

Election Results Strengthen Ukraine's Bid for Closer Links with West

By Ambassador Steven Pifer, Former U.S. Ambassador to Ukraine and CSIS Senior Adviser

Ukraine's March parliamentary elections demonstrate the country's progress in consolidating democratic practices since the 2004 Orange Revolution. They strengthen President Viktor Yushchenko's argument for Ukraine's integration into Euro-Atlantic institutions, including ultimately joining the North Atlantic Treaty Organization and the European Union. Two questions now arise: What coalition will emerge when the new *Rada* (Parliament) meets in May? And how will the new government build the case for NATO and EU entry, Yushchenko's top foreign policy priority?

Ukraine's Elections. The March 26 elections reaffirmed the democratic impulse of the Orange Revolution. The electoral process was the most democratic ever conducted in Ukraine, fully meeting free and fair standards. And despite the government's mixed record in 2005, much of the electorate endorsed "Orange" parties—the Yulia Tymoshenko Bloc, Yushchenko's Our Ukraine, and the Socialist Party. Although these parties differ on some economic issues, and over the extent and pace of Ukraine's integration into the West, they share a commitment to democratic politics and modernization. The three parties in a coalition would hold more than 240 of the 450 seats in the new Rada.

Although Our Ukraine came in third in the ballot, mutual antipathy between the Regions Party (which placed first) and the Tymoshenko Bloc (second) has positioned Yushchenko to choose the coalition. Early talks suggest a three-way Orange coalition as the most likely prospect, provided that Yushchenko can countenance Tymoshenko as prime minister. Personality clashes and differences over economic policy led Yushchenko to fire her after she had served seven months as his first prime minister in 2005. Can they reconcile and agree on a common approach on economic and other issues? This will require delicate discussions, but the odds are that they will succeed.

The alternative is an alliance between Our Ukraine and the Regions Party. Regions is led by the pro-Russian Viktor Yanukovich, Yushchenko's rival in the 2004 presidential fight, and comprises major business interests in eastern Ukraine. (The base of the "Orange" parties is in western Ukraine, which has traditionally leaned more westward.) Although the Regions Party professes support for reform, suspicions remain about the positions it will actually adopt in the Rada. Regions and Our Ukraine together would command some 265 Rada seats, but such a coalition would pose great risks for the president. Many of his remaining political supporters would desert him in anger over an alliance with what they regard as the discredited old guard.

Ukraine and NATO. While Yushchenko shows more interest in the European Union, he realizes that NATO membership offers the better shorter-term prospect. At his February 2005 meeting with NATO leaders, Yushchenko called for deepening NATO-Ukraine relations and a membership action plan (MAP). Tymoshenko showed no great enthusiasm, but as prime minister she did not obstruct Yushchenko's policy, which achieved an intensified dialogue for Ukraine in April 2005. Regions, in contrast, opposes joining NATO.

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China May Seek Control of U.S. Companies

By Felix G. Rohatyn, Initiative Steering Committee Member, Former U.S. Ambassador to France

In the last year or two, the issue of foreign control of U.S. and European companies has occasionally roiled capital markets and political systems, reflecting a major shift in the world's wealth. The capital accumulated by the world's main exporters (China, Japan and the oil-producing countries) will increasingly be recycled to acquire U.S. assets and to integrate these countries into the developed-world economy.

The transactions proposed so far—such as the controversial bid by Dubai Ports to gain control of operations at six U.S. ports—are just the tip of the iceberg. China will soon have dollar reserves of \$1 trillion, and Japan, as well as the oil-producing countries, nearly as much.

Although the United States has hitherto financed its trade deficits by selling U.S. Treasury debt to foreign central banks, sooner or later America's foreign creditors may decide to maintain more of their holdings in equities. If that happens, the political reaction could make the Dubai Ports affair seem very minor.

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TRANSATLANTIC REPORT

Transatlantic Report is a quarterly review of past and future activities of the CSIS Initiative for a Renewed Transatlantic Partnership. Each issue will also feature comments by a member of the Initiative's Steering Committee, starting in this issue with Felix Rohatyn, former U.S. ambassador to France.

