

The Malaise in Ukraine

The business community is fed up with President Yanukovich's corruption and management. Is real change on the horizon?

BY ANDERS ÅSLUND | OCTOBER 23, 2012

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Over the past two-and-a-half years, Ukraine has been transformed, but not for the better. In February 2010, Viktor Yanukovich -- whose previous "victory" in the 2004 election was overturned in what became known as the Orange Revolution -- was elected president with a slight margin in a free and fair election. This ex-convict from Russian-speaking eastern Ukraine has quickly consolidated power. Increasingly, his family loyalists, primarily represented by his son, the businessman Oleksandr, dominate the Ukrainian government.

On Oct. 28, Ukraine is holding critical parliamentary elections. These elections will be either the final step in Yanukovich's consolidation of power or his opponents' last chance to disrupt his family rule. This time, however, the most palpable threat to his rule comes not from the crowds on the street but the elite businessmen he has alienated.

Yanukovich was lucky to win the presidency in the first place. Ukraine was hit hard by the global financial crisis in 2008 under the tenure of Prime Minister Yulia Tymoshenko, who was running against him for the presidency. The uneasy Orange coalition government led by Tymoshenko and President Viktor Yushchenko was consumed by infighting and eventually collapsed. Yushchenko now leads an officially sanctioned splinter group that is taking votes away from the real opposition.

Yanukovich already had a parliamentary majority when he came to power and was thus quickly able to appoint his government. He also managed to gain control over the Constitutional Court, which abolished constitutional amendments passed in 2004 and returned the country to its 1996 constitution, which included stronger presidential powers. Meanwhile, Tymoshenko was sentenced in a blatantly political prosecution to seven years in prison for an allegedly shady gas agreement with Russia while she was prime minister.

Yanukovich has also taken steps to increase his control over television. In particular, the stubbornly independent cable channel **TVi** has been refused licenses and is gradually being

ousted from various cable services through pressure from the authorities. In the run-up to these elections, television is firmly in the hands of the incumbent.

But pure repression can't save the president if his support among Ukraine's most powerful business interests continues to erode. Yanukovich initially appointed a government dominated by nine big business groups, each of which was represented by one or more ministers in his cabinet, but their number has quickly dwindled. Instead, Yanukovich family loyalists now dominate the government. They control all the law enforcement bodies, the central bank, and the Finance Ministry, while the businessmen complain that they are being squeezed out by Oleksandr Yanukovich. As a consequence, Ukraine has **fallen even deeper** on Transparency International's Corruption Perceptions Index to No. 152 out of 183 countries, and property rights have been further undermined.

This year, I had a chance to observe the dissatisfied Ukrainian opposition up close. Each year, Victor Pinchuk, a highly respected international Ukrainian businessman, organizes a major international conference in Yalta. In mid-September, the ninth Yalta European Strategy took place, attracting the whole Ukrainian political elite as well as foreign luminaries including the Americans Condoleezza Rice, Newt Gingrich, Robert Zoellick, and William Daley.

Yanukovich attended as usual, but in sharp contrast to previous years, he no longer seemed to be in a mood to placate his foreign guests. Last year, he promised to work to get Tymoshenko out of prison, where she lingers still. This time, both he and the audience seemed to realize that no new promise of reform would be credible, and he ignored the issue entirely.

His loyalists displayed the same attitude. Prime Minister Mykola Azarov answered my question on the increasing sleaze and graft under his watch by claiming that **reports of corruption** had been exaggerated. (According to recent surveys, 59 percent of the Ukrainian public disagrees.)

But some of the VIPs in attendance were obviously not satisfied by the status quo, including First Deputy Prime Minister Valeriy Khoroshkovskiy, Economy Minister Petro Poroshenko, and Deputy Prime Minister Sergei Tigipko. All are billionaires and major business leaders. Although they all still belong to Yanukovich's party, they seemed more eager to accommodate foreign politicians and businessmen. In their remarks, they acknowledged the current governance problems in Ukraine, and all called for closer cooperation with Europe and faster economic reforms.

It's not hard to understand why these officials are turning against the president. A few days earlier at a public meeting, Yanukovich had **threatened** to "rip off" Poroshenko's head amid a technical dispute over the implementation of car fees. "Well, thank you. We'll operate without your help," the unfazed Poroshenko responded.

