

## Viktor Yanukovich: A Man of the Oligarchs

OLGA SHUMYLO-TAPIOLA  
CARNEGIE EUROPE

MARCH 2011

Viktor Yanukovich took office in February 2010 against a backdrop of low public expectations—the country was in relatively weak economic shape, fraught with internal political rivalries and divisions, and facing a decidedly clear sense of “Ukraine fatigue” in the West. When elected, Yanukovich declared that Ukraine’s status as one of the few post-Soviet states to rank high in international ratings of democracy and political freedoms would be preserved and carefully nurtured. First and foremost, though, he promised to deliver the stability and reforms that many in Ukraine and the West had long awaited.

A year on, however, the situation is controversial. There is widespread concern in and outside Ukraine about the country’s course. Growing fears that Yanukovich’s policies are rolling back Ukraine’s political freedoms have provoked different reactions. A small minority has adopted a “wait-and-see” approach and is willing to give Yanukovich a chance to prove that he can successfully implement painful reforms that will lead to a better future. On the other hand, calls for sanctions against the current administration are also growing in volume and intensity.

Perceptions of Yanukovich vary. He is alternately seen as a tyrant-in-the-making or an effective strongman, a weak personality controlled by oligarchs or a politician trying to rise above them, a pro-Russian president or one afraid of a Russian takeover. The simple truth is that Yanukovich is neither one nor the other. While he is not ideological—and doesn’t have an evil plan to subvert Ukrainian democracy and turn the country into a police state—he also doesn’t seem to want to improve the lives of average Ukrainians.


His goal appears to be to create a system that will allow him and his network of oligarchs to gain and consolidate control over Ukraine and its assets, benefitting from them without external interference. Staying in power is a matter of survival for Yanukovich and his entourage. They will do everything to establish their control over the different branches of government, putting their people in the right places, and silencing those who speak out against them.

Creating such a system, however, will not be easy in today’s Ukraine. Even if the political process is far from orderly, many Ukrainians have already become accustomed to democratic freedoms and will not be willing to give them up. They no longer accept being ashamed of their country; they want their country to be respected again. Ukrainians are willing to make sacrifices, provided that the


reforms implemented will benefit them and their families—even if the gains are not immediate. However, they are not willing to pay for measures that will ultimately benefit only oligarchs. The oligarchs themselves, however, seem to have different plans.

Wealthy businessmen started gaining influence in the mid-to-late 1990s, playing an important political role during the presidency of Leonid Kuchma. Although they were influential, Kuchma managed to keep them under his control, guaranteeing the dominance—if only fragile—of national interests over corporate ones. When Viktor Yuschenko came to power in 2005, however, he brought another group of big businessmen closer to the circles of power, giving them access to assets earlier controlled by Kuchma’s oligarchs.

While the older oligarchs maintained their position at the top, the appearance of new players began disrupting their monopolies. Under Yanukovych, the older interest groups and some newer people close to him are trying to reverse the Yuschenko-era developments, and to ensure that their interests are not subject to the oversight of a relatively strong president. In today’s Ukraine the corporate interests of a limited number of oligarchs prevail.



Staying in power is a matter of survival  
for Yanukovych and his entourage.



## The Price of Political Stability

After the political infighting of 2005–2009, the fact that the president, the government, and the parliament are acting in concert could be considered a positive step for achieving stability in Ukraine. Yet very few Ukrainians wanted this stability and cohesion to be the result of a consolidation of power within a very limited circle. This breach of the traditional principle of division of power also goes completely against Western values. For Ukrainians, it brought disappointment and fear.

When voting for Yanukovych in 2010, Ukrainians thought they were electing a president with limited powers in charge of only foreign and defense policy. But in the fall of 2010 the Constitutional Court overturned the 2004 political reform on procedural grounds and restored the 1996 constitution. This returned Ukraine to a presidential republic, significantly diminishing the role of the parliament and placing the government under presidential control. The presidential administration returned to the center of decision making, as it was under Kuchma.

