

Viktor Gets His Groove Back

By Adrian Karatnycky

The Ukrainian government on Monday achieved its most important breakthrough since the Orange Revolution by selling off the massive Kryvorizhstal steel works in a live auction watched by millions on television.

The world's largest steel company, Mittal Steel Germany GMBH, acquired the Ukrainian mill for \$4.8 billion—\$4 billion more than a consortium including former President Leonid Kuchma's son-in-law paid only 16 months ago in a rigged privatization. This week's sale reverses that injustice, and fills state coffers high enough to cover a fifth of the state's annual budget. In one move, Mittal increased total foreign investment in Ukraine since independence in 1991 by 50%.

All this couldn't come at a better time for President Viktor Yushchenko. In the aftermath of his dismissal last month of Prime Minister Yulia Tymoshenko and other allies who stood beside him in the Kiev cold against the Kuchma regime, critics have accused the president of abandoning—if not outright betraying—the Orange Revolution.

Mr. Yushchenko's actions in recent weeks answer his doubters. His new government includes many stalwarts of the Orange Revolution, including Foreign Minister Borys Tarasyuk, Interior Minister Yuri Lutsenko, and Justice Minister Serhiy Holovaty, who fought corruption and crime in the Kuchma era.

As part of the government shake up, President Yushchenko also sacked Prosecutor General Svyatoslav Piskun, who is accused by the mother of murdered journalist Heorhiy Gongadze of protecting high-ranking former officials implicated in the killing. Gone, too, are several key Yushchenko aides, including former National Security Advisor Petro Poroshenko, whom critics charge with conflict of interest and efforts to promote the business interests of friends and allies, if not outright corruption.

Most importantly, President Yushchenko has used the government reshuffle to signal that the populist policies of Ms. Tymoshenko will be replaced by more busi-

ness-friendly ones. He turned down Western advice to turn the page on rigged and corrupted privatizations and pressed forward with a new auction for Kryvorizhstal works. At the same time, he rejected suggestions that thousands of past privatizations be reopened. His pragmatic approach aims to redress the most egregious excesses from the past, but not in a way that hurts investment. He has also pushed deregulation to spur enterprise and, in a clear break with the Soviet past, unilaterally lifted visa requirements for European Union and North American visitors.

These policy corrections have piqued investor interest. In August, Austria's Raiffeisen Bank purchased Ukraine's Aval Bank for over \$1 billion. Venture capitalist Tim Draper, who reaped hundreds of millions in profits from an investment in internet phone service Skype, has created a new \$80 million fund, DFJ Nexus, to invest in Ukraine's high-tech sector.

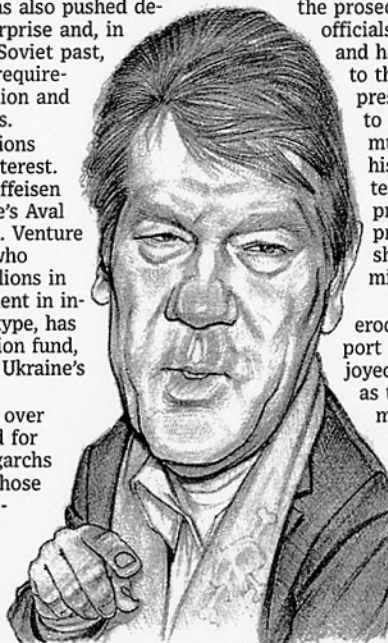
Ending the disputes over who owns what is good for local business, too. Oligarchs like Rinat Akhmetov, whose System Capital Management lost its profitable stake in Kryvorizhstal, can now be more certain they will hold on to their other major enterprises. Mr. Akhmetov already benefits from this new transparency. According to published reports, he is readying to sell shares in his conglomerate on the London Stock Exchange, raising billions of dollars for new investments at home and abroad.

Taken together, these developments may give impetus to an economy that had slowed from 12% growth in 2004 to a projected 4% this year.

* * *

Over the past year, Mr. Yushchenko has made some crucial mistakes. He signed a political stabilization pact with bitter rival

Viktor Yanukovich that hinted at broader cooperation with representatives of the discredited old regime. He signed a law that impedes the prosecution of virtually all elected officials down to the smallest town council member (even as he pledged to challenge the constitutionality of that very law in the Supreme Court). He waited too long while incompetent officials delayed the prosecution of high-ranking officials linked to the murder and harassment of journalists, to the rigging of last year's presidential elections, and to the plotting of his own murder. And he removed his former government team without adequate preparation, lurching from praise of its actions to sharp criticism and dismissal in a matter of days.



Samuel Roldin

These missteps have eroded the broad public support that Mr. Yushchenko enjoyed after taking office. But as the March 2006 parliamentary elections loom, the president remains the country's most popular political leader. According to early polls, his parliamentary allies are likely to end up with 20-25% of the seats in the next Rada, which will see its powers strengthened next year when constitutional amendments come into force. Candidates loyal to Ms. Tymoshenko are likely to make up a further 20-25% of the next legislature, enough—with smaller parties—to give the old Orange Revolutionaries an opportunity to build the next government.

Angered at her dismissal, Ms. Tymoshenko vowed political revenge but kept a low profile. On Monday, she reemerged to watch the dramatic auction in person. Afterwards, she declared her intention to work with Mr. Yushchenko's Our Ukraine movement in a post-election ruling majority.

The odds of cooperation—if not outright reconciliation—between the estranged allies are high. In her seven months as prime minister, Ms. Tymoshenko supported hefty and unsustainable outlays for pensions and state employees. She tried to control meat, gasoline and other commodity prices. By late summer, with the economy slowing down, she began to adopt a more pragmatic, market-oriented approach, shelving her plans for far-reaching reprivatizations and lifting a cloud over Ukrainian business.

If the events of recent days are a sign of things to come, President Yushchenko will have weathered his first political crisis. For this country of 48 million so unused to pragmatic and effective rule, a re-energized presidency must count as good news.

And Mr. Yushchenko's fortunes matter beyond Ukraine's borders. In recent weeks, Russia's state-dominated media—all too aware of the potential democratic contagion from the Orange Revolution—played up the alleged chaos in the ranks of Ukraine's government. Other nations, from Belarus to Azerbaijan to Uzbekistan, are also watching this experiment closely. With the democratic transition in Ukraine back on track, this country's reformers need outside support. Europe can move quickly to declare Ukraine a market economy. The U.S. can remove decades-old and hopelessly outdated Jackson-Vanik sanctions that impede trade. The West as a whole can press for Ukraine's accession to the World Trade Organization.

Mr. Karatnycky is counselor and senior scholar at Freedom House and a founder of the Orange Circle, a non-governmental initiative.

OpinionJournal.com

Fit for the Bench

A good trial lawyer can sit on any court—so don't discount Harriet Miers's experience, says Judge Thomas P. Griesa.