

How to improve the business environment in Ukraine: Lessons from Central European Reforms

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What makes reforms
successful?



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Overview

- ◆ How to do it?
- ◆ What to do?
- ◆ The problems of the second revolutions



How to do it? (1)

There is sufficient evidence from Central Europe and the Baltics that

- ◆ speed
- ◆ critical mass
- ◆ the exploitation of the „extraordinary political situation“ (© Balcerowicz) matter.

How to do it ? (II.)

- ◆ Try to build a support group from the world of Academia and media.
- ◆ But don't expect consensus.



What to do? (I.)

- ◆ For the Ukraine, only export-led growth strategy is sustainable on the long run.
- ◆ Today: chemicals, metals and some engineering products
- ◆ Tomorrow: more and more manufactured goods from a broad palette

What to do? (II.)

- ◆ The precondition of the export-led growth strategy is the integration of Ukraine into the world markets (EU, Russia, Japan, etc.).
 - Low wages are insufficient.
 - Don't believe your own propaganda about the „highly educated work force“.
- ◆ Ukraine needs FDI, mostly from transnational companies (TNCs).

Lessons from the growth theory

- ◆ Only export-led growth can guarantee fast and sustainable expansion and catching up with EU
- ◆ It is not enough to produce good quality at competitive price
 - Only TNCs can integrate an underdeveloped, open economy into the world economy through their own networks.

Key Benefits

1. Massive FDI = new fixed investments to upgrade existing structures
2. Shake up market relations, ossified social structures, inward-looking networks (M. Olson, S. P. Huntington)
3. State revenue from privatization deals
4. Political guarantees vis-a-vis

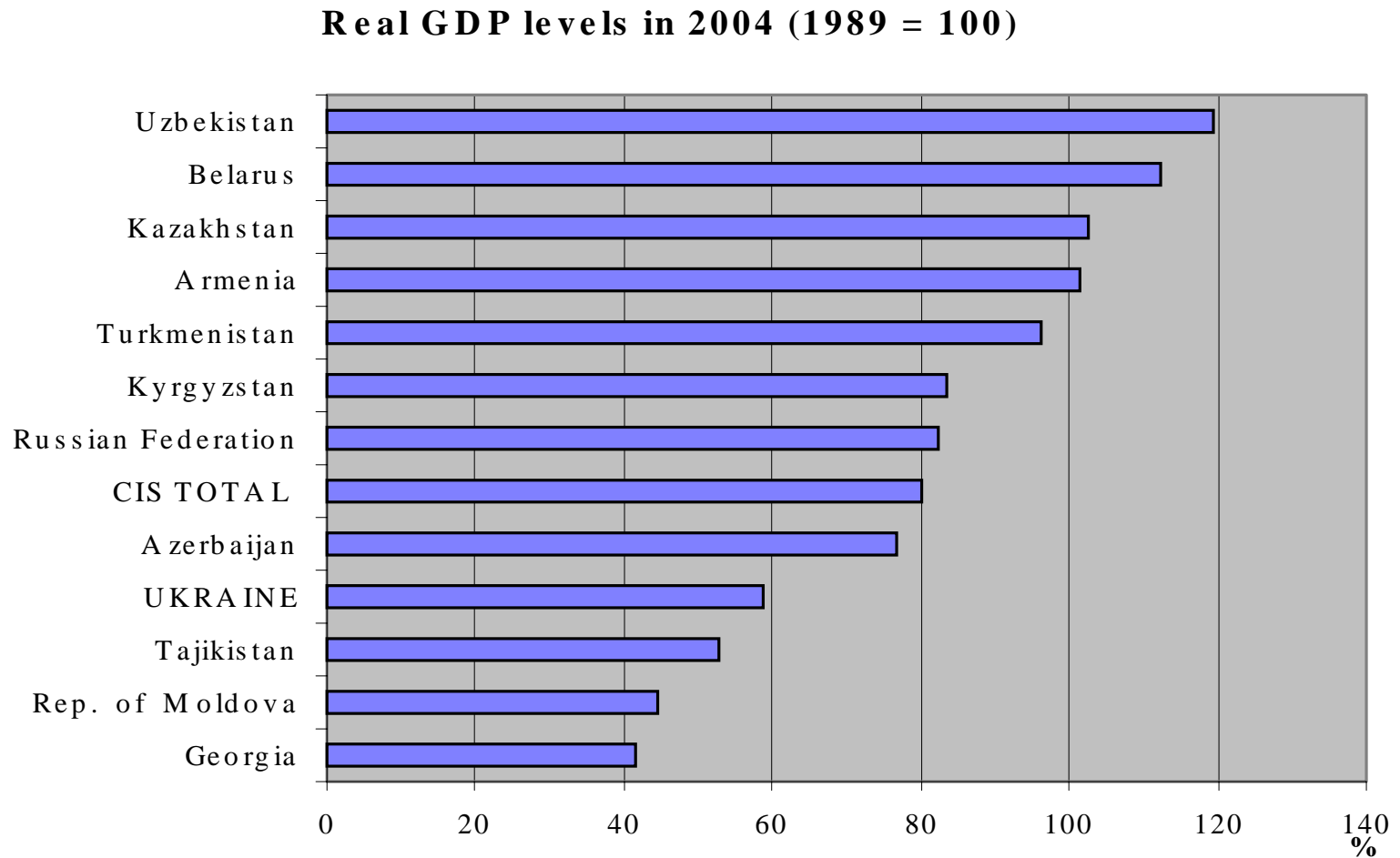
Russia

Ukraine is now going through the second revolution

- ◆ This is a different situation, the Central and East European lessons are useless in this respect.
 - ◆ Reform fatigue will appear much faster
 - ◆ The big contradictions between the „old“ and the „new“ economy
 - ◆ Oligarchs and the problem of corruption have become a top political priority



The starting point is unfavorable even within the CIS



Risks

1. The restructuring of the „untouched“ parts of the economy cannot be postponed.
2. There is a political pressure to renationalize privatized companies

1 + 2 → can reverse the positive growth performance (2003: 9.4; 2004: 12.4) → Early disappointment and the revival of conservative politics.

Thank you for your attention!

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