million (73%), Russians 11.3 million (22%), Jews 486,000 (.9%), Belarussians 450,000 (.9%)

**GNP:** 77.3 billion rubles (1991), 16.1% of total Soviet GNP

centuries, Russian leaders have often pointed to a common historical heritage from the 9th and 10th century East Slav state of Kievan Rus, including similarities in language and a common Orthodox religion; they have asserted that Ukraine belongs in the same state with Russia or even that Ukrainians were merely the "Little Russian" offshoot of the "Great Russian" nation. Under Tsarist rule, the idea of a distinctive Ukrainian culture was subjected to heavy attack. Tsarist officials repressed the Ukrainian Catholic Church, which followed Orthodox rites but declared its loyalty to the Pope. Russian officials also persecuted poet Taras Shevchenko and other Ukrainian artists and poets in the 19th century who tried to develop a modern language and culture from the largely peasant Ukrainian culture. These Russian efforts to assimilate Ukraine met with considerable success -- members of the elite and city-dwellers in Ukraine were overwhelmingly Russian-speaking. But Ukrainian language and culture persisted among the mainly illiterate peasants in the countryside and among a small circle of intellectuals.

### **Soviet Impact on Ukraine**

The Soviet impact on Ukraine since 1917 has been in some ways contradictory. Early Soviet policy toward Ukraine was relatively enlightened, allowing for broad cultural autonomy and self-administration by Ukrainian Communists. The acceleration of industrialization in eastern Ukraine (which had already begun in the late Tsarist period) also began to transform Ukraine from a primarily rural society of peasants to today's more diversified mix of peasants, industrial workers and bureaucrats. Stalin's policy of territorial aggrandizement also incorporated ethnic Ukrainian-majority regions from Poland, Czechoslovakia and Romania into Ukraine. The trappings of state sovereignty that Ukraine had as a Soviet republic (including United Nations membership), while mainly symbolic, eventually provided the political framework for Ukraine's declarations of sovereignty and independence.

But the negative impact of Soviet rule was enormous. Stalin's brutal repression in Ukraine exceeded anything committed by the Tsars. Faced with the resistance of Ukrainian peasants to collectivization, Stalin adopted policies creating a government-engineered famine in 1932-1933 that starved to death an estimated three to eight million Ukrainians. Bitterness against Stalin was so great that many Ukrainians initially cheered the Nazi invasion in 1941, although they later turned to resistance when it became clear that the Nazis aimed at enslaving, not liberating them. Both Stalinist and post-Stalinist Soviet leadership, like their Tsarist predecessor, aimed at Russifying Ukraine; education and cultural activities in the Ukrainian language were slowly restricted in favor of Russian. Finally, as in Russia and other parts of the former Soviet Union, the Soviet economic model has left the Ukrainian economy in a catastrophic state.

### **Gorbachev and Ukrainian Independence**

Soviet policy during the Gorbachev era provided the opening for a revival of Ukrainian national feeling and, eventually, for Ukrainian independence. The accident at the Chernobyl nuclear reactor, 130 km north of Kiev near the Belarus-Ukraine border, created much enmity among Ukrainians toward the "center" in Moscow, which was seen as incompetent and lacking concern for local interests. Gorbachev's handling of the economy reinforced these feelings. Even many ethnic Russians and others not particularly attracted to Ukrainian nationalism came to believe that Ukraine could

manage its economic affairs better on its own. Gorbachev's policy of **glasnost** and partial democratization permitted Ukrainian reformers to seize on these issues, as well as the national issue, to combat the arch-conservative Ukrainian Communist Party. By 1989, a broad coalition of these groups formed the People's Movement of Ukraine for Reconstruction, or Rukh ("the movement"). During the March 1990 elections to the Ukrainian Supreme Soviet, Rukh joined with other opposition forces to win over a quarter of the seats in the parliament, despite Communist Party chicanery to hinder the registration of opposition candidates.

Even though a minority in the parliament, the opposition, with the support of public opinion, was able to pressure the Communist majority into approving a declaration of sovereignty for Ukraine on July 16, 1990. The declaration asserted the precedence of Ukrainian laws over the center's laws and asserted Ukraine's control of all economic assets on its territory. In 1991, Gorbachev's efforts to keep the union together by drafting a new union treaty that would have radically decentralized it were shattered by the abortive coup in August. On August 24, the Ukrainian Supreme Soviet declared Ukraine's independence from the Soviet Union. The Supreme Soviet also voted to hold a referendum on the declaration of independence on December 1.

## Political Situation

### Ukraine's December 1 Elections

The Ukrainian independence referendum and presidential election held on Dec. 1, 1991, were pivotal events in Ukrainian political life. The referendum approved independence, with 90% in favor. Independence was supported by overwhelming majorities in most regions and among all ethnic groups. One exception was the Crimea, where Russians make up two-thirds of the region's population. There, independence was approved by a relatively modest 54%, in contrast to 83-98% support in other regions. This decisive vote in favor of independence surprised many observers, especially those in Russia who expected strong opposition to independence in the largely Russified south and east of Ukraine.

