Post-Orange revolution Environment for Business in Ukraine: Analysis and Recommendations

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ABSTRACT

This paper presents a survey of the post-Orange Revolution Ukrainian environment, looking at the impact government reforms have had on the economy and the business environment. Ukraine has the potential to become a lucrative European investment. However, instability and corruption remain at the core of the public and private sectors. This paper looks at the current state of business in Ukraine and makes recommendations as to what needs to be accomplished before mass amounts of investment will be ready to flow into the country.

INTRODUCTION

There is no doubt that Ukraine has received its fair share of attention from foreign investors. Yet, Ukraine continues to lag behind its fellow former communist countries in attaining investment. Foreign money and capital are standing idle, as the Ukrainian government continues to waddle in political infighting, putting into question whether Ukraine is ready to fully transform its communist past into a capitalistic future.

It was just 18 months prior that Ukraine looked to have a major breakthrough in its path towards a free market. It was a farce of an election that galvanized half a million protestors to take the streets and voice their desire for a truly capitalistic society. The protests received media attention throughout the world and became known as the ‘Orange Revolution’. The Orange Revolution had such an impact that a run-off election was warranted and the eventual pro-West leader, Viktor Yuschenko, was crowned President over the Ukrainian people. It appeared as though billions of dollars were ready to flow into the country, but numerous Government missteps have created economic instability. With an undercapitalized infrastructure coupled with an extremely complicated tax code, Ukraine has slowly regressed.

Ukraine is arriving at an economic crossroad. Yet, the government stands in political gridlock with multiple parties claiming a share of the Parliament causing little to be accomplished. Ukraine is on the cusp of an economic boom or doomed for continued economic hardship. This paper looks at the positive and negative effects of the post Orange Revolution government reforms, surveys the current business environment, and explains why Ukraine is still a country fraught with risk.

UKRAINE ECONOMIC REFORMS

When Viktor Yuschenko took office, he was still riding the popularity tidal wave created from the Orange Revolution. Many went so far as to view the newly anointed President as the “savior” of Ukraine. Thusly, Mr. Yuschenko was given great initial opportunity to pass a multitude of reforms with the goal of getting Ukraine on a capitalistic track. There is no doubt the President and his ‘Our Ukraine’ Party expensed extraordinary effort in hopes of fostering a healthier investment climate. However, many laws and initiatives implemented did not equate to economic growth, leaving the door open for steep criticism and causing increased difficulty for more reforms to take place.

Over the past year the Yuschenko-led coalition attempted to spur economic activity by reducing regulation, transforming state-run businesses to privately held companies, and liberalizing the country’s markets. The administration displayed valor tackling these issues in an otherwise challenging and uncertain environment. Yet, success is based on results and so far the Ukrainian economy has not responded positively to the implemented reforms.
Business regulations, the agency that was put on the agricultural sector of the economy. Numerous state-run farms were transformed into privately held companies with intentions of cultivating a more competitive and efficient environment \([1, 6]\). The Ukrainian government also attempted to liberalize its markets, putting an emphasis on creating an environment with more transparency. Legislation was put forth to help increase clarity and to hinder corruptive practices. All of these actions were steps in right direction. However, it failed to be enough to spur economic growth \([1, 4, 6]\).

Accession into the World Trade Organization has always been viewed as a vital component to increase foreign investment. The Ukrainian government failed to reach their goal of admittance into the WTO by 2005, however, great strides were taken and a new timeline of the fall of 2006 has been set. In the effort to join the WTO, Ukraine has passed multiple pieces of legislation that addressed issues of intellectual property rights, agricultural tariffs, export duties, and technical barriers in trade. In the spring of 2005, three packages of amendments were passed by the parliament that decreased tariff rates for agricultural and industrial goods. Agricultural tariffs were re-established at 13.8% down from 19.7% and industrial tariff rates were reduced from 8.3% down to 4.4%. \([1, 4]\)

Another area where Ukraine has attempted reformation is the legal system. Ukraine’s legal system has dissuaded investors because of its variance from international norms. However, The State Enforcement Service, the agency that implements decisions from foreign courts, has started to address this issue. A first reading was passed by the Parliament “On Implementing Decisions and Applying Practices of the European Court for Human Rights.” The passing of this reading shows a commitment by the government to move towards conforming Ukraine’s legal system to international norms, a move that would be warmly received by all investors. Ukraine has also implemented a new Civil Code that “addresses private ownership protection and freedom of contract and entrepreneurship.” The Civil Code will help create a “unified framework for economic regulations alongside legal reforms.” Ukraine has taken steps to simplify its legal code, but investors still complain of overly complicated regulations \([1]\).