Election Results *(continued)*

With an Orange coalition in the Rada and Tymoshenko as prime minister, Yushchenko could proceed with NATO. Ukrainian officials can cite Ukraine's contribution to the coalition force in Iraq in 2002–2005 as demonstrating that it has serious military capabilities and the will to employ them. As for Alliance political standards, the March elections show that Ukraine "gets it" on democracy. The defense ministry has adopted a serious program to reform the military and make it interoperable with NATO forces. The larger questions may relate to economics; NATO wants prospective members to have economic systems compatible with those of the Alliance and will want coherent policies to reform the Ukrainian economy and deal with rampant corruption. Finally, there is the question of public support for NATO. Polls suggest only about 20 percent of Ukrainians currently favor membership, though pro-NATO advocates in Kiev believe they can increase this figure.

While some have suggested that Yushchenko might slow the pace of NATO integration given public opposition in Ukraine's east, if he and the new government do confirm relations with NATO as a high priority, acceptance of a MAP at the Alliance's summit meeting in Riga in November is a distinct possibility. The idea has support in Washington and among Ukraine's NATO neighbors. An invitation at the 2008 summit to join the Alliance is an ambitious goal but, with hard work by the Ukrainians, not unimaginable.

The Russian factor looms over all of this, and Yushchenko has attempted to build stable relations with Moscow. NATO has made it clear, however, that it will not allow third countries a veto right. Moreover, growing concerns about the Kremlin backsliding on democracy and Moscow's behavior toward its neighbors will reduce sympathy in NATO for Russian views. All bets are off if Yushchenko opts for a coalition with the Regions Party. In such a case, even Ukraine's strongest advocates within NATO could hardly consider a MAP this year.

Ukraine and the European Union. While NATO membership remains controversial within Ukraine, EU membership does not. Polls show a solid majority of Ukrainians in favor of joining the Union, despite their recognition of EU reluctance to consider Ukraine as a prospective member. Even key business interests in the Regions Party see advantages in closer relations with the EU, where they have growing investments.

Foreign Minister Borys Tarasyuk told the European Parliament in January that Kiev wants to negotiate an association agreement that would include a free trade area as its next step toward closer links with the EU. Ukraine has not formally requested EU membership, although it has indicated an eagerness to do so; EU officials have suggested that Ukraine should not apply too rapidly. This is not the best time for Ukraine to be pressing its EU case. The Union continues to digest the 10 countries that joined in May 2004, and there are widespread doubts about the EU's future direction. Ukraine therefore must pursue its EU aspirations with patience.

With Ukraine showing that it has absorbed EU democratic values, economic issues will be increasingly crucial. In addition to demonstrating commitment to building a market economy and ending corruption, Kiev will need robust and steady growth to bolster its case for negotiating an EU association agreement, which at best still lies years in the future. A persistently weak economy and low living standards will frighten off even those Europeans most open-minded about one day bringing Ukraine into the EU.

Most parties in the new Rada support EU integration. Regions favors joining the European Union but also wants to join the Single Economic Space with Russia, Belarus, and Kazakhstan. It has not offered a plan, however, to reconcile these two contradictory directions. As a new Rada prepares to meet, form a majority coalition, and choose a new prime minister, the March parliamentary elections have dramatically demonstrated Ukraine's consolidation of democratic political practices. This strengthens its bid for closer links with and ultimate membership in NATO and the European Union. But Ukraine still has much to accomplish to make a persuasive case. Its ability to do so will depend critically on the new prime minister's commitment to Yushchenko's Euro-Atlantic course and to foreign and domestic policies that advance it. ■

"Ukraine must approach its EU aspirations with patience."

China May Seek Control *(continued)*

Over the next few years, for instance, China might reinvest its funds more aggressively, whether in diversified portfolios of securities or as direct investment in and eventually majority ownership and control of sizable U.S. companies.

Until, however, China is more aligned with Western standards of corporate governance, judicial independence, and market regulation, too rapid a move to large-scale direct ownership of U.S. companies runs the risk of strong political opposition.

Long-term solutions to global imbalances will require profound changes in national policies in areas such as fiscal deficits, energy use, education, and health care. But even if real progress is made in those fields, Americans will see more of their major assets going overseas. The United States needs thoughtful and deliberate policies to manage this transition smoothly, in line with its own broad economic and political interests. ■

These comments are based on "When the Free Market and Politics Collide," *International Herald Tribune*, April 3, 2006.

Transatlantic Global Dialogue in Berchtesgaden

The steering committee of the Initiative for a Renewed Transatlantic Partnership will discuss joint challenges facing Europe and the United States at its second annual meeting in Berchtesgaden, Germany, from April 28 to April 30. There are four main issues on the agenda: "Facing a Rising China and Changing Asia;" "Transatlantic Approaches to Economic Diplomacy;" "Russia and the Implications for Wider Europe;" and "Dealing with the Spread of Political Islam."