Ukrainians also voted for a President on December 1. The six candidates included Leonid Kravchuk, chairman of the Ukrainian Supreme Soviet and former Communist Party ideology secretary. As late as 1989, Kravchuk was the Communist Party's point man in combatting Ukrainian nationalism. However, after his election as chairman of the Supreme Soviet in 1990, Kravchuk distanced himself from his Party colleagues and increasingly supported opposition demands for more independence from Moscow. Kravchuk's main competitor in the race was Vyacheslav Chornovil, a former political prisoner and the candidate of Rukh. Kravchuk won easily, receiving over 61% of the vote, while Chornovil received 23%. Kravchuk won absolute majorities in all regions, except the nationalist and strongly anti-Communist western Ukraine, where Chornovil beat Kravchuk handily. In contrast, Chornovil received less than one-quarter of the vote in the less nationally conscious east and south. Kravchuk's impressive victory can be attributed to many causes, including the advantages of incumbency (especially control of broadcast media), disarray in the opposition, distrust of the western Ukrainian-based Rukh movement in southern and eastern Ukraine, and respect among many Ukrainians for Kravchuk's skill at political maneuvering in relations with Russia.



## **Kravchuk and the Government**

Since his election as President, Kravchuk's strategy seems to be to hold on to the passive support of the "silent majority" of party functionaries in the Supreme Soviet and the national and local governments, while trying to garner support among the opposition by accepting many of its positions, perhaps hoping to divide it in the process.

Kravchuk has moved slowly in restructuring the Cabinet of Ministers, many of whose members are ex-Communists. He has vowed to keep Prime Minister Vitold Fokin, a target of especially heavy criticism, in his job. At the strong urging of Kravchuk, the parliament has rejected several opposition attempts to unseat the government. In a concession to reformers, Kravchuk appointed leading reformer Volodymyr Lanovyi, formerly Minister for Privatization, as Minister of Economics and Deputy Prime Minister. But while Kravchuk claimed Lanovyi would be responsible for carrying out economic reform, the government later approved an economic reform program by another economist, who formerly worked for the state planning agency. Then, in July 1992, he fired Lanovyi and replaced him with Valentin Simonenko, who had earlier served as Communist Party boss in the Odessa region and was for nine years mayor of the city.

Taking a lesson from Boris Yeltsin in Russia, Kravchuk asked the Supreme Soviet in February 1992 for the right to appoint his personal representatives to each region, who would be charged with making sure Kiev's reform plans are carried out. However, Kravchuk's representatives are more powerful than Yeltsin's. While Yeltsin's representatives can only monitor implementations of presidential decisions, Kravchuk's men are the leading administrative officials of their regions and are responsible only to him. Observers characterize the political views of the representatives as centrist, ranging from rather conservative former Communist Party officials to moderate reformers with few ties with the opposition. Opposition leaders complain that their nominees for the posts have been ignored.

## **Opposition Groups**

As in Russia, the opposition is fragmenting now that the Communist Party has been repudiated, if not the Communists themselves. The opposition is split over what attitude to take toward Kravchuk. Moderate intellectuals, like Ivan Drach, Mykhaylo Horyn and Dmytro Pavlychko, want to offer support to Kravchuk in his efforts to build up Ukrainian statehood. Chornovil, on the other hand, wants Rukh to remain firmly in opposition to Kravchuk, challenging him to move further and faster on economic reform. He would also like Rukh to become a cohesive political organization (presumably under his leadership) in order to press Kravchuk more effectively. Chornovil's support comes from young rank-and-file Rukh activists.

A further split within the opposition is between the groupings like Rukh that are mainly nationalist in orientation and those that put less emphasis on national issues and stress the need for rapid economic reform. While moderates in Rukh may be willing to downplay Kravchuk's slowness to commit to radical economic reform in order to support his strong stand on building an independent Ukrainian state, these groups fear that Kravchuk's new nationalism draws attention away from his economic failures and damages critical trading ties with Russia. In early 1992, these latter groups and political parties formed a loose grouping called "New Ukraine." A wide variety of



opinion exists within the nascent movement, which includes ex-Communist Party reformers, entrepreneurs and ecological groups. Prominent figures in "New Ukraine" include former Deputy Prime Minister Lanovyi, Supreme Soviet Deputy Chairman Vladimir Grinev, and environment minister and Green Party leader Yuri Shcherbak.

Kravchuk's exclusion of the opposition from important decisionmaking roles and the slow pace of reform has led part of the opposition to consolidate its forces and take a stronger line against Kravchuk. Both New Ukraine and Rukh have called for the establishment of an effective coalition to pressure Kravchuk and have demanded the dissolution of the Ukrainian Supreme Soviet, the holding of parliamentary elections this year and the convening of a constitutional assembly to write a new Ukrainian Constitution. On the other hand, Mykhailo Horyn, Pavlychko and others who favor supporting Kravchuk organized a rival Congress of National-Democratic Forces in August 1992 that is aimed at providing a counterweight to the Chornovil-led Rukh.

### **Regional and Ethnic Issues**

Ukraine's regional diversity presents a major political challenge for its new leaders. Perhaps the most significant difference is between western Ukraine (especially the regions of Lviv, Ivano-Frankivsk and Ternopil) and the eastern and southern regions of the country. In general, western Ukrainians are more nationally conscious than those in other regions and have led the drive for Ukrainian independence. They form the leadership and much of the rank-and-file of the Rukh movement, as well as other, more radical, nationalist groups. In contrast, eastern Ukrainians, subjected to centuries of Russification, tend to look more skeptically on Ukrainian nationalism. They are more interested in the economic benefits independence provides or does not provide. Many of the leaders of the "New Ukraine" bloc are from eastern Ukraine. And while former Communist Party functionaries have been swept out of leading positions in the west, they are still deeply entrenched elsewhere.