Listed above are the reforms that have taken the Ukraine economy in the right direction. However, for every positive reform the administration attempted to make, there were squandered reforms that followed. One area that caused a deep rift within not only the Yuschenko coalition, but the Ukrainian country as a whole, has been reprivatization.

**UKRAINIAN REPRIVITIZATION ISSUES**

As the Yuschenko led coalition swept into power, hopes were high among citizens and investors alike. Yuschenko’s steadfast vow to clean up the corruption that spiraled out of control during the years of Leonid Kuchma, the former president of Ukraine, led to his eventual win in the election. Once in power, Yuschenko implemented an anti-corruption policy that led to dozens of former Kuchma officials to be charged and arrested. Yuschenko appeared to be on a path to success. However, within a matter of months his administration was rife with charges of their own corruptive practices \([9]\).

Many of the alleged charges stem to the issue of reprivatization, which was an immediate priority once Yuschenko took power. Businesses that were sold at below market levels during the Kuchma years were put back under government control with the intention of reselling them at a fair market value. In some instances the administration should be lauded for retaking control of unfairly sold businesses. However, many felt it was Yulia Tymoshenko, the Prime Minister, who pursued an overly ambitious policy. The Prime Minister’s decision to reprivatize hundreds of enterprises appeared to be more for populist motives than economic reasoning. Subsequently, much of the public began to distrust Prime Minister Tymoshenko and President Yuschenko made the decision to relieve her from office after a mere nine months. The firing of the Prime Minister Tymoshenko caused a bitter rift in the ‘Our Ukraine’ Party and was a major chink in the newly elected President’s armor \([7, 9]\).
Reprivatization has been a dicey issue for investors. The Yuschenko administration has lacked clarity in its criteria for choosing an enterprise and the quantity of businesses that will be subject reprivatization. To the administration’s credit, they have seized government control over multiple businesses that were illegally swindled into the hands of corrupt businessmen during Kuchma reign. The most successful reprivatization was that of Kryvorizhstal Steel Mill. Just months before the 2004 election, the mill, one of the world’s most profitable, was handed over to corrupt buyers with strong ties to the government. The mill was sold for $800 million despite foreign offers of twice that amount. When Yuschenko was crowned President, one of his first initiatives was seizing control of the mill. Once the government regained control, the mill was auctioned on live television for $4.8 billion to Mittal Steel. The amount generated from auctioning the steel mill boosted foreign investment by 50% [2, 9].

Reprivatization is an ongoing concern for investors. The administration has attempted to curtail concern by reassuring they are finished with such practices. New legislation was put forth that will create a greater respect for property rights and will give the opportunity for illegally acquired businesses to avoid reprivatization by paying the difference of their acquisition value and the fair market value [1].

Despite attempts for a more structured reprivatization plan, investors and citizens have been dissatisfied with the shadiness of the government causing a sense of mistrust. People that once viewed the ‘Our Ukraine’ Party as the savior of capitalism faced the reality that the party did not differentiate itself from Ukraine’s corruptive past.

**UKRAINIAN GOVERNMENT SETBACKS**

The Ukrainian government experienced some degree of success with a couple of the aforementioned reforms. However, the national consensus is they have yet to deliver on all the promises made during the Orange Revolution. Ukrainians showed their displeasure in March at the voting booth only rewarding Yuschenko’s “Our Ukraine Party” with 14% of the vote.

So where has Yuschenko’s party fallen short? If there were one word to sum it up it would be *consistency*. Investors do not like surprises and unfortunately the Ukrainian government has been full of them. The initial uncertainty stemmed from reprivatization. Investors did not know what would be fair game or the magnitude of the reprivatization efforts. John David Suggitt, managing partner for a Ukrainian investment bank was very critical of the reprivatization. “You don’t take all the oligarchs out of power who control 60% of GDP. You don’t try to throw them in jail. You don’t try to take away their businesses and expect them to invest $1 billion in new machinery.” [8]

Then, in early 2005, Ukraine surprised investors by abruptly lifting all tax and tariff exemptions to investors in Special Economic Zones. The government claimed this was to stop misuse. However, the government failed to provide any sort of alternative to compensate businesses who relied on the SEZ exemptions. The government claims they are working on a method for compensating businesses. So far, nothing has been done and businesses have been left with red ink because of this unforeseen decision [1, 7].

