Oligarchy and its impact on foreign policy – Ukraine’s case

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ABSTRACT

For most of people not preoccupied with issues related with political sciences or international affairs, oligarchy may seem something that was in the past but has not been present for dozens or even hundreds of years. However, oligarchic governments in individual countries underwent an evolution. Due to obvious reasons, the way of acting and methods changed but the sole rule of functioning and aims remained unchanged. This subject is extremely broad. Due to the above, the author, to significant extent, focuses on one country, i.e. Ukraine. The form of oligarchic power in this country is very dangerous, as only a few persons directly or indirectly controls the judiciary, the executive, the legislature and media. Despite that, it is possible to very surely state that one of the most apparent manifestations of the domination of particular persons in a country is their influence of its foreign policy. Thus, we observe not only a break of the classical thought by David Easton on a political system, but also that a small group of the wealthiest people in a state has an influence on the policy of states in its region or even the whole international arena.

Keywords: Ukraine, oligarchy, international relationships, foreign policy, political system

1. INTRODUCTION

Discussing the issue of oligarchy democracy in Ukraine, it is necessary to consider David Easton’s definition of a political system. It is composed of inputs and outputs, feedback, and intra-system conversion. In a market-driven, democratic political system, there
occur demands of the society, addressed to those in power (inputs). Next, there takes place the conversion, i.e. a change of reactions of the government. The next step is realisation, or a lack of activities of politicians, i.e. what the society sees. Then, there come reactions of citizens – feedback, i.e. the society’s reaction on realisation of demands of the voters [A. Antoszewski, 1999]. In contrast to democratic political systems, in Ukraine we face other types of inputs. Inputs in Ukraine are not only demands of citizens, but also representatives of business, who have a larger influence on the politics than citizens due to their forces and fortune. However, there is no one reason of such shape of the political system, it is a multi-dimensional issue. What is more, this system is exceptionally stable since its full shaping, i.e. the second half of 1990s. Despite the Orange Revolution in 2004, changes of presidents, prime minister and ministers, we still can speak about an oligarchic system.

The situation in the foreign policy looks analogical to the internal one. Since becoming independent, Ukraine’s foreign policy has been mainly based on balancing between Russia and so called West. It was caused not only by changes of presidents (however, it was indirect), but, most of all, the game taking place behind the scene between the most influential persons, i.e. oligarchs. It is worth to note, that despite a significant influence on the policy, the majority of oligarchs has never held any official position (Petro Poroshenko is an exception) [Wierzbowska-Miazga A., 2014]. Additionally, we can distinguish groups that particular businessmen can be divided into. The first of them is so called Donetsk clan, the leader of which is Rinat Achmetow [The list of wealthiest citizens, Korrespondent.net, 2014]. The second, equally influential group is RUE clan, related mainly with Dmytro Firtash [Duval J., 2015]. During the further period, we can also distinguish so called family, the pillar of which was Viktor Yanukovych, a former president of Ukraine. Due to the above, particular groups of oligarchs appointed their people to state positions, in order to realise own aims. To a large extent, that had an influence on Ukraine’s foreign policy, as the position of this one of the largest European states depended on particular interests of individuals or groups of the wealthiest people [Fish M., Abrams N., 2013].

2. CHOICE BETWEEN THE EAST AND THE WEST FROM OLIGARCHS’ PERSPECTIVE

Nearly from the beginning of the independence till the change of power in 2014, there dominated the policy of balancing influences. Such way of policy dominated both in foreign as well as internal policy, where the role of the head of state was a necessity to balance influences between oligarchic clans. A similar situation concerned foreign policy. Since 1991, the role of Ukrainian presidents and governments was balancing on the border line between Russia and the West, i.e. USA. While running such policy was easy during the presidency of Leonid Kuchma due to USA’s dominating position in the region, the situation change in later years. It was mainly caused by taking of power in Russia by Vladimir Putin, who strived and still strives to rebuild his country’s world power position. It is manifested in various forms such as the Eurasian Customs Union or the will to strengthen ties with former Soviet Union states [Bolton K, 2014].