A related issue is the ethnic Russian minority in Ukraine. Russians make up 22% of Ukraine's population, and are concentrated in the east and south. Unlike other regions of the former Soviet Union, there has been no significant ethnic violence in Ukraine. Ethnic Russians have by and large supported Ukrainian independence for pragmatic, economic reasons. There appears to be no widespread support for secession of regions and their union with Russia. Like many east Ukrainians, many ethnic Russians are disturbed by the increasingly confrontational relations between Russia and Ukraine.

**Crimea.** In one case, Ukraine's territorial integrity remains fragile. Russians make up 67% of Crimea's population, Ukrainians, only 26%. In January 1991, inhabitants of the peninsula voted to create a Crimean Autonomous Soviet Socialist Republic within Ukraine. In December 1991, a bare majority of Crimeans voted for Ukraine's independence. But this attitude could well change if economic conditions deteriorate. A group called Republican Movement of Crimea collected over 257,000 signatures for a referendum to be held on Crimean independence, far more than the 180,000 required. On May 5, the Crimean Supreme Soviet, in a surprise move, declared Crimea's independence from Ukraine. The Crimean legislature also said the referendum would be held to confirm the decision, mirroring Ukraine's path to independence from the Soviet Union in 1991. However, the Crimean suspended the

resolution on May 21, after Kravchuk warned Crimea that bloodshed could occur if Crimea tries to assert its independence from Ukraine. Crimea and Ukraine seemingly stepped back from confrontation in June, when negotiators for the two sides agreed that Crimea was an "integral part of Ukraine" but would have economic autonomy and the right to "independently enter into social, economic and cultural relations with other states." On July 9, the Crimean parliament voted to cancel plans for a referendum on Crimean independence.

Another facet of the Crimea question is the issue of the Crimean Tatars. Stalin expelled the Tatars from Crimea during World War II. Since the late 1980s, Crimean Tatars have begun to return to the peninsula, often living in tents or other makeshift dwellings; over 165,000 have arrived to date, and several hundreds of thousands more live scattered throughout the former Soviet Union. The Ukrainian government has announced that it plans to help more Crimean Tatars settle in Crimea. While the government says it is only restoring the rights to the victims of Stalin's oppression, some ethnic Russians suspect an attempt to "dilute" them with more "loyal" nationalities. Tatar representatives want Crimea to become an autonomous Tatar state within Ukraine.

Crimea is a potentially dangerous issue in the Russo-Ukrainian relationship. Crimea was part of Russia until 1954, when Khrushchev transferred the peninsula to Ukraine to commemorate the 300th anniversary of the union of Ukraine with Russia. Many Russians feel that Crimea rightfully belongs to Russia. Yeltsin has thus far ruled out a territorial claim to Crimea, but influential forces (including Vice President Alexandr Rutskoi and the current Russian Ambassador to the United States Vladimir Lukin) have advocated raising such a claim in order to pressure Kiev into giving up its claim to the Black Sea Fleet. On May 21, the Russian parliament overwhelmingly voted to nullify the 1954 transfer. While denying that Russia had any territorial claims on Ukraine, the parliament also asserted that Russia must be involved in any future talks on the status of Crimea. Ukraine condemned the Russian move and says it considers Crimea a purely internal matter.

## **Economic Issues**

### **Current Status of Ukraine's Economy**

Aside from Russia, Ukraine has the greatest economic potential of any Commonwealth of Independent States (CIS) country. In 1990, it accounted for almost 17% of Soviet industrial output. Unlike many of the newly independent states, it is rich in natural resources, with deposits of coal, iron ore, manganese, sulfur, and a significant amount of natural gas. Production is heavily concentrated on heavy industry, especially coal mining and ferrous metallurgy. These two sectors alone account for 40% of industrial assets and 20% of output in 1990. Coal mining is concentrated in the Donets Basin (Donbas), forming an integrated complex with heavy industry, also located in the Donbas and along the Dnieper River bend. Ukraine, often called the "breadbasket" of the Soviet Union because of its rich, black soil, also provided about 20% of Soviet agricultural production in 1990. On the other hand, Ukraine's coal and iron ore are expensive to extract, are polluting, and less easily sold on world markets than oil and other natural resources. Ukraine's heavy industries pose similar environmental problems and are voracious consumers of increasingly expensive energy.

Ukraine may also have difficulty exporting grain in the face of competition from the European Community and other Western countries.

Currently, Ukraine is suffering from the same economic problems as the rest of the CIS states. Gross national product for the first quarter of 1992 fell 18% as compared to the first quarter of 1991. Agricultural production in 1991 fell by 12%. Output in the food processing industry was down 40%. Consumer prices in Ukraine in 1991 was 84.2%. Because Ukraine was forced to free its prices in January in response to Russian price liberalization, the rate of inflation for 1992 will be several times higher. Inflation is reportedly now running at over 20% a month. Ukraine is projecting a deficit of 600 billion for 1992 as a whole. In contrast, the 1991 deficit was 100 billion rubles.