Another surprise for many investors was Ukraine’s inability to gain acceptance into the World Trade Organization. The Ukrainian government repeatedly promoted its planned accession by the end of 2005. However, the end of 2005 rolled around and Ukraine failed to meet its goal. The failure rests solely on the shoulders of President Yuschenko and Prime Minister Tymoshenko. They lacked leadership in their attempt to convince the parliament to pass a batch of amendments. Surprisingly, it was members from their own party who did not attend or voted against the amendments that put the final kibosh on the reforms and caused Ukraine trade to suffer into 2006 [1].

Another problem the post-Orange Revolution government has yet to properly address is the overly complicated rules and regulations that put a choke-hold on commerce. The Ukrainian government remains overly involved in private business decisions and is constantly forcing businesses to jump through hoops in order to meet all government rules and regulations.

An example of this choking bureaucracy is currency regulations. Investors have voiced complaints about the difficulty of moving money in and out of the country. Investors are forced to open both hard currency and hryvnia (Ukraine’s national currency) accounts to move currency outside the country. Furthermore, they must provide documentation from financial institutions that were involved in the original transaction. This is just one example among thousands of regulations that are constantly detracting the flow of commerce [1, 2].
The aforementioned setbacks are reflective of the performance of the Ukrainian economy. A booming GDP growth in excesses of 12% in 2004 was reduced to 4% in 2005. Also, Ukraine’s trade surplus has plummeted from 10.5% of GDP in 2004 to somewhere between 5% and 6% in 2005. Lastly, an inflation rate that was holding steady at 8.2% at the end of 2003 has jolted up to 14.8%, as of July 2005. All of these economic indicators suggest that the Ukrainian government has experienced multiple setbacks in its quest for democracy. To its defense, economic conditions have not been ideal and many economists agree that the Ukrainian economy was due for a slowdown regardless of implemented economic policies. However, Ukrainians are still longing for prosperity and the government has yet to deliver [1, 6].

CURRENT UKRAINIAN BUSINESS ENVIRONMENT

The Ukrainian business environment is currently being weighed down by uncertainty. Uncertainty is inherently considered risk and investors tend to be risk averse. Although Ukraine embodies an environment of uncertainty, plenty of opportunities await for an investor willing to roll the dice. Roland Nash, head of research at the Renaissance Capital, believes Ukraine is on the cusp of something big. “Potentially, Ukraine is about the most interesting investment opportunity in Europe right now. But to unlock that potential Ukraine needs to have some kind of stability. The potential is huge and it’s well recognized by the investment community.” Viktor Yuschenko agrees with Nash’s assessment and is set on attracting large amounts of foreign investment into Ukraine. However, the country is still lacking the stability it needs to get the inflows Yuschenko so desperately wants [8, 12].

Another positive aspect of the post-Orange Revolution environment is that many investors feel like Ukraine has been “re-branded.” Over the past 18 months, Ukraine has taken initiatives to westernize its economy. Media rights have been increased and ascension into the WTO looks likely. Many feel these steps are building the foundation for a middle class to emerge. A developing middle class and political stability would be instrumental in Ukraine’s long-term goal of integration with the EU. Currently, the hope of integration is put on hold due to political in-fighting taking the driver’s seat to economic reform [6, 8].

Very positive progress is taking place in some areas of the business environment. However, much is to be accomplished for Ukraine to entice more foreign investment. Two areas where Ukraine is in dire need of reform are protecting investors and paying taxes. According to the World Bank, when it comes to protecting investors and paying taxes, out of 191 nations, Ukraine ranks 141 and 151 respectively. The table below displays Ukraine’s current troublesome business environment in regards to these two areas [10].

<table>
<thead>
<tr>
<th>Protecting Investors (2005)</th>
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<td>The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders’ ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.</td>
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<td>Indicator</td>
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<tr>
<td>Disclosure Index</td>
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<td>Director Liability Index</td>
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<td>Shareholder Suits Index</td>
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<td>Investor Protection Index</td>
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<th>Paying Taxes (2005)</th>
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<td>The effective tax that a medium size company in Ukraine must pay or withhold within a year is shown below. Entrepreneurs there must make <strong>84</strong> payments, spend <strong>2,185</strong> hours, and pay <strong>51.0%</strong> of gross profit in taxes.</td>
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The current government is well aware of these two trouble spots and legislation is being passed to combat the situation. However, the graphs do not lie, and it is painstakingly obvious why Ukraine has sub par foreign investment. Why would an investor choose to put their money in an area that is ranked 141 for protecting investors? An investor has 140 countries that seem safer, and beyond safe, there are other places that have a simplistic tax code. The government is in the process of simplifying the tax code and working on creating transparency. However, time is money and if FDI numbers are expected to go up, then these problems need to be addressed with greater urgency [10].

