



DAVOS, SWITZERLAND - Jan 21, 2015: President of Ukraine Petro Poroshenko speaks at the World Economic Forum.

A Strategy for Economic Assistance to Ukraine

By Matthew Rojansky

To help Ukraine avert disaster, the United States and Europe need a strategy for providing political and economic support that matches available resources to the complex reality of Ukraine's economy, politics, and society, and that encourages the emergence of a Ukrainian-led vision for the country's future.

Key Recommendations

- Ukraine's crisis can be overcome only by application of a bold financial rescue package, not month-to-month life support.
- The West must ask Ukrainians to define their own standards for what it means to make Ukraine a modern, European state, and hold them accountable to those targets.
- The U.S. and the E.U. should offer privileged market access and lending on mutually beneficial terms to individual Ukrainian enterprises that can qualify.
- The U.S. should scale up Fulbright, International Visitors Leadership Program (IVLP) and Open World, and the E.U. should expand Erasmus Mundus exchanges for Ukrainian students.
- Washington and Brussels should create a special scholarship fund to educate the next generation of Ukrainian leaders in Western universities.

Summary

Since the middle of the last decade, both Washington and Brussels have anchored their relations with Kyiv on integration of Ukraine into European and Euro-Atlantic institutions, primarily the European Union and NATO. Yet the crisis in and around Ukraine since the 2013-14 Euro-Maidan Revolution, and Russia's invasions of Crimea and the Donbas, have dramatically underscored the failure of the West's previous integration-driven strategy for engagement with Ukraine. As a result, U.S. and European leaders find themselves scrambling to cope with Ukraine's insecurity and internal dysfunction, plus renewed military tensions between NATO and Russia along Europe's entire eastern periphery.

It is clear that without considerable outside support, Ukraine's economy may collapse, and with it the precarious post-Maidan elected government and its stated commitment to Western values. Any of the likely consequences of that collapse—state failure, a de facto Russian takeover, or seizure of power by extremist forces—would threaten vital U.S. and European interests in the region. To help Ukraine avert disaster, the United States and Europe need a strategy for providing political and economic support that matches available resources to the complex reality of Ukraine's economy, politics, and society, and that encourages the emergence of a Ukrainian-led vision for the country's future.

The Macro Level

The first step is to recognize that Ukraine is in a financial and economic crisis. Like the crises that have rocked the U.S. and E.U. economies since 2007, Ukraine's crisis can be overcome only by

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application of a bold rescue package, not mere life support. Yet Washington and Brussels cannot simply inject vast amounts of cash into Ukraine's economy, or they will underscore a moral hazard for the very feckless political and industrial elite that have helped make Ukraine so internally dysfunctional, weak and vulnerable to Russian aggression in the first place.

Instead, the West must ask Ukrainians to define their own standards for what it means to make Ukraine a modern, European state, and hold them accountable to those targets. For example, Ukrainians have said they believe in both democracy and rule of law. Let them demonstrate these traits by holding fully free and fair local elections in October, while guaranteeing that wartime fervor will not impinge the civil liberties of those who speak out against the current government.¹ Let them appoint prosecutors, judges and police who enforce the law, and are paid well enough and subject to stringent internal oversight, obviating the need for special anti-corruption bodies which are themselves subject to intense pressure from oligarchic groups and political parties.² And let them, for the first time, implement a robust regime for transparency of asset ownership, since stopping pervasive corruption and corporate raiding depends first and foremost on knowing who benefits from it.³

In exchange, the U.S., E.U. and international financial institutions should offer an open line of credit in support of all reforms aimed at delivering on Ukraine’s own reformist vision—a whatever-it-takes approach, rather than the current drip-by-drip program that is keeping Ukraine barely solvent, with its reform priorities dictated practically month-to-month by the International Monetary Fund (IMF). After more than a year of such reforms, Ukraine has little more to show than a threefold increase in gas prices for ordinary consumers, and symbolic lay-offs in the name of “lustration” against officials from the old regime.

The Enterprise Level

Even as the West commits to a crisis rescue package for the Ukrainian economy as a whole, it is only practical to hedge that bet by unleashing the power of the free market within Ukraine’s most competitive industries. To date, the promise of privileged access to the E.U. common market—and, through it, to the U.S. market via the pending Trans-Atlantic Trade and Investment Partnership (TTIP)—has depended on the Ukrainian government’s compliance with rigorous European labor, health, safety, and other standards. For much of Ukraine’s post-Soviet economic infrastructure, full compliance is a bridge too far, and so no Ukrainian companies will enjoy unfettered access to the world’s richest markets. This is a missed opportunity.

Despite the well-known problems with Ukraine’s energy and heavy industrial sectors, which are hampered by vested oligarchic interests and Soviet era supply chain dependencies, Ukraine is home to a wide array of highly innovative and competitive businesses which could compete effectively in

Europe and the United States, if given an equal footing with their Western counterparts.⁴ Ukraine’s IT sector is world class, with Ukrainian engineers already providing outsourced development services for the world’s top software and hardware makers. Ukrainian companies are manufacturing innovative new products for water purification, virtual reality, and aerial surveillance, to name just a few examples. And of course, Ukraine encompasses the world’s most fertile agricultural zone, the famous “black earth,” giving small-, medium- or large-scale agriculture high prospects of commercial success, assuming they gain access to an adequate consumer base.