The collapse of central planning and the desire to keep more local production at home has caused the interruption of trading links among CIS states. This has badly hurt Ukraine's economy, since the economies of the CIS countries are highly interdependent. Prime Minister Fokin has claimed that 70% of Ukraine's products require parts or raw materials supplied by other CIS states. The most critical current problem is fuel. Eastern Ukraine's heavy industry is on the verge of shutting down because of a lack of energy supplies. In March, Turkmenistan, on which Ukraine depends for much of its natural gas, demanded a 25-fold increase in gas prices, which would nevertheless leave them far below the world market prices that the Turkmen producers want to gradually introduce. In retaliation, Ukraine shut down a gas pipeline from Turkmenistan to Europe which runs through Ukraine. Russia, the source of most of Ukraine's oil, is planning to increase fuel prices, which will greatly intensify this problem.

### **Economic Reform**

Unlike in Russia, where a radical free-market reform program is already in place, economic reform only rose to the top of the Ukrainian political agenda in March 1992. Reform efforts have been hampered by Ukraine's absorption with securing its independence and by the predominant position of ex-Communist Party functionaries, who have little enthusiasm for or understanding of the free market. In early March 1992, Kravchuk appointed leading reformer Lanovyi to the post of Economics Minister and Deputy Prime Minister in charge of economic reform. Ukrainian spokesmen touted Lanovyi as "our Gaidar," referring to the architect of Russian economic reform.

In late March, Ukraine's parliament approved the outlines of an economic reform program that was designed not by Lanovyi, but by Kravchuk economic advisor and former state planner Oleksandr Yemelyanov. Authors of the plan say that Ukraine cannot follow in the wake of Russia's radical reform program. They believe Ukraine must shield itself from massive price increases that have resulted from Russia's price liberalization by using customs barriers and the rapid introduction of a Ukrainian currency, even if it means Ukraine must forgo help from international financial institutions such as the IMF. The plan proposes putting trade with Russia on a hard currency clearing system based on the European Monetary Unit, or Ecu. Lanovyi, Grinev and other east Ukrainian leaders have attacked the plan for cutting trading ties with Russia. In late April, Lanovyi submitted another economic reform plan to the International Monetary Fund when the body was considering Ukraine's application for membership. The plan calls for tight monetary and fiscal policies and sweeping



privatization. Kravchuk has said that he see no "big discrepancies" between the two plans.

In April, the Ukrainian government unveiled a budget which set a deficit target at an ambitious 2% of GNP. In order to reach this target, the government is planning to raise taxes and cut subsidies to enterprises and social welfare programs. Both the Yemelyanov and Lanovyi plans envision rapid privatization and measures to encourage foreign investment. A recently passed law, drafted by Lanovyi when he was privatization minister, calls for privatizing 60-65% of state-owned property over the next four to five years. This year, the government hopes that 80% of retail stores and small enterprises will be sold off. Under the plan, which resembles Czechoslovakia's privatization scheme, each citizen of Ukraine will receive free vouchers which can be converted into shares. It is reported that about 40% of property will be privatized this way, while the remaining 60% would be sold by the state to either domestic or foreign investors. During a May visit to Kiev, World Bank President Larry Summers criticized Ukraine's steps toward reform. While noting that there was a consensus in Kiev that reform was needed, Summers pointed to the size of the current budget deficit, the burden of heavy taxation, overregulation, continued obligations to supply most production to the state and the slow pace of privatization as signs that little had been accomplished so far. Summers also stressed that he believed introduction of a new currency before these structural changes were underway would pose a "very dangerous" risk of hyperinflation.

The July firing of Lanovyi by Kravchuk and the appointment of former apparatchik Simonenko in his place may further slow the reform process. In an interview shortly after taking office, Simonenko said he was "categorically against any help from the West," but added he favored "equal, mutually beneficial cooperation." In August 1992, Ukrainian central bank chief Vadim Hetman said that he had received a letter from Michel Camdessus, director of the IMF, which allegedly warned that "as long as you [Ukraine] continue to have one program for external consumption and another at home, the IMF cannot hope to have talks with you on cooperation."

Ukraine has established a coupon system that in effect operates as a parallel currency to the ruble. The system was introduced in January 1992 in order to protect the local consumer market from buyers from other republics and to compensate for a shortage of rubles provided by the Russian Central Bank. Ukraine has gradually taken steps to eliminate the use of the ruble for most purposes in Ukraine; by August 1992 the coupon accounted for 97% of official cash transactions in Ukraine. However, the government's lax monetary and credit policies have caused a sharp drop in the value of the coupon relative to the ruble and have created a thriving black market in exchanging what are widely perceived as nearly "worthless" coupons for rubles.

A new currency, the hryvnia, is scheduled to be introduced in late 1992 or early 1993. Russia has objected to Ukraine's use of coupons and its plans to introduce its own currency, fearing that a "backwash" of rubles into Russia would increase inflation there. However, Russia and Ukraine seem to have reached a tentative accord on a code of conduct for introducing new currencies that is aimed at preventing such an effect. Tension was increased by a June 19 request by the Russian Central Bank to the Russian parliament to declare the Ukrainian Central Bank insolvent. The Central Bank also wanted the parliament to impose an economic embargo against Ukraine if Ukraine did not desist from making large ruble loans to Ukrainian enterprises so that

they could pay their Russian suppliers, a practice that the Bank feels would increase inflation in Russia. While saying the Bank had the right to impose financial sanctions against Ukraine, the government objected to the proposal to cut off Russian supplies to Ukraine.