Beyond taxes and investing, Ukrainian investors are also dealing with an unpredictable court system. The local and national court systems remain so capricious that most businesses look to have disputes settled in international arbitration courts as opposed to using the Ukrainian court system. Ukraine will recognize international arbitration decisions, but recognizing and enforcing are two different things. Unfortunately, Ukraine has been quite inept at enforcing such contracts. According to the State Department, investors criticize Ukraine’s legal system for “continuing problems of burdensome procedures, unpredictability, political interference, corruption, and inefficiency.” In this current environment, Ukraine is obviously lacking the fairness and equality that investors look for to protect their investments [1, 10].

Other current issues that an investor must be aware of in Ukraine’s current business environment are the tensions between Ukraine and its former occupier, Russia. Since the Orange Revolution, relations have been on ice between the two countries. The tensions came to a head this January over a gas price dispute. Russia informed Ukraine it was quadrupling its rates for gas. When Ukraine resisted this price increase Russia cut-off Ukraine’s supply, temporarily halting the Ukrainian economy. A deal was immediately agreed upon. However, the quarrel ended in a questionable agreement that doubled gas prices and figures to cost the Ukrainian economy roughly 1.4 to 2.2 billion dollars. This situation illustrates Ukraine’s continued dependence on its former occupier. Ukraine currently relies on Russia to provide 85% of its energy resources. Currently, Ukraine produces approximately 85,000 bbl/day of oil while consuming a much higher 491,700 bbl/day. This imbalanced relationship puts Ukraine at the mercy of its bitter former counterpart. Situations such as the gas dispute will continue to plague Ukraine into the future and must be taken into consideration when analyzing investment risk in Ukraine [3, 7].

Along the same lines of energy vulnerability, Ukraine has also suffered from commodity price shocks. Ukraine has been susceptible to fluctuating steel prices. Steel is an integral component of Ukraine’s economy, consisting of more than 30% of total exports. In 2004, Ukraine witnessed its industrial production swell because of strong steel demand from China. However, this trend did not last. China has been expanding its own means of steel production which has flooded the market with steel and has caused the market prices to sharply decline. Because of this decline industrial production went from a 12.5% rise in 2004 to a much smaller 3.1 % rise in 2005 and caused steel exports to decrease by 30% in 2005 [7].

Both the decline and steel prices and the rise in energy prices have been detrimental to economic growth. Vasil Astrov, an economist at Vienna Institute for International Economic Studies, believes steel and oil have played significant roles in Ukraine’s current economic decline. He believes there are three reasons for the slowdown. “One was the collapse in world steel prices, the other was the sharp rise in energy prices, which Russia imposed on Ukraine in January of this year, and the third was political instability inside the government.” These three factors have taken a heavy toll on Ukraine’s economy and look to be an integral part of Ukraine’s economic fortunes into the future [7].

One positive to consider, when evaluating the current investment environment, is Ukraine’s metamorphosis into “Europe’s sewing machine.” In 2004, eight old soviet bloc countries were admitted into the European Union, causing workers in those countries to receive better wages and benefits. Ukraine was not one of those fortunate countries;

<table>
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<th>Indicator</th>
<th>Ukraine</th>
<th>Region</th>
<th>OECD</th>
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<tbody>
<tr>
<td>Payments (number)</td>
<td>84</td>
<td>46.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Time (hours)</td>
<td>2,185</td>
<td>431.5</td>
<td>197.2</td>
</tr>
<tr>
<td>Total tax payable (% gross profit)</td>
<td>51.0</td>
<td>50.2</td>
<td>45.4</td>
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Source: World Bank
however, not all is lost. Ukraine is able to provide cheap, highly skilled, labor that the newly admitted countries cannot. This has increased investment in its textile industry. Furthermore, central European companies are starting to look back east for investment. Many central European companies have found it increasingly difficult to penetrate western European markets. Fierce competition and established brand names have created an environment in which some companies have found to be increasingly difficult to operate profitably. Petro Filipi, a Czech clothes retailer, felt this burden. “In the undeveloped markets of the east it is much easier for us to establish a new brand. When we go east we are in the same position as our (western) competitors.” If Ukraine is able to capitalize on its ability to offer cheap labor and appeal to companies wanting to tap into underdeveloped markets then chances are likely Ukraine will experience increased economic growth [9, 13].