As it was presented earlier, strong political power (e.g. held by Viktor Yanukovych) and even the legitimisation of the Ukrainian citizens are not enough to choose between the East and the West as the deciding voice is of oligarchs, as in almost political matter. Due to
obvious economical reasons, more profitable for Ukrainian businessmen would be opening to western markets as having even a small share in the power industry of any of European countries can bring much more benefits than having twice more shares in former Soviet Union states. What is more, a lack of the inflow of foreign investors (no significant investor started activity in Ukraine during three years of Viktor Yanukovych presidency) does not create the competition in the labour market, what is directly reflected in cheap labour force, which can be used due to a lack of choice. An example of a growth of salaries related with an inflow of foreign investors can be India or China, where, despite still low salaries, people working in international corporations earn three times more than in national companies. Another result could be that large enterprises, due to an increase of labour costs, would have to undergo a thorough modernisation of outdated plants owned by private Ukrainian investor, what would result in large costs [Pogorzelski P., 2013].

The majority of Ukrainian oligarchs have a dilemma whether to take a risk related with allowing foreign competition enter their market, as it may be financially beneficial, but on the other hand, there is risk of the competition. According to Ukrainian political scientist Stanislav Fedorchuk, businessmen from Kiev are extremely afraid of such competition. This results from the fact that they connote it with 1990s, the time of hard battles and sometimes even physical liquidation of the competition.

As a result, despite possibilities of higher profits, the fright of a probable loss of own position is so high that they blocked a conclusion of the Ukrainian-European Union Association Agreement. On the other hand, it is worth to note that going completely east is not safe for Ukraine as well. Such approach can lead to arousing of the competition from Russia, which is mainly focused on their power, i.e. Vladimir Putin. However, Ukrainian businessmen have to remember about good relations with their eastern neighbour as re-export and internal trade in energy is possible thanks to him, what brings substantial benefits for the wealthiest citizens of that country. Thus, it is possible to state that the situation most conforming to Ukrainian oligarchs is the one that was present so far, i.e. balancing, as on the one hand, they can block an inflow of the competition from e.g. Russia (as it was done by Rinat Achmetov), one the other hand, they could still freely run their activities and win national tender, lessening Ukraine’s budget. However, that does not prevent the wealthiest Ukrainians being fascinated with the West and having numerous properties there, or to select the United Kingdom or France as their place of residence. One example can be Ihor Kolomoyskyi, who owns a house in Geneva, and the wealthiest Ukrainian spends most of the year in his manor in London. What is more, most of children of the Ukrainian economical elite studies and lives in the West. Thus, there is a certain touristic fascination in the West of Ukrainians [Pogorzelski P., 2013]. According to the author, the most vivid way to picture the relation between oligarchs and foreign policy is the not concluded Ukrainian-European Union Association Agreement.

There is also one more issue worth mentioning before discussing the Association Agreement, i.e. the attitude of European politicians towards the situation in Ukraine. Looking at relations between western countries and Ukraine, one can have an impression that not only Polish, but also western politicians forget one essential issue, i.e. a significant influence of oligarchs on the policy run by Ukrainian authorities. Most probably, it is a part of a broader problem concerning the whole foreign policy of the European Union, i.e. a lack of ability to go beyond own thinking frames, rooted in the European way of thinking about politics. That results in a lack of understanding numerous attitudes, what leads to many failures on the
international plane. One example can be the attitude of European states to Russia, thinking that the liberal way of perceiving international politics is enrooted also in that country, however, there is a strong attachment to so called „Realpolitik”, as in other Asian countries, and does not consider internal conditions. Thus, one can put forward the thesis that such approach, i.e. thinking that influencing Viktor Yanukovych or elections can determine Ukraine's foreign policy. They tend to forget, what is stressed in the work, foreign as well as internal policy of Ukraine is mainly a compromise between particular clans of oligarchs.

Before a start of parley concerning a probable conclusion by Ukraine the association agreement planned for November 28-29, 2013, the most difficulty was, first, political problems, i.e. the arrest of Julia Tymoshenko, lasting from 2011, and second, a lack of meeting commitments included in the association agreement, i.e. DCFTA (Deep and Comprehensive Free Trade Area) [EU-Ukraine Deep Comprehensive], which would significantly affect Ukrainian oligarchs. That concerned selective use of the law and the reform of the electoral law. To sum up, we can say that making DCFTA effective would result in wavering duty on products imported to, as well as exported from Ukraine.