Ukrainian central bank chief Hetman has sharply criticized lax government spending policies, warning that the introduction of the hryvnia would be a disaster unless more stringent macroeconomic stabilization measures are taken by the end of the year. Because of this situation, Hetman said in August 1992 that Ukraine should reintroduce the ruble as a temporary measure until the it could be replaced by the hryvnia in early 1993. Kravchuk angrily attacked Hetman's statement, saying that it was the job of the Central Bank to follow the government's line and not to criticize it.

## **Foreign Policy and Defense**

### **Ukraine's Foreign Policy**

Since the independence referendum and the establishment of the Commonwealth, Ukraine has become a full-fledged member of the international community. It has been a member of the United Nations, and is a member of the Council on Security and Cooperation in Europe and the North Atlantic Cooperation Council. The World Bank and IMF approved Ukraine's application for membership in the World Bank and IMF in April 1992. In July 1992, the newly formed Ukrainian Armed Forces sent 420-man peacekeeping contingent to Sarejevo, as part of the UN effort to provide humanitarian aid to the inhabitants of the city.

Ukraine's foreign policy, like Russia's, is oriented toward the West. Ukraine wants to develop ties with the European Community, with the long-range objective of membership. Ukraine at present (unlike Russia) does not want to join NATO and favors neutrality. Kiev is pursuing closer ties with the Visegrad group of Poland, Hungary and Czechoslovakia. Ukraine has signed an agreement with Poland, Hungary, Czechoslovakia and Romania to develop their border region. Ukraine is also a part of a Turkish-led effort to develop economic cooperation among Black Sea littoral states. Relations with Romania are strained, due to statements by Romanian President Iliescu and a resolution of the Romanian parliament calling for the return of Romanian territories seized by Stalin in 1940 and incorporated into Ukraine.

Ukraine is also trying to build closer ties with Iran, partly in order to diversify Ukraine's sources of energy. During an April 1992 visit to Tehran, Kravchuk signed an agreement for Iran to supply four to five million tons of oil and 25 billion cubic meters of natural gas this year. Iran and Ukraine will also build gas pipelines from Iran to Western Europe through Ukraine. Iranian spokesmen said military cooperation was also discussed during the visit. Some Western observers worry that Ukraine might be tempted to sell arms from its large, financially strapped arms industry to Iran to pay for the oil.

While Kiev is starting to build closer ties with the West, Ukraine's most important (if less than friendly) relationships for the foreseeable future will be with the Commonwealth of Independent States countries, above all, with Russia. Ukrainian leaders see the CIS as a transitional arrangement that provides a framework for

negotiating the division of the USSR's financial assets and liabilities, and for resolving economic and military issues, including the division of the ex-Soviet armed forces and the status of nuclear weapons in Ukraine. However, disputes with Russia over these very issues put even the Commonwealth's short-term existence in question. Another difficult issue for Ukraine is Moldova. Heavy fighting between Moldovan forces and Russian-speaking secessionists in the Transdnestria region presents Kiev with a dilemma. Kiev wants to protect the rights of over half a million Ukrainians in Transdnestria, but doesn't want to undermine Moldova's territorial integrity, since the breaking away of the region could set an unwelcome precedent for Crimea. After bloody fighting broke out in June between Moldovan forces and the Russian 14th Army, stationed in Moldova, Ukraine shifted its position. Kravchuk said Ukraine favored the maintenance of Moldova's territorial integrity, but suggested that Transdnestria could secede from Moldova if Moldova united with Romania.

### **Defense Issues**

At the center of much current Russo-Ukrainian tension is the division of the Soviet armed forces on Ukrainian territory. In late October 1991, the Ukrainian parliament passed a package of laws establishing Ukrainian armed forces. On December 30, Ukraine announced at a summit of CIS heads of state that Ukraine would start to form its own armed forces on January 3 from former Soviet forces stationed in Ukraine, excluding "strategic forces," which would remain under Commonwealth control. Ukraine is also asking soldiers on its soil to declare a loyalty oath to Ukraine. Of the estimated 700,000 troops on Ukrainian soil, over 400,000 reportedly have done so. While some made the pledge out of support for Ukraine, many others (especially Russians) did so in order to keep their jobs and housing benefits in Ukraine, since Ukrainian officials have said that those who refuse to swear the oath will be sent back to their home republic. Many of the estimated 340,000 Ukrainians serving outside of Ukraine also wish to return to Ukraine. Kravchuk replaced the commanders of the three military districts in Ukraine, after they refused to take the loyalty oath.

When Ukraine first unveiled plans for its own armed forces in October, leading politicians spoke of armed forces of 400,000 to 450,000 men. This figure was not based on a detailed assessment of Ukraine's military needs, but calculated from the percentage of overall population in the armed forces for leading European countries, such as France. After expressions of disapproval of these figures from Germany (whose armed forces are being reduced to 370,000) and other countries, Ukraine has reduced its estimates of the final size of its forces to between 200,000 and 220,000 by 1995. However, at the July 1992 CSCE summit, Ukraine received a ceiling of 450,000 soldiers in an intergovernmental agreement among CSCE states on limiting each country's manpower level. Ukrainian officials stress that a gradual transition to lower force levels is required because the precarious economic situation of soldiers in Ukraine could present risks of social instability. The future state of relations with Russia and Ukraine's ability to afford these forces will also be important factors in determining the size of Ukraine's military.

