

Ukraine in 2016: Turning Challenges into Opportunities for Investment and Growth



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After 2 years since the Revolution of Dignity on Kyiv's Maidan and albeit the Russia's illegally attempted Crimea's annexation and the ongoing fight against the Russian aggression in the Eastern region of Donbas, Ukraine continues to advance its democracy and economy. The country is changing – it departs from its legacy of post-Soviet cronyism and builds a system of strong democratic institutions to ensure the rule of law and free market. The Ukrainian economy restructures and reforms to reinvent its potential. The recently launched Association Agreement with the European Union including the Deep and Comprehensive Free Trade Agreement (FTA) and opportunities yielded by the Strategic

* Valeriy Chaly assumed his duties as Ambassador Extraordinary and Plenipotentiary of Ukraine to the USA in July 2015, expanding his diplomatic mission as Ambassador Extraordinary and Plenipotentiary to the Republic of Trinidad and Tobago and to Antigua and Barbuda with Residence in the U.S. In June 2014-July 2015 Valeriy Chaly worked as Deputy Head of the Administration of the President of Ukraine following his foreign policy advisory to Mr. Poroshenko during his presidential campaign. In 2006-2009 and 2010-2014 Valeriy Chaly worked as Deputy Director General of a leading Ukrainian think-tank– Razumkov Centre, where he supervised foreign policy, international law and security programs. During the course of his NGO career, Mr. Chaly developed a significant expertise gaining a wide recognition in Ukraine and internationally. In November 2009 Valeriy Chaly worked as Deputy Minister for Foreign Affairs of Ukraine and resigned in April 2010 in protest against the foreign and security policy pursued by then President Victor Yanukovich. Following his resignation Mr. Chaly resumed his work at the Razumkov Centre and advised the Foreign Relations Committee of Verkhovna Rada (Parliament) of Ukraine. Valeriy Chaly's earlier public sector career also included service as Assistant to the Deputy Secretary of Ukraine's National Security and Defense Council (1997-1999) and Senior Consultant at the Assistants' Group to the President of Ukraine (1995). In 1995 he graduated with postgraduate degree in the international law studies from the Institute of International Relations, National Taras Shevchenko University, Kyiv and in 1992 from Vinnytsia State Institute, Department of History. Born on 1 July 1970.



Partnership with the United States of America provide a solid platform of opportunities to support the economic growth.

The losses caused by the Russian aggression, including the military expenses and a loss of nearly 20% of industrial potential of Ukraine, are compounded with the Russian economic pressure. In January 2016, Russia imposed import restrictions on Ukraine including a ban of a variety of goods and services such as trade embargo on agriculture products, food, commodities, additional tariffs, custom duties and transit restrictions. The shortfall of the Ukrainian producers' revenues is estimated within a range from \$800 to \$1.1 billion in 2016. Enterprises located in the East are expected to be most affected due to closer business ties with Russia.

This rigid Russian economic policy vis-à-vis Ukraine pursued in a punitive manner in order to distort Ukraine's European integration, violates the basic World Trade Organization (WTO) principles such as liberalization, transparency and the rule of law. Alongside the bans, following the launch of the Association Agreement with the EU and its component of Deep and Comprehensive FTA, Russia has unilaterally suspended its Free Trade Agreement with Ukraine thus breaching another international obligation.

Facing new security and economic realm, Ukraine has accelerated its turn westwards in reaching out to new markets. For instance, facing the Russian pressure on gas market, Ukraine managed to diversify its supplies with reverse flows from the EU and reduced the Russian gas consumption by more than 20% in 2015. And so the country explores its other Western gates to reorient its economy.

U.S.-Ukraine Strategic Partnership has recently received a new impetus, particularly in its economic dimension.

The first U.S.-Ukraine Business Forum organized with the U.S. Department of Commerce featuring US Vice-President Joseph Biden has reinforced bilateral intergovernmental and business-to-business cooperation.

Further, we launched implementation of the U.S.-Ukraine Roadmap: Suggestions for Business Climate Improvements addressing, among other, issues of Intellectual Property Protection (IPR), anti-corruption measures, the rule of law, Value-added Tax (VAT) administration, gas extraction royalty rates and deregulation.



Ukraine is an attractive destination for investments in a variety of industries. Since 2003 the national IT sector grew 20 times in outsourcing sales and its share in export to the U.S. has reached 40%. Even more growth can be reached by a country, which has scored number 1 in engineering force in Central and Eastern Europe. Today over 100 global companies operate software R&D labs in Ukraine, where annually IT engineering workforce increases with 130,000 graduates.