The introduction of duty free exchange would be most beneficial for oligarchs related with the food industry, i.e. Petro Poroshenko, who, at that time, paid 35-40% duty for Roshen company products. Other beneficiaries would be Karnej Andriy Verevskiy, who exports 17% of his goosd to the EU and Yuriy Kosiuk, exporting about 5% of poultry to the Community. However, that group lost a real influence on the state policy after Petro Poroshenko stopped to be a minister. The wealthiest and the most influential citizens of Ukraine had small benefits. One example can be Rinat Achmetov, who exported and still exports steel to the European Union, the steel which is free of duty, while Dmytro Firtash, producing fertilisers was charged with the tax of only 6,5%. At that time, there was only one significant oligarch who could have benefits and that was Viktor Pinchuk, whose company, manufacturing pipes for gas transmission had no competition in the European market, mainly due to high duties. Similarly as in the case of the wealthiest Ukrainian, Ihor Kolomoyskyi, Hennadij Boholubow and nearly the whole „Family”, extracting steel and coil, were exempt from duties. On the other hand, the major oligarchs might seem that the best solution for them was an inclusion into the Customs Union, which was formed by former Soviet Union states. However, as it was mentioned above, such solution would also be very risky due to a lack of controlling duty rates and the possibility of the entrance of Russian capital that could overtake key sectors of the economy due to having a larger investing capital [Kościński P., Worobiow J., 2013].

After concluding the association agreement, there could appear also oligarchs who lost. It would be caused by the liberalisation of the power industry market, imposed by the Community, what, in turn, would decrease profits of Ukrainian enterprises earning on the sales of energy. What is more, one of the requirements was the annulment of the act of 2012 amending rules concerning public procurements. It excluded from open tenders such economy sectors as: deliveries of electric power, gas, processing of crude oil, construction of railway and airport infrastructure, i.e. sectors providing large incomes to Ukrainian oligarchs. That may be confirmed by the fact that 40% of tenders concerning the above mentioned sectors were won by the below three Ukrainians: Rinat Achmetov, Oleksandr Yanukovych and Dmytro Firtash. Due to the above, introducing liberalisation of those sectors and including them into tenders required by DCFTA would influence their finances. Other oligarchs who would have a loss in relation to the above mentioned regulations are Kluyev brothers and, once again, Dmytro Firtash, as they would assume more restrictive activities of the
Antimonopoly Committee of Ukraine, what would subdue their enterprises. These would be, e.g. mass purchase of natural gas by an unofficial boss of the RUE group, as well as inflating prices of electric energy in the Crimea by Kluyev brothers [Kościński P., Worobiow J., 2013].

It is visible that a conclusion of the association agreement would not be beneficial for the most important oligarchs, what had a significant influence on the decision by Viktor Yanukovych of November 21, 2013, on a lack of consent to concluding the above mentioned agreement [Konończuk W, 2013]. However, by marginalising public mood in Ukraine, Viktor Yanukovych and oligarchs did not predict the way the situation would proceed next, as after the official refusal to conclude the association agreement; social movements took place that forced him to flee from Ukraine and premature presidential elections.

3. CONCLUSION

Summarising the above text, one can state that oligarchy in the world, especially in Ukraine, is still functioning. Despite the fact that the author focused mainly on one element of foreign policy, i.e. negotiations on the Ukraine’s access to the European Union, this example perfectly depicts the ways of functioning of that system in Ukraine. What is essential, studies on oligarchs, or to name them people of business, and their influence on the policy in particular countries, are an extremely difficult task [Wilson A., 2016]. The above results from the fact that a significant part of decisions or agreements as well as rules of dividing the power, is not disclosed, especially when we consider democratic states. Similar system can be found not only in Ukraine or Russia but also in South Korea, Japan, not to mention large business in the United States of America and the European Union, that lobby or sponsors particular politicians. Thus, the problems is extremely important due to the fact that this problem is being more profound, as well as a state, being an artificial form, has a decreased importance if it is only an element of the policy of a group of people.

References


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