While the CIS high command and Russian leaders have raised objections to the loyalty oaths and other steps Ukraine has taken to create its own armed forces, the most contentious issues have to do with differing interpretations of the meaning of the term "strategic forces." Ukraine defines the term as applying only to nuclear weapons-possessing units. Russia and the CIS high command have interpreted the term to



include these units plus non-nuclear units needed for the defense of the Commonwealth as a whole, such as the Black Sea Fleet. A more recent, and perhaps more ominous, set of disputes concerns nuclear weapons themselves.

The Black Sea Fleet possesses over 350 ships, including 55 major surface combat vessels (about 26% of the Soviet total) and 20 attack submarines (roughly 7% of the Soviet total). The fleet's major base is at Sevastopol on the Crimean peninsula, although there are other important bases in Novorossiysk in Russia and Poti in Georgia. Ukrainian military leaders say that Ukraine wants all of the Black Sea Fleet ships based on Ukrainian territory. In March, Kravchuk suggested that Ukraine only needed about 30% of the fleet. The CIS high command has seemed willing to cede to Ukraine a small part of the fleet for coastal defense, but wants major combatant ships to remain part of the CIS Navy. In August 1992, Yeltsin and Kravchuk agreed that the Black Sea Fleet would be jointly administered by Russia and Ukraine (removing it from the CIS command structure) for a three-year transitional period, in order to allow tensions over the issue to subside. However, there seems to be some differences in interpretation of the accord: Russian military leaders say that the fleet should remain united until 1995, while Ukrainian leaders say the process of division should take place gradually within the three-year transition period.

## Issues for U.S. Policy

### U.S. Policy

U.S. policy toward Ukraine has undergone a dramatic change since August 1991. Prior to the failed Soviet coup, the Administration strongly supported Gorbachev's desire for a renewed federation, mainly because the Administration did not want to undermine the Soviet leader, whom it saw as responsible for the transformation in East-West relations and as the most realistic hope for domestic reform in the Soviet Union. In a speech in Kiev on Aug. 1, 1991, less than three weeks before the coup, President Bush said the United States would pursue the "closest possible relationship" with Gorbachev's central government and warned Ukraine against pursuing a "hopeless course of isolation" and against a confederation, which he believed would fail just as the American Articles of Confederation had.

After the failed coup, the United States declined to recognize Ukraine's independence, but adopted a somewhat more neutral stance on Gorbachev's continued efforts to keep the union together in some form. U.S. policy changed in late November 1991, when U.S. diplomats in Ukraine and outside observers predicted that the independence referendum would pass by an overwhelming margin. Bush told a group of Ukrainian-American community leaders that the United States would recognize Ukraine if the referendum was approved, to the fury of Gorbachev. The 90% vote in favor of independence convinced Boris Yeltsin that Gorbachev's efforts would fail, and he moved immediately with Kravchuk and Belarussian leader Stanislav Shushkevich to set up the Commonwealth on December 8. The three leaders called President Bush before they informed Gorbachev of their agreement. After eight other republics joined the CIS in late December, the Administration recognized Ukrainian independence (and the independence of all the other ex-Soviet states) on December 25. After receiving assurances that Ukraine would follow responsible security policies, accept its international obligations and comply with the principles of the Helsinki Final Act and the Charter of Paris on human rights, democratic principles and respect for borders, the

Administration established diplomatic relations with Kiev in early January.

The past dilemma of U.S. policy was how to balance relations between the center and Ukraine. The current one is what stance to take toward the increasing acrimony in Russo-Ukrainian relations. Some advocate emphasizing relations with Russia, noting that it is by far the largest of the ex-Soviet republics and the one with the largest military (including nuclear) capability. They add that leaning toward Ukraine could aggravate Russian national feeling. Some even hold out the specter of a "Weimar Russia" scenario, in which, as in Germany in the 1930s, democracy could be crushed by extreme nationalists playing on Russian chauvinism and economic chaos. Finally, they believe that without successful economic reform by Russia, none of the other post-Soviet states can succeed economically. In contrast, others argue the United States should support Kiev more. They believe that Russia's acceptance of true Ukrainian independence is weak, but that such acceptance is critical if Russia is to leave behind its heritage as an imperial state and enter the Western community. In any case, a strong Ukraine would rule out a Russian imperial resurgence, by its very strength and geographical position.

Unlike in the center vs. republics dispute, the Administration has tried to avoid taking sides in the current struggle. However, the Administration is focused on nuclear arms control and preventing a "brain drain" of Soviet (mainly Russian) nuclear scientists to hostile Third World regimes in its policy toward the CIS countries, arguably has led to a de facto emphasis on relations with Russia so far. This emphasis has been compounded by Russia's lead on Kiev in implementing economic reform. The results of President Kravchuk's visit to Washington, which began on May 6, may prove to be an important turning point in U.S.-Ukrainian relations. Before the visit, Administration spokesmen stressed that the United States would pay more attention to its relationship with Kiev, broadening its focus from the nuclear issue to other issues, including political cooperation and support for Ukrainian economic reform.

