

U.S.-UKRAINE POLICY DIALOGUE

A Discourse Among Partners



Partner in Ukraine



International Centre for Policy
Studies

U.S. Partners



Task Force Members

Co-Chair: Ariel Cohen, Senior
Research Fellow, Heritage
Foundation

Co-Chair: Ihor Shevliakov,
Projects Coordinator,
International Centre for Policy
Studies

Sergiy Kruglyk, Director of
Economic Department, Ministry
of Foreign affairs

Valeriy Pyatnytsky, First
Deputy Minister of Economy,
Office of the Vice Prime
Minister/European Integration

Keith Crane, Senior Economist,
RAND Corporation

Gary Litman, Vice President of
European Affairs, U.S. Chamber
of Commerce

E. Morgan Williams, Director,
Government Affairs,
Washington Office,
SigmaBleyzer Private Equity
Investment Group

For more information, please contact
the U.S.-Ukraine Foundation at:

733 15th St. NW – Suite 1026
Washington, DC 20005
Phone: (202)347-4264
Fax: (202) 347-4267

www.usukraine.org/dialogue.shtml

ACTION PLAN: Time to Re-Launch Ukraine's Economic Policy

Since the events leading to the Orange Revolution in Kyiv, the U.S. Government has supported Viktor Yushchenko, who became president of Ukraine in January 2005, and his political allies. Ukraine remains an important American geo-strategic priority in Eastern Europe.

Over USD 60 million were spent on Ukrainian democratic transition so far, and this year's supplemental budget provides for a similar amount. However, Ukraine's economic policy has been derailed since Mr. Yushchenko took power. This is for the following reasons:

Economy Derailed

- Lack of free market vision on the highest level of the Government of Ukraine and breakdown of governmental economic decision-making mechanisms;
- Continuous violation of property rights and high taxation;
- Anti-market and economically protectionist policies pursued by Prime Minister Yulia Timoshenko (including introduction of price control on oil and other energy products and fuels; imposing elements of central planning, especially in the meat industry; creation of a state-owned energy corporation); and
- Insufficient integration into global economy.

What's at Stake?

U.S. has much at stake in Ukraine. If economic policy fails, Russia will try to re-launch its own candidates for the parliamentary elections, and attempt to bring to power its own Prime Minister, who will have more power than the President. With the beginning of the political season (constitutional changes shifting power from President Yushchenko to Prime Minister Timoshenko in September; parliamentary elections in March 2006), it is more difficult to see through political changes.

Economic deterioration will also discredit a U.S.-supported democratization bid in Ukraine, which will have repercussions beyond Ukraine. Moreover, current economic policies stem the flow of foreign (Western) investment, while allowing corrupt Ukrainian and Russian interests, accustomed to the murky waters of government-regulated transitional economies, to thrive.

What to do? Therefore, the following measures need to be taken by the Bush and Yushchenko Administrations:

- **Create a uniform public vision of economic reforms for the President and the Government of Ukraine.** The Government should execute and implement President Yushchenko's vision for economic reform and for the creation of a positive investment environment, including the development of an action plan/timetable with specific and

achievable benchmarks. It should appoint specific officials responsible and accountable for the above-mentioned implementation. The Yushchenko Administration should formulate a single business and legal strategy.

- **Build institutional capacity of Ukrainian Government for the implementation of radical, systematic and sustainable market economic reforms.** The U.S. and Ukrainian Administrations should cooperate to initiate a management consulting assessment to pursue, in cooperation with the Government of Ukraine, an assessment of drawbacks in the current government decision-making process and development. This can be done as a part of U.S. technical assistance. The assessment should be followed by the implementation of comprehensive government reform, particularly as it applies to economic, financial, fiscal, and investment decision-making policies. Such measures will create an institutional capacity for the government to implement stable and lasting reforms, which will foster the development of a proper environment and infrastructure to boost foreign and internal investment. Particularly, work needs to be done to improve the Government's institutional capacity to absorb and manage international assistance, and to centralize the process of requesting and coordinating technical assistance.
- **Enhance property rights protection, strengthen the rule of law and reduce the tax burden.** This should include repealing the Soviet-style economic code, adopting the Joint Stock Company law, and legally abolishing all price controls. Ukraine should develop a legal system to enforce court decisions, including foreign and domestic arbitrary awards. In a timely manner, Ukraine should reform the existing structure and improve the bailiff service. It should undertake comprehensive legal reform aimed at facilitating competitive economic activity. It should also proceed with the reform of the administrative legislation and administrative procedural code as recommended by the UNDP Blue Ribbon Commission for Ukraine, *Proposals for the President: A New Wave of Reform*. Finally, it should consolidate and significantly reduce social tax as one of the ways to foster business out of the shadow economy.
- **Increase integration in global economy.** The Bush Administration should appeal to the U.S. Congress so that Congress lifts the Jackson-Vanik Amendment for Ukraine. The Amendment was proposed and enforced for another country, a different purpose, and in a different time of Ukraine's history. The nature of U.S.-Ukraine relations has radically changed since.

The Yushchenko Administration should reconstitute an inter-departmental working group on Ukraine's market economy status, and provide the group with adequate technical assistance from the government departments involved. The above-mentioned group should prepare the necessary documentation for cooperation with the U.S. Administration to grant market economy status to Ukraine. The GOU should also appoint a high-level official who would be responsible for the completion of the task within a certain timeframe. The Rada (Parliament) should pass the package of necessary laws in a timely manner, and the government should complete negotiations so that Ukraine can join the WTO by the end of 2005. Particularly, the Rada should adopt the Optical Disk law as the demonstration of progress in the area of intellectual property rights protection. [This law was passed on July 6, 2005.] The Bush Administration and Congress should support the Ukrainian bid to join the WTO, provided all U.S. concerns are resolved.