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Big Business and Politics in Ukraine: the Evolution of State-Business Relations

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Ukrainian big business has preserved its influence in Ukraine's politics despite the political turmoil of the critical democratising junctures and reverse autocratic trends. Still, its relations with politics have changed from president to president. The article elaborates how the political embeddedness of Ukrainian big business evolved and what model of state-business relations developed in each presidential period. It demonstrates that Ukrainian big business increasingly relies on its ties with the country's parliament to counterbalance the President's powers. As a result, state-business relations have changed from a concentrated model to a diffuse one.

Key words: Ukraine, big business, political embeddedness, state-business relations

Introduction

Since Ukraine's gaining independence in 1991, its politics have been highly turbulent. Political processes have been characterised by elite conflicts accompanied by mass protests of economic, nationalist and/or political nature and different – from local to national – scope. Despite initial symptoms of communist path-dependence and a stalemate in Ukraine's regime trajectory in the 'grey zone' between democracy and autocracy, one can identify three main critical junctures which opened a window of opportunity for regime change towards democracy: the advent of independence in 1991, the Orange Revolution of 2004, as well as the Euromaidan protests and the Revolution of Dignity in 2013–14. In fact, the first two critical junctures initially brought democratisation, but each time a reverse trend towards autocracy followed soon thereafter. The democratising potential of the Euromaidan protests and the Revolution of Dignity has been hampered by the current challenges to state integrity after the Crimean annexation and by the conflict in the Donetsk and Luhansk regions.

Both the critical junctures and reverse trends not only resulted in leadership replacement, but targeted institutional foundations of Ukraine's political system. As a result of a compromise bargained between President Leonid Kuchma and the Parliament dominated by the leftist parties, the Constitution of 1996 established a presidential-parliamentary republic. It granted the President substantial legislative and executive powers, but left some checks over the executive in the hands of the Parliament (D'Anieri 2007). By co-opting MPs in the presidential system of patronage and by building on popular legitimacy and ruling by decrees, Kuchma weakened the Parliament and strengthened his presidential powers. During Kuchma's presidency Ukraine experienced democratic regression (Wilson 2005) and its regime type was first referred to as 'electoral authoritarianism' (D'Anieri 2003).

The Orange Revolution was ignited by Kuchma's attempt to secure his regime by transferring the presidency to Viktor Yanukovich, his nominated successor, in fraudulent elections. The Revolution was resolved in a package deal¹: Viktor Yushchenko, an oppositional leader, was allowed to win and become President, but his competences were cut by the new Constitution. The constitutional amendments transformed Ukraine into a parliamentary-presidential system and changed the institutional framework of power distribution to the benefit of the legislative, fuelling power struggles between President Yushchenko and the 'orange' coalition in Parliament. As a result, post-orange Ukraine became more democratic, but was plagued with enduring political crises and ineffective

governance (D'Anieri 2011). Hence, the democratic opening produced by the Orange Revolution was short-lived.

After Yanukovich's comeback in 2010, he was blamed for using autocratic practices against the opposition. The concentration of power in Yanukovich's hands was formalised by the return to the 1996 Constitution,² which together with the pro-presidential majority in parliament practically implied a super-presidential political system with authoritarian tendencies. This authoritarian turn was stopped only in 2013–14 by the Euromaidan protests, the Revolution of Dignity, and Yanukovich's flight from the country. The resulting power vacuum was filled by the early presidential elections in May 2014 when Petro Poroshenko was elected President in the first and single run. Since then, Ukraine has returned to the democratic track, but the political processes have been troubled by fundamental challenges to state integrity and sovereignty: the annexation of Crimea by Russia, as well as the fighting with heavily armed 'separatists' supported by Russia in the Donbas region. The issue of constitutional change is again on the agenda in the process of the Minsk peace negotiations. The currently discussed draft of a revised constitution promises to strengthen presidential powers in the course of regional decentralisation reforms (Syroid 2015).