### **Current Issues**

**Nuclear Weapons.** In mid-December, Ukraine announced that it would agree to have all tactical nuclear weapons removed from Ukraine to Russia by July 1, 1992, where they are to be destroyed. However, on March 12, Kravchuk announced that Ukraine was suspending shipments of warheads to Russia because he said that Ukraine had no assurance that the weapons were in fact being destroyed. Russia condemned the move, saying that it was a violation of agreements reached in Minsk and Alma-Ata in December and that it put the July 1 deadline in jeopardy. Kiev charged that Russia's refusal to set up a joint monitoring mechanism was itself a violation of the Alma-Ata agreement. On April 14, Kiev agreed to resume shipments of tactical nuclear weapons to Russia in response to the urging of the United States and other Western countries. On May 6, a CIS military spokesman said that all tactical nuclear weapons had been removed from Ukraine.

Some observers believe that Kravchuk's move was an attempt to demand greater attention from the United States and other Western countries, who had focused their aid efforts so far on nuclear power Russia. They point to Kravchuk's announced desire to build a nuclear weapon destruction facility in Ukraine as a tacit claim by Kiev on some of the \$400 million that Congress appropriated last December for the destruction of nuclear weapons in the former Soviet Union.

In addition to tactical nuclear weapons, Ukraine has 176 ICBMs (130 SS-19s and 46 SS-24s) with over 1300 warheads on its territory, as well 30 nuclear-equipped strategic bombers. Some opposition figures in Ukraine have broached the possibility that Kiev should keep the weapons as a hedge against possible Russian aggression, but the government denies that its policy is shifting. Also reducing the likelihood of this possibility are a public aversion to nuclear weaponry -- a legacy of Chernobyl -- and statements by Secretary Baker and other Western leaders that aid for CIS states is linked to their pursuit of "responsible security policies."

Ukraine says that it wants to remove these weapons from its soil by 1994. Kiev has pledged it will abide by the START treaty and will sign the Nuclear Non-Proliferation Treaty (NPT) as a non-nuclear state. The failure of the four nuclear republics to agree on a plan to dismantle nuclear weapons on their territories delayed the ratification of the START Treaty. Ukraine wanted to be a full party to the treaty, while Russia argued that to do this would violate Kiev's commitment to be a non-nuclear state. On May 23, 1992, the United States, Ukraine, Russia, Belarus and Kazakhstan signed a protocol to the START Treaty that made the new states parties to the treaty. The non-Russian CIS states also agreed to eliminate all nuclear weapons on their territory within the 7-year reduction period envisioned by START and reiterated their pledges to sign the NPT as non-nuclear states.

Kravchuk has also asked for Western security guarantees in exchange for eliminating the 46 SS-24 missiles on its soil, which do not necessarily have to be eliminated under the START Treaty. However, Kravchuk has not yet renounced Ukraine's commitment to eliminate all nuclear weapons on its soil by 1994, despite considerable political pressure at home to not give up the SS-24s without the guarantees. The United States has ruled out giving guarantees to Kiev, but has said that if Kiev were subjected to nuclear threats, the U.S. would bring the issue to the U.N. Security Council, as it promised to do for any country facing such threats when the NPT was signed in 1968. As in the case of Eastern Europe, Washington has tried to convince Kiev that its security would be enhanced not by Western guarantees but by integration into Western structures and building a good relationship with its neighbors.

Another controversial issue is command and control of the nuclear arsenal. Ukraine wants a system of joint control over the strategic arsenal. However, Russia has refused to agree to such a system and Kravchuk admits that Ukraine's influence is limited to a conference call with Yeltsin and the leaders of the other two nuclear republics in the event that a use of the weapons is considered. Moscow has complained about Ukrainian demands that strategic forces in Ukraine become part of the Ukrainian armed forces. Ukraine is demanding that troops manning the strategic forces come only from Ukraine and take an oath of loyalty to Ukraine, but concedes that the "operational" control of the forces would continue to be held by the CIS High Command. Russian military leaders have condemned these efforts as attempts to gain control over nuclear weapons.

**Conventional Forces.** The United States and its NATO allies see the Conventional Forces in Europe (CFE) Treaty's limits on equipment and verification measures as critical to establishing a stable, cooperative European security system. Ukraine says it will abide by the treaty, signed by the Soviet Union in 1990. However, the breakup of the Soviet Union put the future of CFE in doubt. The key problem is dividing the Soviet conventional arsenal between Moscow and Kiev. Ukraine has over



6,200 tanks, while Russia has slightly over 5,000 west of the Urals. Kiev favored distributing the forces as they now are deployed. Since the former Soviet military was deployed in an offensive posture against the West, this would give Ukraine more tanks and armored combat vehicles west of the Urals than Russia. The equipment in Ukraine is also among the most advanced in the ex-Soviet arsenal. Russia advocated a redistribution of forces in its favor. In a CIS summit in Tashkent, Russia, Ukraine and other republics on May 15 reached agreement on treaty-limited equipment, which includes tanks, armored personnel carriers, combat aircraft, artillery and attack helicopters. For example, according to the agreement, Russia will receive 6,400 tanks, while Ukraine will get 4,080. This agreement cleared the way for the entry into force of the CFE Treaty during the Helsinki CSCE summit in July.