The president and his team have taken a number of steps to further cement their positions in power. The modification of electoral laws prior to the 2010 local elections significantly limited the possibilities for opposition political parties to run successfully by limiting the participation of party blocs, allowing only single parties to run, and complicating the registration of new parties for the elections.

As a result, the president's Party of the Regions (PoR) captured a large percentage of the vote in many parts of the country. Parliament's decision to postpone parliamentary elections—which had previously been slated for spring 2011—until 2012 gives PoR financiers much needed time to “rest and recuperate” after the constant stream of campaigns.

Yanukovich has argued that he needs additional power to implement long-awaited but painful reforms, but this argument rings hollow. In February 2010, Yanukovich already had a sufficient majority in parliament to replace former prime minister Yulia Tymoshenko's government with a new team, headed by his old ally, and former first vice-prime minister, Nikolay Azarov. Furthermore, the president quickly appointed new heads of regional administrations loyal to him. This alone would have been enough to push through reforms, had reforms been Yanukovich's main goal.

## **Economic Reforms Target People Not Oligarchs**

The International Monetary Fund's (IMF) return to Ukraine has been one of Yanukovich's only successes to date. The IMF suspended cooperation with Ukraine before the last presidential elections in light of the messy domestic pre-election politics. In spring 2010, the IMF reiterated its stringent conditions to the Ukrainian government for its return: a decrease in public spending, the normalization of the value-added tax (VAT) refund process, pension reform, and a reduction in the deficit of Ukraine's state-run gas provider, Naftogaz Ukrainy, by raising gas prices for the population. While the authorities managed to partially stabilize public finances, they have been slow to deliver on more politically sensitive promises, such as increasing gas prices or raising the minimum retirement age.

There is little strategic thinking on economic governance on the part of the Ukrainian government, and particularly the presidential administration. A comprehensive list of reforms was put together by the Committee on Economic Reforms, led by the deputy head of the presidential administration, Irina Akimova. However, its implementation has been patchy, as the process is driven by short-term political and long-term vested interests.

The reform of Ukraine's tax code is a primary example of this problem. Started last year, tax reform has been one of the country's deficit-reduction measures. While its rapid adoption ensured continued support from the IMF, it is unlikely to address Ukraine's long-term systemic challenges. By placing a heavier burden on ordinary people and small- and medium-sized enterprises—but leaving the oligarchs untouched—the code makes transforming and modernizing Ukraine's economy increasingly improbable. In addition, it has given rise to significant public discontent, having already brought representatives of small- and medium-sized enterprises to the streets, forcing the president to back down.

The pension reform advocated by the IMF will be an equally complicated measure to implement. The reform package calls for raising the retirement age for women from 55 to 60 years within the next ten years, and for male civil servants from 60 to 62. Given that the reform process will not affect the oligarchs, the reform stands a chance of being implemented. However, while Ukrainians may be willing to sacrifice and work longer for better pensions and social services, they are wary of

the fact that the redistribution of budget revenues will favor only a small group of people, not the population at large.

## Reshaping the Political System

Yanukovich is torn between his financially motivated need to accommodate the West and international financial institutions, and his goal of strengthening and consolidating the position of Ukraine's oligarchs. There is, however, still a possibility that many beneficial economic reforms can be implemented, even if they take place on a smaller scale that allows Yanukovich to satisfy both fronts.

On the political front, however, there will be far less room for maneuver. Ukraine's political system is currently being restructured in ways that are making it possible for Yanukovich and a small group of oligarchs to control the country more efficiently and consolidate their own positions. This is evident in the fields of judicial, electoral, administrative, and political reform, and the West and financial institutions are already taking note.

Ukraine's political system is being restructured to make it possible for Yanukovich and a small group of oligarchs to control the country more efficiently.

### *A Judicial System to Serve the Oligarchs*

Ukraine's judicial system, often a source of shame to the country, is becoming increasingly monolithic. However, this comes at great cost. The system is becoming increasingly biased toward, and dependent on the will of, a small group of people. It is unlikely that the system can respond to the needs of most ordinary Ukrainians or the business community. There is growing evidence of the erosion of the upper echelons of the judicial system—the Constitutional Court changing the constitution, the High Council of Justice adopting a central position within the judicial system while becoming increasingly political and controllable, the Supreme Court being fenced off from making any meaningful decisions, and so on. While in the past a call from above could often help obtain the desired outcome to a case in Ukraine, this kind of manipulation has now become endemic.

