



TO: Clients and Friends of the Firm
FR: Frishberg & Partners
RE: Impact of Politics on Doing Business in Ukraine

Once upon a time, our current Prime Minister Victor Yanukovich served in the same position in the Kuchma administration. In those days, under President Kuchma's firm rule, government officials would aggressively assert their authority whenever an opportunity would arise, from the "fire brigades" to "*sanepidemstantsiya*" (sanitary inspection). After the Orange Revolution, President Yushchenko promised to end corruption, praising the virtues of liberalization and reform, joining WTO and gaining EU membership, too. But then Prime Minister Yulia Tymoshenko cheerfully announced her intention to re-privatize 3,000 enterprises, and from a political and business perspective, all hell broke loose.

The business community (local and foreign alike) were stunned by such wide-spread efforts to re-nationalize private property, regardless of how it was originally obtained. Justifiably, everyone considered this to be an assault on private property rights. Even President Yushchenko, who later fired Tymoshenko. That is how in August of 2006 Victor Yanukovich once again became the Prime Minister, bringing back with him the old Kuchma team of pragmatic businessmen. Seven months later, on April 2, 2007, President Yushchenko dissolved the Parliament and called for early elections, which were postponed until late September 30, 2007. In the meantime, the government remained paralyzed.

Contrary to popular expectations, however, the political standoff did not curb the inflow of foreign investment. In fact, one could argue that ever since the Orange Revolution, the ongoing political crisis has had a very positive impact on the Ukrainian economy. How can you explain this paradox? Actually, it's simple: due to continuing fierce battles for power between the three political clans, for the first time (ever?), the Ukrainian government has stopped interfering in the lives of small and medium-size businesses. For evidence one must only look at the streets, jammed with shiny, black Mercedes 600 series, multitudes of expensive boutiques on Kreschatik (including everything inside "Arena," across from the Bessarabsky market) and perpetually crowded haute cuisine restaurants like Fellini, Da Vinci and Concord.

Admittedly, the constant political battles seriously damaged the Ukrainian government's reputation in the eyes of the world and its citizens alike. Unlike the previous years, however, Western multinationals were no longer frightened by the prospect of long-term instability. The economy is booming at unprecedented growth rate that shows no signs of stopping in the near future, regardless of who runs this nation. At long last, doing business in Ukraine no longer depends on the politics or its politicians. Unfortunately, the same cannot be said about the rest of the civilized Western nations.