**Weapons Technology Proliferation and Arms Sales.** Unlike Russia, Ukraine has no nuclear weapons design or production facilities. However, some nuclear weapons components were made in Ukraine and some nuclear scientists live in Ukraine. Another proliferation threat is missile technology. Ukraine is home to two ICBM production facilities that make SS-18 and SS-24 missiles. One of them, Iuzhmash in Dnepropetrovsk, is the largest integrated missile production facility in the world. Iuzhmash also boasts missile and satellite technology research institutes that employ an estimated 3,000-4,000 highly qualified specialists. Iuzhmash has announced that it is stopping missile production. The plant is trying to convert to civilian production, but is also reportedly trying to market its missiles for civilian uses, such as satellite launches. On April 6, the Bush Administration announced that it was setting up a \$10 million international science center in Kiev, similar to one already planned for Russia, to provide work for unemployed weapons scientists.

Ukraine has pledged not to sell advanced weaponry to Iraq or other "outlaw" states, but its leaders have freely admitted (like their Russian counterparts) that arms sales will be an important source of revenue for military conversion and providing for the social needs of the military. The Administration has asked Ukraine to commit to establishing a stringent export control regime, and has offered assistance to Ukraine, which has little experience in this area, since military technology controls in the old Soviet Union were the domain of the State Planning Agency in Moscow.

**U.S. Aid.** U.S. aid efforts in Ukraine have so far been limited mainly to humanitarian assistance. In 1991, the United States sent \$7.2 million in medical supplies to help victims of the Chernobyl disaster. In early 1992, U.S. military aircraft flew food and medicine to Kiev, Lviv and Kharkiv as part of Operation Provide Hope. In early 1992, Ukraine complained that Moscow had prevented it from receiving its fair share of the \$3.75 billion in Commodity Credit Corporation (CCC) agricultural credit guarantees offered to the Soviet Union and the CIS since January 1991. It therefore asked the U.S. for \$300 million in CCC guarantees for itself. The Administration refused at first because it contends that Ukraine lacks the banking structures to guarantee repayment of the debt and because until late March Ukraine refused to sign a November 1991 accord of former Soviet republics assuring joint responsibility for repaying Soviet debt. However, on April 1 the Administration reversed its policy and granted Ukraine's request as part of a larger aid package for Russia and other CIS states.

While President Bush announced a Western aid package for Russia totalling \$24 billion for this year, no comparable aid package has been announced for Kiev. In

addition to the agricultural guarantees, Ukraine is slated to receive an undetermined share of the \$620 million in humanitarian relief and technical assistance that the Administration is requesting for FY1992-FY1993. A larger aid effort may be held up by Ukraine's slowness so far to embark on radical economic reform. The outlines of the plan passed by the Ukrainian parliament in April have been criticized by international economists as being too protectionist vis-à-vis Russia and less concrete than Russia's ongoing program, and may have great difficulty in getting the IMF's approval, as Russia's program has. If Ukraine submits a proposed aid plan that can get IMF support, the United States could provide funds to stabilize a new Ukrainian currency. The Administration has requested \$3 billion for currency stabilization funds for the ex-CIS states, of which only \$1.5 billion is slated for the ruble stabilization fund. During Kravchuk's May visit to Washington, the Administration announced a wide array of technical assistance projects for Ukraine, including projects to build political parties, strengthen the rule of law, create an independent media, increase exchanges of experts and assist in the creation of a free market economy.

During Kravchuk's visit, the U.S. and Ukraine also agreed to technical adjustments to the U.S.-Soviet trade agreement (signed in 1990 and approved by the U.S. Congress, but never ratified by the Soviet Union) that will permit Ukraine to have Most Favored Nation trade status. The two sides also signed an agreement making on extending Overseas Private Investment Company (OPIC) investment guarantees to U.S. firms who want to invest in Ukraine. President Bush urged Congress to repeal provisions of laws that restrict trade with the former Soviet Union, including Ukraine. Congress has already abolished the \$300 cap on Export-Import Bank funding for the former Soviet Union. The chairman of the bank estimates that the Bank could provide \$300 to \$500 million in credits to Ukraine in the next year.

In July 1992, U.S. Department of Energy officials met with Russian and Ukrainian nuclear regulatory officials as part of a \$25 million aid program to advise Russia and Ukraine on improving safety at their nuclear power plants.

**Adherence to Democratic Values and Human Rights.** As a member of the CSCE, Ukraine has pledged itself to adhere to the principles of the Helsinki Final Act and the Charter of Paris, which include respect for democratic values and human rights (including minority rights). The December 1 elections were generally held by international observers to be free and fair. The print media are not censored, and express a wide variety of views, although at least one newspaper critical of the government has complained that its newsprint allocation has been severely cut by the government in retaliation. Opposition leaders appear on broadcast media, but most broadcast time is spent promoting Kravchuk's views and policies. In the area of minority rights, Ukraine has passed a citizenship law that does not impose language or residency restrictions. Ukrainian leaders also stress the importance of reconciliation with Jews in Ukraine because of anti-Semitism in Ukraine's past. The Ukrainian legislature is currently preparing a new constitution to replace the Soviet-era one. The current draft is generally consistent with Western democratic values and the rule of law. Perhaps the greatest current threat to democratic values and human rights in Ukraine is not a lack of official support for these principles, but rather the lack of experience with them among government officials, most of whom are Communist holdovers, or even among ordinary Ukrainians, relatively few of whom have known anything other than the Soviet system.

