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Virtual Politics, Real Corruption

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**In Washington secretly recorded tapes ended the Presidency of Richard Nixon. In Kiev the same sort of material has galvanised the President's team for a fight. It has also suggested that many of those eager to replace him have similarly murky pasts. Politics Ukrainian style is a competition for power and wealth rather than ideas - corruption has strength in depth.**

**F**OR ALMOST SIX MONTHS the Gongadze scandal has engulfed Ukraine. It is a plot which could have been lifted from a James Ellroy pulp novel: secret tapes were supposedly recorded in President Leonid Kuchma's office by a disgruntled security officer, who

has since claimed exile in the US. The resulting thousand hours of intimate conversation have apparently implicated the authorities in the disappearance of the investigative internet journalist Hryhorii Gongadze - whose headless corpse was found a few weeks before - and

a whole host of other political and financial malpractices.

However, the President seems to be riding out the storm, and roughhouse tactics have stunted the various opposition groups seeking to force him from office. In fact, given the choice between the President and his reformist Prime Minister, who has been squeezing the corrupt to help pay wage and pensions arrears, it was the latter who was forced from office on 26 April.

#### **GRIM REALITIES**

Bad though the specific accusations may be, the scandal is not really the scandal. Rather more depressing is what the tapes claim to reveal about the grim realities of everyday life. In politics, what was known to have been a dirty re-election campaign in 1999 is now laid bare in all its glory. President Kuchma is recorded instructing

his entourage in great detail on the precise methodology for accumulating his vote.

Deleting the expletives reduces most quotations by half: 'you have to sit down with every head [of collective farms, of local administrations], we have something on all of them... and tell him that he will go to jail [unless he] provides votes - yes or no?... those who lose the elections, they won't be working after'. Individuals, factories, whole regions of the country, are classed as *nash - ours - or ne nash - not ours*, with clear and direct legal and financial retribution for those who don't come under the presidential *krisha* - a Mafia term for protective roof. On the other hand, what is said to be Kuchma's voice tellingly demands, 'everyone who works for us should pay for his *krisha*'.

The president emerges from the tapped account as an obsessive political manipulator and control freak. Even

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amongst his theoretical allies on the nationalist right he foments divisions so that their diminished forces had little choice but to back him as the 'lesser evil' in 1999, leading to renewed suspicions over the death of leading nationalist Viacheslav Chornovil in a road accident eight months before the election. At the same time, he seems to be promoting the non-electable left he purports in public to despise – the Communists and 'Progressive Socialists' – to compete with his most plausible opponent, the leader of the 'modernised' Socialist Party, Oleksandr Moroz.

Even after the election, when Kuchma was reinventing himself to the west as a born-again and more resolute reformer, his real private priorities were a settling of accounts 'the toughest possible order' and a further narrowing of the political options

Washington just after his re-election. However, corruption in Ukraine has strength in depth. Not many honest replacements are in sight.

There are question marks against nearly all the rising political stars. Mykola Azarov, head of the state tax inspectorate, can supposedly be heard on the tapes threatening to close 'hostile' businesses – Interagro in Kharkiv, an oil refinery in Kherson. The fact that he has just emerged as head of Ukraine's newest political party would raise more than a few eyebrows in the west: weary Ukrainians simply expect it to be well-financed.

Among others often tipped as the next prime minister, former banker and Economy Minister Serhii Tyhypko and Kuchma's daughter's one time boyfriend Viktor Pinchuk, are heirs to the notorious

In Ukraine, power itself is the main resource. Once it is won, the rewards are considerable: cheap loans, interest arbitrage, debt forgiveness, export licenses, rigged privatisations. Once it is lost – once Ukraine's political sharks stop swimming – the fall from grace can be extremely rapid. Justice is nearly always retrospective.

Amongst the fallen, Pavlo Lazarenko, now facing trial or extradition in America, stands accused of netting upwards of \$850 million during his year in office (1996-7); former deputy premier Yuliia Tymoshenko of hiding \$181 million abroad in 1996-9 – it is not clear who is credited with the \$79 million she allegedly passed to Lazarenko; former Chairman of Ukrainian Oil and Gas Ihor Bakai of pocketing \$100 million 'at a minimum' – on the tapes the voice of Azarov apparently obligingly says 'I will not expose you. I give you two weeks, a month at maximum. Destroy all the papers'.

Obviously less is known about those still in power, but Kuchma is heard on the tapes receiving his 'Scythian gold'. One \$5 million bribe from a Zhytomyr businessman is described by an enthusiastic acolyte as 'small change'.

# Corruption

available to his opponents. In one particularly telling passage, his entourage mocks the Americans for believing that the new model prime minister – former National Bank chairman Viktor Yushchenko – has any real power.