These thuggish antics won't exactly endear Yanukovich to already skeptical foreign governments. Deflecting criticism that he is too close to the Kremlin, he has claimed European integration as his main goal, and last fall Ukraine inked a major free trade agreement with the European Union, a monumental document of 1,000 pages that had been negotiated for four years. But the EU has **refused to sign** the documents as long as Tymoshenko remains in prison on spurious charges.

Yanukovich has threatened to turn to Russia if the EU cold-shoulders him, but his threat lacks credibility because Russian President Vladimir Putin almost refuses to see him. On July 12, Putin arrived in Crimea and lingered for hours with a group of Russian nationalist bikers from Moscow until he finally went to Yanukovich at the Livadia Palace. At the meeting, he spent 20 minutes talking to his associates, ignoring Yanukovich and avoiding all discussion of substance. Desperately seeking friends, Yanukovich is now warming up to China. After mutual visits, the Chinese have offered several multibillion-dollar contracts, but so far none of several announced agreements between the two countries has come to fruition. The Ukrainian business

environment is so tough that not even the Chinese government wants anything to do with it, and the Chinese pose specific conditions on their workers carrying out construction work.

Domestically, the isolation is even more pronounced, thanks to Yanukovich's shortsighted habit of victimizing his country's most powerful people. There are **numerous allegations** of Yanukovich family loyalists seizing partial ownership of companies without payment and accepting kickbacks of up to 40 to 70 percent on major state contracts. Large sectors of the economy are closed to all but a handful of Ukrainian businessmen, notably the critical steel, gas, electricity, mining, and chemical industries.

The president is therefore at his most vulnerable moment as he heads into this October's elections. Yanukovich hopes to further consolidate his power with a constitutional majority of two-thirds of the seats, but that seems unlikely. His personal popularity is less than **20 percent**, and his party, the Party of Regions, is at around 25 percent. With a dismal economic record, the party is running by promising political stability and appealing to ethnic Russians by promising an official status for their language. To enhance his chances, Yanukovich has changed the electoral system so that half the parliamentary members will be chosen by nationwide popular vote, and the other half by individual districts choosing a member to represent them, an arrangement that favors incumbents and rich businessmen. But this may not be enough to prevent Yanukovich's party from being punished at the polls, and there's no guarantee that the loyalists who are elected will continue to support him in the future.

A victory for the democratic Orange opposition does not seem likely either. Several Orange parties have merged into the United Opposition under the leadership of the young and skillful Arseniy Yatsenyuk, who has served as speaker, foreign minister, economy minister, and first deputy presidential chief of staff. But Yatsenyuk lacks Tymoshenko's charisma, and in any event the Yanukovich regime has rigged the system against him. Not a single businessman dares to give the opposition money; several of its leaders are in prison; it has limited media access; the authorities have set up several splinter parties -- including Yushchenko's -- to confuse voters; and the opposition faces frequent harassment, including arrests and beatings by public authorities.

Walking through the center of Kiev in September, I was struck by the near absence of political campaigning. The United Opposition is probably still too demoralized after the chaotic Orange rule of 2005 to 2010 to pull off an upset, though Ukrainian voters have repeatedly surprised their rulers by voting against them. They did so in 1994, 2005, and 2010.

A third scenario seems more plausible: a repeat of the 2002 elections, when the ruling party split into nine oligarchic party factions immediately after the vote. Poroshenko was able to laugh off Yanukovich at Yalta because he is about to re-create his own regional party with some 20 parliamentarians in Vinnitsa in central Ukraine. Emergencies Minister Viktor Baloga is doing the same in Transcarpathia in western Ukraine. A fractured oligarchy would not amount to democracy, but it would offer some checks and balances to the current family rule. Two years after the 2002 elections, Ukraine saw a democratic breakthrough, which might be more successful next time.

Yanukovich's problem is that he uses only sticks and no carrots. The fruits of his predatory rule are being shared by too few from a narrow circle of friends and family members from his native Donetsk. He has consolidated power at an amazing speed, but he has done so by steamrolling friends and foe alike. Therefore, his power might be at its zenith, and Ukraine may see a more pluralist system arising once again.