Agribusiness is a traditional competitive advantage of Ukraine, which is endowed with 33% of world's most fertile black soil and is known as a breadbasket of Europe. Over 70% of Ukraine's land is listed for agri-use and its estimated market value exceeds \$100 billion. Today Ukraine holds the first place in the world for sunflower oil export, it is world's number two after the U.S. in exports of grain, and ranks third in corn. Ukrainian exports of agricultural products reached USD \$14.8 billion last year.

Ukraine is also set to develop its transportation networks to meet growth of export volumes, which are expected to be boosted by growth of the agricultural exports. The combined growth of agribusiness, IT and energy will turn infrastructure into one of the most promising destinations for foreign investments. Today 4 out of 10 Pan European transport corridors pass through Ukraine, grain cargo grew by 13.6% in 2015 and this trend will continue.

However, to meet growing demand we have to modernize our infrastructure system and attract foreign investments. This task requires continued effort to establish and maintain trustworthy attractive business climate.

Building of trust with the U.S. and other international partners alongside overhauling the economy and ensuring the rule of law became key pillars for the Ukrainian government in withstanding the challenges for a new Ukraine.

This mission began with restoring macro-financial stability, where the Ukrainian Ministry of Finance has locked a deal to restructure a public and publicly guaranteed external commercial debt for 13 bond issues in face value of around \$15 billion – a step crucial to avoid then speculated default and cut the budget deficit.

Rigid financial discipline and the commitment to reforms has allowed to secure the financial support from key international financial institution, including \$17.5 billion Extend Fund Facility (EFF) program from the International Monetary Fund (IMF), \$3



billion loan guarantees secured from the U.S. and other substantial macro-financial aid instruments from our international partners.

Ukraine has managed to clear its strategically important domestic energy sector through eliminating all gas trade intermediaries, which have been there for decades siphoning billions of US dollars without producing any added value for the country. We have cut the public financing of Naftogaz state-owned energy enterprise from 10 billion USD to 1.5 billion USD in just one year.

Reforms in the domestic gas sector called for unpopular, however, necessary and IMF prescribed increase in household tariffs equalizing gas prices across the market for all household and business consumers from May 1st, 2016. For instance, this policy has suspended the corrupt schemes that in the past allowed businesses to benefit from subsidized prices for households.

Ensuring the rule of law and attractive business climate is a tall order. It calls for strong anti-corruption policy compounded by overhaul of the law enforcement, prosecution and judiciary systems. It is the rule of law that must not be jeopardized, and the sustainability that must be ensured and maintained.

In 2015, it was a good start from Ukraine's law enforcement system, when based largely on the U.S. model the nation launched a sweeping overhaul of its outdated Soviet-styled militia structure. Since the start in Kyiv last July, the modernized National Police force was duplicated in many cities across the country.

Now broader institutional changes called to put an independent, efficiently functioning anti-corruption system in place. A new set of anti-corruption institution based on best world practices was established changing the rules of the game in law-enforcement and judiciary sectors giving a start to a new era of how things are going to be done in our country.

Ukraine approaches reforms through establishing modern, efficient platforms to ensure transparency. In May 2016, the Ukrainian produced, electronic public procurement system Pro-Zorro won the World Procurement Awards 2016 and has become the world's most advanced public procurement system. As commented in the Wall Street Journal article featuring on Pro-Zorro "the online procurement drives prices down, drives shady businesses out, and gives jobs to legitimate businesses." E-government instruments introduced across other sectors brought also a change, for



instance in tax administration, the new electronic VAT system has put notorious practices of selective VAT reimbursement to an end.

To continue the path of turning challenges into opportunities, the government's next agenda includes the following steps:

- Civil service reform: to turn the civil service from a tool of rent-seeking and political influence into a merit-based, efficient public administration that can drive reforms;
- Judiciary reform that will incorporate the constitutional amendments initiated by the President of Ukraine;
- Energy sector reforms: restructuring of Naftogas, introducing of a new electricity market model to strengthen energy independence;
- Healthcare reform: to move from “de-jure” free, but “de-facto” expensive and low quality healthcare, to effective paid medicine with necessary social support for those who require it.
- Sweeping privatization of state-owned enterprises (SOE) in transparent and competitive manner in order to attract investors and carry out corporate governance reform of SOEs. The privatization program aims to divest about 450 state enterprises. The privatization program is set to attract foreign investments, cut budgetary subsidies and stir up the competition. In addition, data on top-100 SOEs has been made public, including detailed financial statements, thus increasing transparency and disclosure standards as well as improving management and corporate governance.

Ukraine has already passed a point of no return in its transformation into a viable democracy. Further successful implementation of the reforms will turn Ukraine into an attractive destination for investments and a successful democratic model in the region that is crucial for the international security. It requires a continuous support from the international partners, namely the United States and the European Union, whose confidence in Ukraine is hedged by the the profound commitment for change driven by the people of Ukraine.