## MURKY HINTERLAND

Kuchma is not the only politician in the dock, however. The dramatis personae in the tapes' murky hinterland is extremely broad. Besides the President, the Interior Minister, General Prosecutor, the head of the security and tax collection services are all supposedly revealed acting and thinking *ultra vires*, or perhaps more precisely, revealing the ad hoc and ad hominem nature of what passes for law in Ukraine.

The voice of Leonid Derkach, then head of the security service, for example, chillingly says of the all-powerful prosecutor's office, 'if we are the power, that is an instrument of our power.' It has therefore proved extremely difficult to bring anyone to account constitutionally. Who is to judge the judges? The president has been able to play for time as imperfect accountability mechanisms have false-started – a post-Soviet constitution was only passed in 1996, most enabling legislation has yet to be even considered.

Some of the bit-players were included on the notorious list of 'undesirables' allegedly presented to Kuchma in

former Prime Minister Pavlo Lazarenko's empire; Volodymyr Horbulin allegedly accumulated a media fortune when head of the National Security Council in 1994-9; Deputy Speaker of Parliament Viktor Medvedchuk controls the Social Democratic (United) party, which has reputed mafia links. Its main achievement has been the purchase of the famous Dynamo Kiev football team for basically nothing.

## JUST LIKE RUSSIA

The tapes have at least made it clear that in Ukrainian politics the competition for access to state power and resources is more important than the competition of ideas. In this respect, Ukraine is just like Russia, but subtly different. Both countries have weak democracies, underdeveloped civil societies and a shaky rule of law. In both, politics is often 'virtual', little more than the pursuit of venal interest professionally packaged. In both countries, nearly all the powerful are potentially compromised. In Russia, however, the oligarchs are more substantially independent of the state – even under Putin.

Control of Russia's vast energy and raw material empires is an important source of power; in Ukraine economic resources are thinner and more dispersed. Energy distribution is a source of huge profits, but its channels are controlled by the state.

## PRIVATE SCRIPT

Suspicion therefore remains that the scandal, or aspects of it, is proceeding according to someone's private script, to protect or advance their particular interests. One scenario is 'Pasha's [Pavlo's] revenge'; that is, the long hand of Lazarenko – or that portion of his money that remains in Ukraine.

Others suspect that Yevhen Marchuk, eminence gris of the Ukrainian KGB and now head of the Security Council, is seeking to re-establish 'clean government' – or smooth his own path to power. Another possibility is an out-of-control or over-eager Interior Ministry, seeking to rid the president of his particular troublesome priest. Any number of other theories concern the various 'oligarchs' battling to succeed Kuchma one day – or even Russia's own involvement.

The political economy of Ukrainian corruption is indeed intimately connected with its Russian counterpart, although the slightly different types can rub against one another. Considerable sums of Russian money are involved in Ukraine; much is generated where the two systems interact.

Tymoshenko, for example, has been accused of involvement in a triangular deal with Gazprom and the Russian Ministry of Defence. In a complicated transfer

involving several hundred million dollars, it was of course the soldiers of Mother Russia who were left empty-handed when the music stopped.

More generally, elites on both sides of the border continue to benefit from opaque trading. Western analysts have spent many frustrating years trying to calculate the Ukraino-Russian trade gap, in energy in particular; but their efforts may well be in vain. When goods can be obtained subsidised well below cost, via barter or promissory note – preferably someone else's – mutual profits can be made in the most unpromising circumstances.

Famously, Ukraine 'owes' Russia, or Russian enterprises, \$3 billion or \$4 billion for gas. It may well do – but actually consuming gas has not been the only means of accumulating the debt. One uniquely and singularly unpatriotic Ukrainian scam, given that consumption levels are certificated rather than actually measured, involves inventing new energy debts, bribing government contacts to underwrite them, dividing the proceeds and leaving the taxpayer – or the International Monetary Fund – to foot the bill.

Kuchma has also admitted that Ukraine has been tapping Russian gas from the strategic Druzhba pipeline crossing Ukrainian territory, but it is also fairly well-peppered on the Russian side of the border – neither country is rushing to have meters installed.

Because of such schemes, and many like them, Russian capital has always been present in Ukraine. But only in the last two years has it become such a congenial home. The narrowing of horizons to more local – and better known – markets after the 1998 crisis has coincided with an acceleration of Ukrainian privatisation, the expense of Kuchma's re-election campaign and, after the suspension of IMF funds in 1999, a pressing need for alternative sources of capital. Russia after all has a windfall from higher oil and gas prices to spend.

