

# Washington Should Encourage Ukraine to Opt for Greater Economic Freedom

*Anthony B. Kim and Mamuka Tsereteli, PhD*

## KEY TAKEAWAYS

Ukraine's strategic importance stretches across Europe to the Middle East and Eurasia. In many ways, Ukraine is the face of the struggle against Russian aggression.

The U.S. is a vital partner for Ukraine, and its continued support is essential in encouraging Ukraine to institute necessary economic and institutional reforms.

The new Administration should reiterate that the U.S. stands firmly with Ukraine, incentivize targeted reforms, and reaffirm NATO's open-door policy for Ukraine.

Ukraine is one of the largest countries in Europe, rich with human capital and other resources, and its strategic importance stretches to the Middle East and Central Eurasia. In many ways, Ukraine is the face of the region's ongoing struggle with Russian aggression. The country's ongoing path toward sovereignty and prosperity, complicated by massive political and security challenges, may well also define the future of the entire neighborhood.

In his 2014 speech at the Foundation for Defense of Democracies, Jake Sullivan, National Security Adviser to Vice President Joe Biden, stated: "Ukraine will only succeed in charting its own course if it can shrug off the yoke of corruption and push back against the anti-democratic forces that have held it back for so long," which necessitates "a long-term commitment across the board—from the Ukrainians themselves, first and foremost, but also from American or European partners."<sup>1</sup>

This paper, in its entirety, can be found at <http://report.heritage.org/ib6042>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The United States is, indeed, a vital partner for Ukraine, and its continued support will be essential in encouraging Ukraine to institute necessary economic reforms that will enable the country to defend itself more resiliently. Washington simply cannot afford to disengage from Ukraine on economic, political, and security fronts.

## Challenges and Concerns

Modern Ukraine embodies the notion, dominant in Europe since the dissolution of the USSR, that each country has the sovereign ability to determine its own development path and to decide with which nations it has relations, and how and by whom it is governed.<sup>2</sup> It is in America's interest that Ukraine remain independent and sovereign and maintain the ability to choose its own destiny without foreign interference.

In a move rejected by the West, Russia annexed Ukraine's Crimean Peninsula in 2014. Since then, Ukraine has been engaged in an ongoing national struggle that will determine its future geopolitical orientation. The outcome of this struggle will have major implications for the transatlantic community and the idea of national sovereignty.

Rising to the challenge, Ukrainians took a decisive forward step in their struggle to free themselves from the shadow of Vladimir Putin's Russia in 2019, holding presidential and parliamentary elections that were orderly, free, and fair. On the platform that he and his party would steer a pro-Western course, combat corruption in the public sphere, and pursue much-needed economic reforms, Volodymyr Zelenskyi and the Servant of the People party achieved landslide election victories.

Since then, the new government has made measurable, yet limited, progress on advancing structural reforms, which have included budget reforms and the privatization of state-owned companies. According to the latest edition of the Heritage Foundation's annual *Index of Economic Freedom*, which measures economic governance and entrepreneurial competitiveness of countries around the globe, the Ukrainian economy has recorded notable improvements since 2019.<sup>3</sup> However, Ukraine still lags behind its neighbors, with its economic freedom score below regional and world averages.

Continuing to implement policies that advance economic freedom must be a top priority for Ukraine. The country has powerful yet not fully tapped industrial and agricultural sectors, as well as relatively well-developed infrastructure. Ukraine's IT sector is one of the best in the world and is progressing rapidly.<sup>4</sup> To effectively integrate these industries into the process

of advancing the country's economic security and prosperity, Ukraine must open up its economic potential and more fully embrace the competitive free-market systems that guide development in the West.

A vibrant and resilient economy is an essential engine for Ukrainian freedom and independence. Ukraine's economic potential has long been suppressed by poor economic governance. Low rankings in the *Heritage Index* and other international studies offer unambiguous indications of systemic shortcomings in the critical policy areas of transparency, efficiency, and openness, which prevent the economic potential of the country from being fully utilized. Currently, Ukraine's gross domestic product per capita on the basis of purchasing-power parity (\$13,442) is over two and a half times smaller than Poland's (\$34,484), about half of Russia's (\$28,184), and less than that of Belarus (\$19,942).<sup>5</sup>

## What Washington Should Do

The current pandemic-induced economic uncertainty is wider and more complex than past economic challenges. However, without elevated and reinforced economic reforms underpinned by decisive political will from the current government, Ukraine's economic livelihood will remain confined by what amounts to self-imposed economic repression, putting its citizens' economic security and standard of living at great risk. More than ever, the current economic challenges call for decisive policy corrections in Ukraine. Structural reforms that focus on laying or reinforcing the groundwork for market-oriented institutional upgrades and greater economic freedom are necessary preconditions for meaningful economic recovery.

