

# Ukraine is a risky market - but not because of politics!

BO ESKE NYHUS  
M.SC. IN POLITICAL  
SCIENCE AND MBA

**Ukraine is among the most attractive markets in Europe and the economy will continue to grow - even in times of world wide recession. As almost “by nature” Ukraine is a risky market, but not because of its politics!**

In recent years it has become a standard procedure for Ukraine to change political leadership (President, Prime Minister, Parliamentary Speaker etc.) every eighth month or so.

As a result, investors have come to believe that Ukraine is politically unstable and consequently that doing business there is too risky. This apparent wisdom has not been contested so far and has led to many poor investment decisions.

## “Stable political instability”

The political situation in Ukraine can best be characterized as a “stable political instability”. The way things are now is the way they will continue to be for quite some time.

The risks of doing business in Ukraine do not originate from the frequent changes in political leadership. They originate from the lack of a clearly defined role for the state, the specific institutional set-up and the mindsets at the individual level.

These risks will not be affected by shifts in political leadership, and therefore it makes no sense to postpone investments or business activities in Ukraine until after the next election or until political leadership have stabilized. Frankly, life after the next election will not be much different from the present. That is why an investment decision should not be based on anticipated changes in the political life or expectations of progress. It should be based on an assessment of the systemic challenges that will exist for many years to come.

## Politicians and parties

There are several reasons for why politics and elections do not really matter in Ukraine.

First, politics and politicians in Ukraine are not about conflicting values or about ideologies. In fact, the

politicians all advocate the same basic values and directions for the economy.

Instead, politics in Ukraine are about personal power, personal ambitions and about dividing assets and spoils among one's supporters. Politics in Ukraine



is a power struggle between individuals contaminated by personal ambitions.

Secondly, in Ukraine there are no consolidated political parties representing clearly defined attitudes, neither a formulated electorate target group. The only exception is the communist party and

other outer left or right wing parties, which have no political influence in Ukraine.

## No room for maneuvering

Thirdly, Ukraine is, to the highest extent possible,

dependent on its surroundings - even more dependent than it is on its own capabilities.

The country is affected from the East by Russia's expansionary ambitions and from the West by the European Union's aspirations for eastward integration.

Ukraine's export industry is dependent on global demand for raw materials, and its exporting companies are generally price takers.

Furthermore, and lately this has become more and more obvious, Ukrainian politicians do not have many options among which they can prioritize. At the moment the situation in Ukraine is critical and the tasks ahead are not about fine-tuning - they are purely technical tasks of saving the country from technical implosion.

The business journal “korrespondent.net” pinpoints 10 policy areas where experts agree that actions are needed if the independent and undivided Ukraine is to survive: Public utilities (gas, water, electricity, heat, sewage etc.) are breaking down; physical infrastructure (roads, airports, railroads, public transportation etc.) has reached capacity limits and is deteriorating; the health care sector is unable to supply minimal health care to the population; corruption is rampant and getting out of control; the judicial system and the law enforcement bodies are weak, inefficient and unaccountable.

In the coming years the need

to deal with these practicalities will further limit the options for the politicians. Taking into account the low level of institutional capacity, the low competitiveness of businesses and the weakness of the state, politicians have only little room for political maneuvering. The key point is that political action will matter - but it does not really matter which politicians are in charge.

## Business opportunities

Not only will the aforementioned practicalities keep Ukrainian politics, and hence the business environment, stable, - they will also be a source for enormous opportunities: Gas pipes needs mending, roads need paving, hospitals need new equipment, etc. All this will increase demand. Thus, from a business point of view the challenges ahead may be looked at not only as barriers, but as potentials.

The rewards and risks are high in Ukraine. The risks are based on something much deeper and more fundamental than the political leadership. For the same reasons the risks can be expected to be high for the next many years to come, no matter if “he” or “she” is in charge.