Ukrainian oligarchs understand the importance of an independent judiciary. They take most of their important cases to European courts, where they enjoy the right to a fair hearing. However, they still view the domestic judicial system as a tool for consolidating their power and influence, and ridding themselves of smaller competitors and interests that may interfere with theirs. This leaves no chance for Ukraine to develop a free and fair judiciary in the foreseeable future.

### ***Administrative Reform Hides Further Consolidation***

A process of reform intended to increase the administration's efficiency was launched by presidential decree in December 2010. The president wanted to create a more streamlined system by reducing staffing and adopting a more centralized power structure. The reform agenda was prepared in secret, without broad discussions either in parliament or within the administration. Although it decrees significant and rapid cuts in the number of state officials, it lacks a functional plan for transforming the administration. Its main focus looks to be the consolidation of a vertical power structure that would enable the president to entrust the control of most key political and economic sectors to members of his entourage.

### ***Electoral Legislation: Cementing Control of One Party***

Between 2005 and 2009, Ukraine won international respect for the steps that moved it toward electoral democracy. Local elections in October 2010 were therefore seen as a major step back. They were governed by a new electoral law that returned to the pre-2004 model of a mixed system of single-mandate constituencies and party lists. While this new law did not strictly contradict European standards, there was international concern that the law—and particularly its insistence on single-mandate constituencies—would allow those in power to use their positions to influence the outcome of the elections. There is now also talk of this system being restored for parliamentary elections. In the current context in Ukraine, this would only further strengthen the position of the ruling party and its leaders' hold on political power, making it difficult for any alternative or new political force to gain prominence.

### ***The Fight Against Corruption: A Tool for Selective Justice?***

Yanukovich has repeatedly declared that he would lead a broad-based, non-partisan fight against corruption in Ukraine. These statements, however, seem to be at odds with realities on the ground. Parliament's recent repeal of anti-corruption legislation has created loopholes that allow those who are corrupt but close to the president to avoid prosecution, while leaving room for the authorities to open criminal cases against the opposition.

Yanukovich is ready to sacrifice a number of lower-ranking members of his party to make the process seem more even-handed. However, his political rival Tymoshenko and members of her team have felt the brunt of this campaign against corruption, and in the minds of many there is little doubt that the process is politically motivated.

Many Ukrainians do not doubt that the campaign against corruption is politically motivated.

Corruption is an endemic part of political life in Ukraine and there is a broad consensus among citizens and politicians alike that virtually any political figure could be successfully prosecuted. The charges against Tymoshenko and her allies are

therefore seen as an attempt to remove them from the political spectrum and ensure they will be ineligible to run in the next parliamentary elections.

Tymoshenko is perceived by Ukraine's oligarchs as a serious threat. Many of them believe that, had she won the 2010 presidential election, Tymoshenko would have sought to bring the oligarchs under her direct control by establishing a vertical power structure styled on Vladimir Putin's Russia. However, the current strategy of attempting to discredit Tymoshenko may well backfire. Indeed, having suffered after her electoral defeat, her popularity now seems to be on the rise again.

### ***A Faltering Freedom of the Press***

Freedom of the press was one of the Orange Revolution's few concrete achievements. It would of course be an exaggeration to claim that the media climate in post-2004 Ukraine was perfect. New forms of censorship emerged as the owners of private media outlets replaced the government in attempting to restrict their journalists.

However, these attempts at censorship were on a comparatively small scale and were in many cases reported to the public. Ukrainians soon became accustomed to receiving balanced coverage. From 2010 onward, however, censorship by private media owners increased and was coupled with a new phenomenon: self-censorship on the part of journalists fearful of the growing might of the government.

All credible observers fear that freedom of expression is in danger in Ukraine. The country has fallen by 42 places in the freedom of expression ranking; it is now 131 out of 178 countries, according to the latest report by Reporters Without Borders. Yanukovich and his team deny the problem and argue that international observers should look at the bigger picture rather than focusing on isolated cases.