Without abandoning the goal of integrating Ukraine as a whole into the European—and eventually the transatlantic—common market, it should be possible to offer privileged access on mutually beneficial terms to individual Ukrainian enterprises that can already qualify. Certification bodies could be established inside Ukraine to confirm individual



Biomass thermal electricity generation plant in Ivankiv, Kiev region. As the ongoing conflict batters Ukraine’s economy, renewable energy projects such as these may help reduce Ukrainian dependency on natural gas from Russia. Picture taken November 11, 2014. (Photo credit: Reuters).

enterprises' compliance with European and U.S. requirements. Alternatively, access could be granted via partnerships between Ukrainian and Western firms, or even by creating special export-oriented industrial zones by agreement between Ukraine and Western governments, as the United States has done for Israel and its Arab neighbors.⁵ Finally, the best individual Ukrainian enterprises should be eligible for favorable commercial lending backed by the U.S. and European governments. With such benefits on offer, Ukraine's oligarch-dominated industrial conglomerates will either seek to gain access themselves, which would entail submitting to rigorous auditing and certification requirements, or they will fall short and suffer a reduction of their traditional domestic advantages over smaller and medium-sized enterprises which will enjoy the benefits of privileged access to the vast E.U. and U.S. financial and consumer markets.

The Individual Level

The ultimate insurance policy for U.S. and E.U. economic support of Ukraine is the Ukrainian people. But for the moment, they are being left behind. Ordinary people have extremely low confidence in top politicians, which is no surprise given the obvious gap between the government's promises and daily reality as experienced across the country. Watching battles between oligarchic groups and a failed military campaign in the Donbas wreck Ukraine's economy while their leaders collect accolades and handouts around the globe, Ukrainians can be forgiven for becoming cynical about the so-called Western values that were the rallying cry of the Euro-Maidan.



Rep. Marcy Kaptur (OH-9) with a group of women entrepreneurs from Ukraine in Ohio Amish country on a visit organized by the Open World Leadership Center. (Photo credit: Open World).

The best way to reverse that cynicism is to invest in direct connections between Ukrainians and their counterparts in the West. So far, despite the promise of E.U. Association, Ukrainians are still overwhelmingly outsiders looking in at Europe and the United States. With or without full visa liberalization, it is past time to let more Ukrainians into the West so that Western values have meaning for them not only in the abstract, but through personal experience. With the roughly five hundred million dollars of foreign assistance Congress is poised to authorize for Ukraine, plus similar E.U. funds, the U.S. and Europe could vastly expand their programs for people to people diplomacy with Ukraine.

The U.S. should invest these vital resources to scale up Fulbright scholarships for young Ukrainians to study in the United States, and to bring more and larger delegations of Ukrainian professionals on the State Department's International Visitors Leadership

Program and the Congressional Open World Leadership Program. Up to \$30 million from the U.S.-funded Western NIS Enterprise Fund is already being used for professional development, export promotion and other business and investment training in Ukraine, however more of the Fund's \$150 million should be made available to bring promising young Ukrainians to the United States for study and research exchanges at this critical time.⁶ For its part, the E.U. should vastly expand its successful Erasmus Mundus pan-European college exchange program for Ukrainian participants. Both Washington and Brussels should consider creating a special scholarship fund to educate the next generation of Ukrainian leaders in Western universities, which could be named in honor of the students and teachers who lost their lives on the Maidan last year.





Conclusion

There is ample and commendable political will in both Europe and the United States to help Ukraine in its hour of need. In fact, both Washington and Brussels have defined Ukraine's success as the measure of successful Western policy towards the region. But grandiose rhetoric, summit diplomacy and tough talk about Russian aggression are not adequate to the challenge at hand. Above all, Ukraine now needs a commitment of substantial and sustained economic help to enable reforms defined by the Ukrainians themselves, privileged access for the best Ukrainian companies to the world's biggest and richest markets, and an order of magnitude increase in people to people contacts between Ukrainians and the West.

Endnotes

- 1 Matthew Rojansky and Mykhailo Minakov, "The New Ukrainian Exceptionalism," *YaleGlobal Online*, June 23, 2015, <http://yaleglobal.yale.edu/content/new-ukrainian-exceptionalism>
- 2 Alla Dubrovyk-Rokhova, "A Story which Has not Quite Run its Course Yet," *The Day*, April 21, 2015, <http://www.day.kiev.ua/en/article/economy/story-which-has-not-quite-run-its-course-yet>
- 3 Olyana Gordiyenko and Zoryana Matviychuk, "Ukraine: Beneficial ownership disclosure deadline approaching," May 25, 2015, *Global Compliance News*, <http://globalcompliance.com/ukraine-beneficial-ownership-disclosure-deadline-approaching-20150525/>
- 4 Maria Yuzych, "Ukraine has Climbed 16 Positions in the Most Innovative Countries' Ranking," *The Day*, February 18, 2015, <http://m.day.kiev.ua/en/article/topic-day/ukraine-has-climbed-16-positions-most-innovative-countries-ranking>
- 5 List of Qualifying Industrial Zones, Ministry of Economy, State of Israel, <http://www.moital.gov.il/NR/exeres/2124E799-4876-40EF-831C-6410830D8F02.htm>
- 6 "Western NIS Enterprise Fund Launches \$30M Legacy Program," March 30, 2015, U.S.-Ukraine Business Council, <http://www.usubc.org/site/recent-news/western-nis-enterprise-fund-launches-30m-legacy-program>

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