Georg Boomgaarden, state secretary of the German Federal Foreign Office, will present an overview of the current state of transatlantic relations from the perspective of the new administration of Chancellor Angela Merkel. This second "Transatlantic Global Dialogue" will give the steering committee an opportunity to discuss the initiative's achievements over the past year and prepare a work plan for the year ahead.

The meeting will be presided by cochairs, Harold Brown, former U.S. secretary of defense, and Carla Hills, former U.S. trade representative. Participants will include the following steering committee members: EADS chairman Manfred Bischoff; former U.S. national security adviser Zbigniew Brzezinski; former Polish foreign minister Bronislaw Geremek; CSIS president and CEO, John Hamre; former British foreign secretary Douglas Hurd; former French chief of military staff Jacques Lanxade; former Finnish prime minister and current Speaker of the Finnish House, Paavo Lipponen; former German chief of defense staff Klaus Naumann; former Spanish defense minister Eduardo Serra Rexach; and former U.S. national security adviser Brent Scowcroft, as well as a number of other distinguished political and business leaders. ■

Ten Tasks for Atlantic Counterterrorism

A report on the CSIS Transatlantic Dialogue on Terrorism, published in April 2006, makes 10 recommendations for counterterrorist action by Europe and the United States in fields ranging from the integration of immigrants to combating global Jihad. The report contains the main conclusions of the second phase of the dialogue, conducted at conferences in Berlin, Washington, D.C., and The Hague during 2005.

The 10 recommendations are:

1. Political elites, especially in Western Europe, should actively promote national dialogues on integration issues such as breaking down stereotypes, promoting coexistence, and finding new ways to improve socio-economic opportunities for Muslims. Much more debate is also needed on the delicate balance between respecting cultural traditions and preserving the basic values of Western society.
2. European nations should establish a forum for integration experts to share best practices with one another, either through the EU or more informally.
3. Governments should actively support community-based, nongovernmental organizations that have demonstrated success in promoting integration.
4. The West should strengthen diplomatic efforts to resolve local conflicts, such as those in Israel's Occupied Territories, the Caucasus, Kashmir, southern Philippines, and Chechnya. Progress in these areas would reduce incentives for some Muslims to turn to violence and help to eliminate terrorist training grounds.
5. Europe and the United States should promote a careful democratization and reform agenda in the Muslim world. The pursuit of these goals is a perilous activity that could bring hostile groups to power and will not end terrorism quickly, but in the long term it could help to erode anti-Western sentiments and reduce the terrorist threat.
6. Priority should be given to training experts to monitor and extract terrorism-related intelligence information from the Internet, although such efforts will only bear fruit over a long time.
7. Europe and the United States should exchange more information as to how the Internet can be used to combat terrorism.
8. The United States and Europe should hold a strategic dialogue on issues such as threat perceptions and international law, as well as more specific problems such as countering terrorists' technical innovations and preventing suicide bombings, so as to initiate more decisive policy initiatives.
9. Efforts must be made to prevent damage to the transatlantic intelligence relationship. The United States should take international concerns about Guantanamo and other questionable practices seriously, while European leaders should resist exploiting alleged human rights abuses for political gain.
10. Americans and Europeans should share best practices as partners, especially with regard to the integration of minorities, law enforcement, and crisis response. ■

The Transatlantic Dialogue on Terrorism is codirected by Daniel Benjamin, senior fellow, International Security Program, and Julianne Smith, senior fellow and deputy director, International Security Program. The full report, *Currents and Crosscurrents of Radical Islamism*, can be found at http://www.csis.org/media/csis/pubs/060404_tdt.pdf.

Are They Listening to Us?

In its first report, "Test of Will, Tests of Efficacy," published in February 2005, the Initiative for a Renewed Transatlantic Partnership proposed several "attainable goals" for the United States and Europe as practical steps toward repairing damaged transatlantic relations. The goals were not intended to represent every single challenge facing the Atlantic allies. They were chosen as targets for joint actions through which the United States and Europe could show that they can pursue shared interests internationally and work together to solve global problems. The following is an evaluation of how far U.S. and European governments have acted to achieve four of the proposed goals.