### **Preserving Democracy: A Parallel Reality**

Yanukovich and his team therefore seem to be consolidating their own type of political system at the expense of the democratic achievements of the preceding five years. During their twelve months in office, the president and his team have received a number of "yellow cards" from the West for the biggest regress in democracy in Eastern Europe.

The overall atmosphere in Ukraine reflects these negative trends. People seem less ready to express their opinions freely. The prosecution of members of the opposition and the harassment of journalists and public intellectuals has created an atmosphere of concern and perhaps even fear. While remembering the power of the masses during the Orange Revolution, Ukrainians also recall the reality of their Soviet past—when their kitchens, and in today's world also their blogs, were the only place where they could express their opinions.

In responding to international criticism, Yanukovich and his team appear to be operating in a parallel reality. They attempt to reassure the public and the West with legalistic arguments, but demonstrate little or no understanding of the spirit of democracy. The president, for instance,

underlines that he signed a law on access to information that would grant journalists and the public greater access to information about public expenditure. However, in a context where the judiciary does not serve the people and access to sensitive information remains the privilege of a select few, transparency is far from guaranteed. Therefore, despite lobbying by journalists and support from the EU, this law's successful implementation is not assured.

As in the Soviet past, the president and his team appear to label everyone who brings any of the country's problems to the attention of the external world a traitor.

## The Two Faces of Yanukovych

Yanukovych is a man of two faces. After his humiliation during the Orange Revolution, he sought to ensure that the public perceives his power as legitimate. He needed to win a free and fair election. However, he won by a plurality (48 percent) rather than a majority of votes in 2010.

Logically, this should have led him to understand the limits of his mandate. Instead, Yanukovych is overseeing a dramatic overhaul of Ukraine's political system that favors the oligarchs who supported him in his quest for power.

Despite these actions, image and perception continue to matter to Yanukovych. He craves acceptance in both the West and Russia. Yet he consistently underestimates both of them and their expectations. He thought the EU would be satisfied with stability, a tokenistic reform process, and a superficial view of democracy. He did not perceive the Union's genuine desire to see a repetition of the kind of comprehensive reform processes that had taken place in Poland and the Baltic states in the 1990s. He expected Russia to be pleased with symbolic concessions, such as the extension of the lease agreement for the Russian Black Sea fleet in Crimea in exchange for cheaper gas. But he ignored Moscow's strategic objectives in the post-Soviet space, such as the Customs Union or energy transit routes.

Yanukovych is disappointed with both the East and West. He feels his efforts have not been appreciated sufficiently. Recent developments—such as the granting of political asylum to former Ukrainian economics minister Bohdan Danylyshyn in the Czech Republic, criticism from the West for the repeal of the 2004 constitution, poor international ratings on democratic developments, and movies parodying him on Russian television—feed this disappointment.

Yanukovych will continue to work on his image, particularly domestically. He makes carefully choreographed media appearances and tries to portray an image of transparency and openness to society. However, even if the president were genuine in his motives, there are factors and interests that will limit how far he is prepared to go.

There is another side to Yanukovych, one that neither needs nor can afford to focus on image. This facet of the president is concerned with power and control. Remaining in power for as long as possible and consolidating this power is the key to Yanukovych's survival and the vested interests backing him.

His team has already started testing the waters for his re-election. One of his ministers recently claimed that since the president was elected under the 2004 constitution—which was subsequently overturned by the Constitutional Court—he would not be constrained by the two-term limit and could still run two more times. The public has so far remained silent on this possibility. The oligarchs, however, need him to remain in power to protect their interests. But they also pull Yanukovich in various directions, given that their interests sometimes differ.

Image continues to matter to Yanukovich, however, there is another side to the president that can't afford to focus on image.

Yanukovich's presidency is likely to be in a constant state of flux. It is neither consistently pro-Western nor pro-Russian. Nor are things black and white; one cannot identify strictly good or bad individuals in Yanukovich's entourage. The same person, or group of people, may push for further liberalization one day, only to advocate retreat the next. Politics becomes situational, with the chosen line reflecting the point where the interests of the oligarchs intersect.