There is no doubt Ukraine has the potential to be a major investment attraction. However, Ukraine has ceased to manifest itself into an attractive investment due to instability and corruption. There are signs that both are being curtailed, however the investment risk lies in not knowing if stability will return and corruption will be halted. President Viktor Yuschenko claims Ukraine will be the next investment Klondike. At this point in time, it is difficult to accurately assess this statement. Strong signs suggest both a potential boom and bust in Ukraine’s future. If only Ukraine could find what all investors want…a little stability and transparency [7, 12].

**DEMOGRAPHIC AND SOCIOLOGICAL TRENDS**

Ukraine possesses several demographic and sociological trends that will have heavy implications on the country’s economic future. Ukraine is experiencing a rise of demand for cheap labor it is able to offer, however it is the same cheap labor that is driving Ukrainians to look elsewhere for higher paying jobs. A major concern exists that Ukraine’s workforce could become depleted in the coming decades. Ukraine is experiencing an outflow of its human capital at an alarming rate. Some estimates put the outflow at 7 million people since the fall of the Soviet Union, in 1991. Currently, the country’s population is 46.7 million people, down from 49.2 million in the year 2000. Losing 2.5 million people in just over 5 years is a cause for serious concern.

It is not just the outflow of human capital that is propelling the dwindling Ukrainian population. The low fertility rate of Ukrainian women coupled with the continued battle against smoking and alcoholism has also significantly impacted Ukraine’s population. Currently, Ukrainian women maintain a rate of 8.85 births per 1000 people, the lowest birthrate in Europe. According to *National Geographic*, Ukrainian deaths are outpacing births by a factor of two. A staggering disproportion has the potential to wreak havoc on Ukraine’s economic future [3, 9, 10].

In addition to a disproportioned birth to death rate, Ukraine’s biggest concern could be the alarming spread of HIV/AIDS among its hinterland. The spread of the virus has been palpable. In 1994 there were 223 registered cases of HIV. Nine years later, in 2003, the number exploded to 68,000. These are the number of *registered* cases. Estimates place the actual number to be more in the range of 600,000 people. If that is the case, Ukraine currently maintains a prevalence rate that surpasses all of Europe and is higher than the likes of India and China. If HIV/AIDS rates continue to increase, it would not only be a tragedy from a humanitarian perspective, but also would carry the economic potential to decline growth rates in excess of one percent a year. If the current pace of migration, lowered birthrates, and AIDS/HIV continues, Ukraine could see its current population of 46 million drop by 40 percent by 2050 [7].

Another issue that is cause for tension among investors is Ukraine’s polarized nation. In the industrial east and south, most Ukrainians choose Russian as their native language and carry strong favoritism toward the behemoth to the East. Most Ukrainians in these industrial areas favor Russian policies and some would even prefer to be assimilated into Russia, once again. The opinions of the east and south are especially important to the Yuschenko administration because that area comprises the heart of Ukraine’s industrial output. In fact, five out of the ten eastern regions account for more than a third of Ukraine’s total GDP. In the west, farming is still the dominant trade. Transitioning from collective farms to private has been difficult, causing the Western regions to still be mired in poverty. The obvious dilemma for the current Ukrainian government is the support it desperately needs continues to sympathize with its former occupier, and the supporters it currently has are under continued economic distress [7].
The overall demographic and sociological trends put a negative spin on Ukraine’s future economic outlook. However, Ukrainians have always prided themselves on their fortitude and tenacity to survive. Ukraine has always managed to prevail in its brutal history of war and famine. Although some aspects look grim, Ukraine’s ability to overcome pressing situations should provide solace to those who are concerned for Ukraine’s economic future.

RECCOMENDATIONS

Ukraine is a country of great potential. Unfortunately, that potential has yet to materialize or show definitive signs of what the future might hold. Currently, the country is caught in a turbulent political/economic storm and instability is still reigning king over Ukraine. Too much risk remains from an investment perspective. My recommendation is to wait for the storm to clear, until a more definitive assessment can be made. So many questions remain with both the political and economic environment that it is difficult to recommend sinking money in capital at the present time. If the Orange Coalition is able to maintain enough parliament seats to continue reform then I feel good about the chances of a “re-branded” Ukraine. However, this is far from a sure bet and investment at the current time would be a risky venture.