Certainly, the U.S. cannot give Ukraine the political will needed to transform its economy according to free-market principles. However, by getting involved at critical moments of policy dialogue and helping where possible with the implementation of reforms, Washington can ensure that its guidance and concerns are taken into account. In this regard, the new Biden Administration should:

- **Reiterate that the U.S. stands firmly with Ukraine.** Washington must take a strong stance on Russia's aggression against Ukraine, reiterating the need for a complete restoration of Ukraine's territorial integrity. As long as Russia violates Ukraine's sovereignty, the U.S. should continue economic sanctions on Russian institutions and individuals who are responsible for the annexation of Crimea, and the instigation and fueling of conflict in Eastern Ukraine.

- **Incentivize targeted institutional and economic reforms to enhance good governance in Ukraine as well as the country's institutional competitiveness.** Overall progress has lagged on many much-needed, but contentious, structural reforms. As the *Index of Economic Freedom* has pointed out, advancing fiscal discipline, regulatory efficiency, and market openness to generate greater economic dynamism will go a long way toward securing Ukraine's future.<sup>6</sup>
- **Focus on Ukraine's achievements in advancing the rule of law and fighting corruption, not on unrealistic expectations.** The influence of vested interests has severely hampered the country's ongoing efforts to upgrade its economic system toward greater transparency. Social, economic, and political reforms in Ukraine will take time. Reform is a process that requires ongoing commitment, not a single event. Washington policymakers need to support Ukraine on the long-term, yet pragmatic, path to reform.
- **Work closely with the International Monetary Fund and the World Bank.** These institutions, in which the U.S. has played a leading role as a member and donor, can offer practical advice on improving the entrepreneurial framework in Ukraine. Engaging with Ukraine through these two Washington-based international institutions is clearly in Washington policymakers' interest. Effective policy guidance and development assistance should focus on advancing private-sector growth that aims to eliminate obstacles to the facilitation of dynamic entrepreneurship in Ukraine.
- **Continue to work with the North Atlantic Treaty Organization (NATO) and reaffirm its open-door policy for Ukraine.** NATO must present a united front against Russia's aggression against Ukraine, reiterating the need for a complete restoration of Ukraine's territorial integrity as well as its open-door policy concerning potential future Ukrainian membership of NATO.

## Conclusion

By pursuing more decisive structural and institutional reforms that can boost economic freedom and long-term competitiveness, Ukraine can continue to build a brighter economic future and go beyond what the country has achieved so far. As Ukraine continues to improve its record on economic

reform, Washington should seek out more and greater opportunities for practical bilateral trade and investment engagement. While the future success of Ukraine will rest in large part on the shoulders of Ukrainians themselves, America's continuing strategic support remains essential for counteracting Russian aggression and supporting reforms.

**Anthony B. Kim** is Research Manager, and Editor of the Index of Economic Freedom, in the Center for International Trade and Economics, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation. **Mamuka Tsereteli, PhD**, is a Senior Fellow in the Central-Asia Caucasus Institute at the American Foreign Policy Council.

## Endnotes

1. Mark Dubowitz and Jake Sullivan, "A Conversation with Jake Sullivan, Deputy Assistant to President Obama and National Security Adviser to Vice President Joe Biden," Foundation for Defense of Democracies, Washington Forum, May 1, 2014, [https://s3.us-east-2.amazonaws.com/defenddemocracy/uploads/documents/SullivanFinal\\_transcript\\_WF14.pdf](https://s3.us-east-2.amazonaws.com/defenddemocracy/uploads/documents/SullivanFinal_transcript_WF14.pdf) (accessed January 22, 2021).
2. Luke Coffey and Daniel Kochis, "Brussels NATO Summit 2018: Don't Lose Focus on Ukraine," Heritage Foundation *Issue Brief* No. 4883, July 6, 2018, <https://www.heritage.org/defense/report/brussels-nato-summit-2018-dont-lose-focus-ukraine>.
3. Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2020), <https://www.heritage.org/index/>.
4. Yuliya Rimsky and Filip Sasic, "Ukraine's Booming IT Sector Can Drive Positive Change," The Atlantic Council, September 23, 2020, <https://www.atlanticcouncil.org/blogs/ukrainealert/ukraines-booming-it-sector-can-drive-positive-change/> (accessed January 22, 2021).
5. International Monetary Fund, *World Economic Outlook: A Long and Difficult Ascend* (Washington, DC: International Monetary Fund, 2020).
6. Ibid.