Given the large number of Russian-speakers in Ukraine, the first wave of Russian investment was in media conglomerates – NTV in 1+1, ORT in Inter. Now it is in industries ancillary to existing Russian producer or raw material interests, such as aluminium – Alfa Group, Siberian Aluminium – and oil refining – LUKoil. As always, the rule is, establish a concession and divide the proceeds. Kuchma's nationalist critics have accused him of preparing a flash sale, if this is the price of securing Russian support for his faltering regime – and of secretly planning to restore areas of 'strategic' cooperation, such as missile production.

## CRUCIAL TEST

Can 'real' politics return from the margins of Ukrainian life? Can the oligarchs be challenged? The current crisis is a crucial test. Demonstrations of 5,000 to 20,000 in Kiev may be small in comparison to those in 1989-91 or to protests in Belgrade or Prague last year, but they are significant by recent local standards.

The static 'virtual' formula in which Ukrainian politics was encased before the crisis – a minority right forced to support Kuchma and the free-riding 'centre' in the face of the supposed Communist 'threat' – may now be breaking up. An honest centre may emerge, which most of the right will prefer to support. The Socialists may be cutting their links with the Communists, whose opposition to the President is now revealed as half-hearted to say the least – they have abstained in several key censure votes.

On the other hand, the opposition to Kuchma in the current Ukrainian parliament is weak. There were once as many as 283 deputies (out of 450) in the supposed centre-right 'majority', but most can now be considered pro-presidential – or pro-oligarch – rather than pro-government, let alone pro-reform. Only sixty-two deputies joined the National Salvation Forum set up in February, which in any case competes on the streets with at least two other opposition movements – Ukraine Without Kuchma and For Truth.

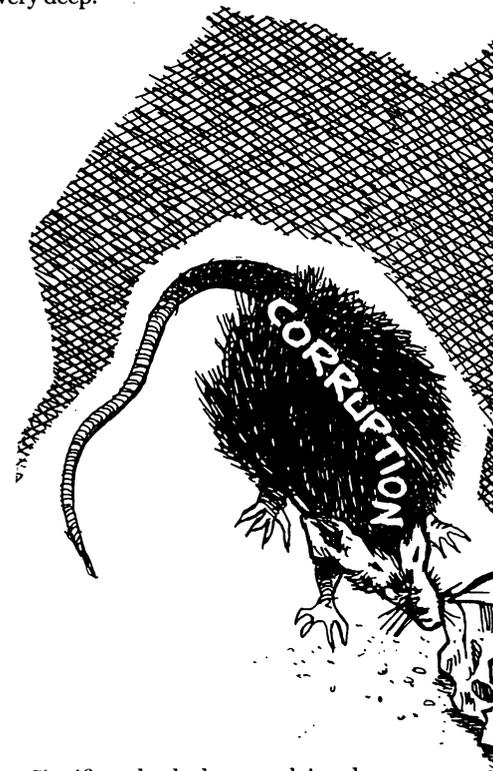
## PATRIOTIC PATRONS

Opposition is all-important, but it is unlikely to be enough. The truth – and this was probably a key factor persuading Prime Minister Yushchenko to hang on to office until the bitter end – is that it is hard to compete in Ukrainian politics, where the symbiosis of money and power is all-important, without having a murky past and some share of the state's 'administrative resources'.

It is only by making alliances with one or more of the oligarchs around Kuchma that the opposition probably has any real chance of replacing him. Psychologically, they have reached a position that has something in common with that of the British Labour Party in 1992. Tired of losing so persistently to a side that has all the resources and none of the scruples, they can only hope to level the playing field by attracting 'patriotic' patrons.

Their patriotism may be of extremely recent vintage. Yuliia Tymoshenko's Hromada party was vaguely pan-Slavist at the time of its 1998 election success, when her business interests were spread

throughout the former Soviet States. But after little more than a year in government, during which her home interests have prospered she has successfully reinvented herself as would-be sponsor of the 'national-democratic' opposition. Hence her arrest in February, as her coffers run very deep.



Significantly, she has not claimed absolutism for all her alleged sins, but merely to have operated according to the rules of the time – in so far as any of them had legal force. Even if Kuchma succeeds in silencing her, however, others oligarchs may eventually find themselves following the same logic of buttressing the fortresses of sua casa.

After revelations about Yushchenko's subordinates at the National Bank – a case was recently opened against his former deputy Volodymyr Bondar for misuse of official reserves in 1997-8 – it seems any likely successor to Kuchma is, initially at least, likely to be cut from the same cloth. Most of the key players do not want Yushchenko to succeed – in either sense – and it is difficult to imagine a putative Yushchenko presidency surviving without oligarchic support.

The biggest contribution the west can make is to observe and influence the next elections for parliament, due in March 2002, much more effectively. As well as its inherent virtue, this will have a vital indirect effect. In so far as the circles around Kuchma are forced to calculate whether close association with him will do them more harm than good in a year's time, they may also rethink their attitude towards him in the present.

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