At the time of Yanukovich's election, experts tended to believe that internal competition among the oligarchs loyal to the PoR would guarantee a degree of pluralism, and thus be preferable to fears of a possible Putinesque power structure under Tymoshenko. They thought the oligarchs would view democracy as a guarantee against unfair competition from their close rivals.

However, the current situation in Ukraine would suggest that these elites wish to control the system and not expose themselves to the uncertainty of democracy. They see the consolidation of a presidential system around Yanukovich as a way of ensuring this, and there is still a lot in the state coffers that can be distributed among a small group of people for a price. For example, Ukrtelecom, a state-owned company that controls about 90 percent of landline phone connections, will be sold for a remarkably low price to a company with ties to an oligarch. There is also a lot in the hands of "minigarchs" that could be given to strengthen the oligarchs' control over entire sectors of Ukraine's economy.

## The Road Ahead

The president and his team are caught between the short-term economic imperative of keeping the economy afloat and their medium-term strategic goal of consolidating a system beneficial to the oligarchs. They are trapped between the West, the public, the oligarchs, and, rather unsurprisingly, Russia.

A year into Yanukovich's presidency, the West—while expressing concern over the state of Ukraine's democracy—is still willing to engage with Kyiv. However, words are its only source of leverage with Yanukovich, which may lead to another wave of Ukraine fatigue in Europe.



Russia, on the other hand, will be happy to see Ukraine remain isolated. Its grand integration plans may begin to bear fruit, and Russian businessmen will gain privileged access to Ukrainian assets. The likelihood of Russia not accepting Yanukovich's model also exists, as Ukrainian and Russian business interests are often competing rather than complementary.

Ukrainians are still more concerned with their own day-to-day economic survival. In today's context, Ukrainian society is not ready to push to change the course in which Yanukovich is taking the country. Vibrant civil society—often praised after the Orange Revolution—needs time to mature. There have been some encouraging public reactions, such as protests by small- and medium-sized enterprises against the tax code or the journalists' campaign for a law on access to public information.

Looking ahead, it is likely that Yanukovich's strategy will become increasingly difficult to sustain. Criminal convictions against the former government and the harassment of journalists and other civil society actors are likely to elicit a strong reaction from the West, which may look to distance itself from Ukraine. This would lead to a greater Russian presence in the country, especially in economic terms, increasing the competition faced by Ukrainian oligarchs.

In addition, the improvement of the overall Ukrainian economic situation may also divert popular attention away from day-to-day economic concerns and lead to public discontent. The question remains to what extent the current political set-up in Ukraine can withstand this pressure while faced with the risk of becoming increasingly ostracized both internationally and domestically.

The president and his team are caught between the short-term economic imperative of keeping the economy afloat and their medium-term goal of consolidating a system beneficial to the oligarchs.

## About the Author

**Olga Shumylo-Tapiola** is a visiting scholar at Carnegie Europe in Brussels, where her research focuses on EU and Russian policy toward Ukraine, Moldova, and Belarus.

Shumylo-Tapiola is a member of the supervisory board and former director of the International Centre for Policy Studies, a leading independent Ukrainian think tank that specializes in economic and political reform in the Ukraine and relations between the European Union and Ukraine. She is also deputy head of the board of PASOS (Policy Association for an Open Society), a network of European civil society organizations. In 2008 Shumylo-Tapiola served in the Ukrainian government, advising the deputy prime minister on European integration.

## Carnegie Endowment for International Peace

The **Carnegie Endowment for International Peace** is a private, nonprofit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. Founded in 1910, its work is nonpartisan and dedicated to achieving practical results.

As it celebrates its Centennial, the Carnegie Endowment is pioneering the first global think tank, with flourishing offices now in Washington, Moscow, Beijing, Beirut, and Brussels. These five locations include the centers of world governance and the places whose political evolution and international policies will most determine the near-term possibilities for international peace and economic advance.

© 2011 Carnegie Endowment for International Peace