Before it is advisable to invest in Ukraine, there needs to be more political stability. After the parliamentary elections in March, President Yuschenko witnessed his coalition come in third with a weak 14% of the total vote. The Party of Regions, headed by the former pro-Russian President Viktor Yanukovych, topped the vote with over 32%. This has created an environment with no clear cut majority and instead a more polarized Ukraine is emerging. The instability has caused Yuschenko’s reputation as a leader to be questioned. As president, he still holds the option to negate the parliamentary elections in March and mandate a revote. Most think this will sink the Orange Party into deeper disarray, leaving the door open for the pro-Russian party to gain the majority vote. President Yuschenko is caught in a catch 22 with no decision satisfying the Ukrainian people. There is no doubt that the Yuschenko administration is going to have increased difficulty getting reforms passed through the Parliament (referred to as the Verkhovna Rada) which is very disconcerting for potential investors. The ability for the pro-Russian party to maintain popularity has been a continued strain on the Yuschenko led Our Ukraine Party and a indication that Ukraine may be unable to derail from its Russian dependence of the past [3].

In addition to political instability, Ukraine needs to show more diversification within its economy. Currently, Ukraine is unable to escape Russian influence because it is depended on Russia for 85% of its energy. Ukraine’s economy is at the mercy of Russia’s energy policies, as was witnessed in January of 2006. The Ukrainian government needs to actively seek other alternatives to diversify its sources of energy, therefore relieving its reliance on Russian energy imports. This will be an expensive endeavor. Receiving energy from Russia seems practical because of its geographic proximity. However, Russia clearly holds a biased against the Yuschenko-led government and if Ukraine continues to carry such a high degree of dependence on Russia then instability over energy prices will continue to plague the economy [3].

Beyond energy, Ukraine must also look to diversify other industries within its economy. A large reason for Ukraine’s sluggish economic growth is due to plummeting steel prices. Steel accounts for nearly a third of Ukraine’s total exports. Ukraine must look to alternative industries to pick up the slack for the downturn in steel prices. One area in which Ukraine has large room for growth is the banking sector. Currently, the banking sector plays an insignificant role with bank capital accounting for little more than 6% of GDP. In addition, Ukraine is ranked in the ‘poor’ category in the standard rankings of deposits. If Ukraine channels more focus and stabilization into the banking industry, it will be able to get money into the hands of entrepreneurs and hopefully spur an increase in investment, allowing other industries to emerge as opposed to continuing its current reliance on steel [1].

If political and economic stability are going to occur, then the catalyst will be ending corruption. According to the U.S. State Department, “Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine and is a major obstacle to foreign direct investment.” Signs of improvement have materialized with Ukraine moving up 15 spots to 107th place, out of 158 countries, on the 2005 Corruption Perception Index. However, 107th place is nothing to brag about and Ukraine must continue to emphasize this issue before investment into the country can be recommended. If Ukraine is to end corruption, the government must pay public officials higher salaries.
Most public officials succumb to corruption not because they are innately immoral, but because they have a family to provide for. Increasing salaries would be a start in this battle [1]. A positive note, in regards to corruption, is that a shift in mindset is taking place among government officials. Officials are now openly discussing corruption and admitting that it is a problem that affects all levels of the Ukrainian government. The first step in treating a problem is admitting that it exists. Ukraine is on the correct path towards thwarting corruption, it is just a question of if they can resist the corruptive temptations of yore and stay focused on its goal of a better tomorrow [1].

If Ukraine can address these problems efficiently then the problem of migration will solve itself. A stronger economy will lead to better wages. If people are making a decent living they will stop looking to relocate elsewhere and instead will stay within the Ukrainian borders to settle down and raise a family. In addition to a stronger economy, the government should also consider providing financial incentives for having children. Possibly a tax rebate for newborn children would help promote a higher fertility rate among Ukrainian women. Ukraine can not afford to maintain its current pace of population decline. The government must implement policies that give people a desire to stay in the country. The people of Ukraine are the life and blood of the country, their contribution is the foundation of a successful economy.

The storm still remains over Ukraine and it has yet to dissipate. This is why foreign investment grew by 10.8% in 2005, one of the lowest levels of former Soviet Union states [1]. Investment at the current time is fraught with risk. As a risk-averse investor, I remain steadfast in my belief that Ukraine is not in the condition where an investment can be made with confidence. Instability continues to prevail. If the Yuschenko government remains in power and is able to continue its pace of reforms, I believe Ukraine has the potential to be the next investment “Klondike”. But at the current moment, I recommend holding idle, and waiting for the clouds to clear.

REFERENCES