- "The U.S. and European governments should further recalibrate their approaches to Iran's nuclear program. Europeans must be more explicit, privately if not publicly, in committing themselves to sanctions if Iran resumes its enrichment; Washington needs to engage Tehran not just economically but also on regional security."

Shortly after our report, the United States shifted from grudging tolerance of the EU-3's efforts to negotiate with Tehran over ending nuclear enrichment to more active support. U.S. concessions to Iran on the economic front were not matched by any effort to engage Iran on regional security, but the foundations have been laid with President Bush authorizing Ambassador Zalmay Khalilzad to open bilateral U.S.-Iranian discussions on Iraq. EU governments have joined Washington in indicating they will consider sanctions against Iran if it fails to meet the April 28 deadline for stopping uranium enrichment. The Europeans, however, have not coordinated their policies to date, for fear of undermining their negotiating position. The U.S. and EU approaches reflect differing emphases, with some Europeans ruling out military action, while Washington maintains that "all options are on the table."

- "The United States and Europe must build on one of the bright spots of their relationship: transatlantic coordination in the fight against international terrorism. In particular, renewed efforts should be made in counterterrorism cooperation; joint contingency planning to prepare for future terrorist attacks; and improving joint understanding of the underlying forces driving terrorist recruitment."

While the United States and Europe have not yet instituted joint contingency planning against future terrorist attacks, cooperation on counterterrorism remains one of the strongest areas in the transatlantic partnership. The United States and European governments have established joint investigative teams of enforcement and judicial officials to track and disrupt terrorist groups. And good levels of cooperation between European Commission officials and staff of the U.S. Department of Homeland Security are helping to strengthen practical cooperation in the area of border and customs monitoring. Exchanges like the CSIS Transatlantic Dialogue on Terrorism have brought together policymakers, area experts, and academics from both sides of the Atlantic over the last year to improve understanding of the underlying causes of Islamic extremism and its links to international terrorism. Some conclusions are that radicals often see a seamless connection between global and local causes and may be motivated by identity crises more than poverty.

- "With both the United States and Europe facing profound economic challenges from China, India, and other rising economies, a high-level political commitment at the U.S.-EU summit in June 2005 to reduce regulatory and other non-tariff barriers to transatlantic trade and investment could generate long-term improvements in the competitiveness and growth of the U.S. and European economies."

The U.S.-EU summit meeting adopted a "Roadmap for EU-U.S. Regulatory Cooperation," which included recommendations for general activities, such as informal dialogues and improving transparency, as well as for sectoral cooperation in fields like pharmaceuticals and automobile safety. The first informal economic ministerial meeting in November 2005, another summit initiative, reached two key agreements: the 2006 U.S.-EU summit should adopt a joint strategy to enforce intellectual property rights; and the summit should establish a working group to "focus on specific activities, such as improved border enforcement cooperation, public-private partnership, and coordinated technical assistance to third countries." A first high-level EU-U.S. Regulatory Cooperation Forum, held in Brussels in January 2006, concentrated on good regulatory practices. The next, due to be held in Washington in the spring, is to cover best cooperative practices and to identify new prospective areas for regulatory cooperation. On April 18, the European Parliament's Trade Committee adopted a report on transatlantic economic relations, calling for the "abolition of non-tariff barriers in financial services by 2010 and in a number of other key markets by 2015."

- "U.S. and European governments must work together through forums such as NATO's Allied Command Transformation to help European governments acquire and deploy more effective national and collective military capabilities, so that Europe can act as a credible partner in confronting international security crises."

Tangible, if modest, progress has been made over the past year. The newly established European Defense Agency is gathering momentum. Mobile EU Battle Groups (each composed of 1,500 combat soldiers, plus support, and ready to be launched within 10 days) have reached an initial operating capability and will continue to develop over the coming year. European nations are addressing a critical shortfall by collaborating to buy air-to-air refueling systems. NATO has expanded its presence in Afghanistan, with European support, to help with reconstruction and will further increase its efforts in 2006. Washington echoed the vision of a more militarily capable Europe in its 2006 Quadrennial Defense Review report, which placed even higher priority on enhancing allied security capabilities. ■

The CSIS Initiative for a Renewed Transatlantic Partnership aims to bring together politicians, business leaders, and key individuals to reflect on strategic priorities for the United States and Europe, define common interests and shared values, and promote the creation of a Euro-Atlantic community of action in the twenty-first century. The initiative is made possible by the generous support of private companies and foundations. For more information please contact Raffaello Pantucci: RPantucci@csis.org.