The influence of big business on Ukraine's politics has persisted during the political turmoil of these critical junctures and reverse trends. The enduring ties between big business and political actors even permits one to argue that the interests of big business and their interplay with the political system are 'the real mechanism which shapes Ukrainian politics', which thus can be labelled as 'oligarchic democracy' (Matuszak 2012: 5). Still, Ukrainian big business has evolved over time and gone through several stages of economic development. It had its roots in the 'perestroika' reforms of Soviet times, began to develop immediately after Ukraine's independence and had matured by the late-1990s during the presidency of Kuchma. In the late years of the Soviet Union, the 'perestroika' reforms gave birth to entrepreneurship and initial private capital, which developed further after Ukraine's independence. During the privatisation of state enterprises in the early/mid-1990s, business elites used this capital and exploited their ties in politics to acquire those state enterprises that promised the largest profits. Representatives of a particular business group in national and regional politics provided it with reliable information on the real financial situation and production capacities of the state enterprises to be privatised, ensuring it thereby a privileged position to buy them at low prices during the privatisation auctions (Melnykovska and Schweickert 2008; Pleines 2008). As a result, Ukrainian big business dominated the most profitable sectors of Ukraine's economy, such as the gas and oil, metals, food-processing and machinery sectors. Initially, the capital was spread across various sectors and Ukrainian big-business groups were cross-sectoral.³ Over time, however, they started to concentrate their capital sectorally and eventually developed monopolies in one or another economic sector. Similarly, in the early years of transition, big-business groups and their economic activities mostly were region-specific,⁴ but with greater diversification and an increasing number of business groups, their regional dominance also became less clear-cut (Wittkowsky 2001; Kowall and Zimmer 2002).

In reaction to political turbulence and changes in the institutional setting of Ukraine's political regime, Ukrainian big business adjusted its ties to the main political actors within the polity, which this article labels 'political embeddedness' (McNally and Wright 2010). This article elaborates how the political embeddedness of Ukrainian big business has changed over time and as a result what model of state-business relations developed during the presidencies of Kuchma (1994–2005), Yushchenko (2005–09), Yanukovich (2010–13) and Poroshenko (from 2014), and is structured as follows. First it takes a closer look at possible variations in big business's preferences, its political embeddedness in politics and the resultant models of state-business relations. In the subsequent section, the article traces the empirical development of the political embeddedness of big business in Ukraine and makes a proposition about the business preferences that motivated it to opt for certain channels of involvement in politics. Finally, the article summarises the evolution of state-business relations in Ukraine.

Big Business in Politics: Preferences, Political Embeddedness and the Relational Model

Big business is a kind of hybrid rational actor that simultaneously participates in politics and economics. Despite this hybridism, the main domain of business groups is economics, and its actors are primarily driven by economic preferences. Mancur Olson (2000) suggests that big business can behave as ‘roving’ (predatory) or ‘stationary bandits’ who have different economic preferences. Consequently, the varying preferences of big business result in different economic activities and organisational forms of business companies (Table 1).

Table 1 – Economic preferences and strategies of big business

	Roving Big Business	Stationary Big Business
Economic Preferences	capital accumulation	capital security
Economic Strategies	rent-seeking expansion, corporate raiding bad governance diffuse industrial-financial groups	profit-making optimisation of the production and management processes good governance integrated companies

Source: Author’s own summary, based on Olson (2000).

Roving big business is interested in capital accumulation, which is often associated with short-term horizons and rent-seeking activities (e.g. access to state subsidies and concessional loans, preferred treatment in state bids). It strives to maximise its business (frequently by means of corporate raiding) as well as to enter and strengthen its positions in diverse economic sectors and business areas as much as possible. Stationary big business concentrates on security of the accumulated capital and the preservation of its positions in the markets where it operates. It has long-term horizons, concentrates on profit-making, optimises the production and management processes and follows the standards of good governance. These economic preferences also result in different organisational forms of business groups: while roving big business is organised into diffuse industrial-financial groups, stationary big business takes the form of integrated companies (Pappè and Galuchina 2009).

Big business is involved in politics in order to promote both types of economic preferences. Empirical analyses demonstrate that big-business groups can behave pro-actively towards political institutions (Oliver 1991). They have the potential (at least partially) to use and even transform their structural context through their actions (Hay 1996). Big business can explore multiple pathways of behavioural accommodation in the institutional setting of a political regime (Raaijmakers et al. 2015) and has a certain freedom of choice in how to develop its relations with politics (Tian, Hafsi and Wu 2009).

Big business chooses the way to involve itself in politics with the micro-level rationale of the single business group. The case studies on business support of political parties in the post-Soviet area demonstrate that ‘when giving their support for a given political grouping, representatives of big business are guided by nothing more than their own interests, and they do not identify themselves with the views of the political parties and politicians they are offering financial support to. If the political configuration changes, the oligarchs usually have no problems finding common ground with the new government’ (Matuszak 2012: 5) and developing a new configuration of their political embeddedness.

Political embeddedness includes both formal and informal ties that may be used by big business to ingratiate itself with key political actors, bodies and agencies. It can use different means, ranging from lobbying to corruption and bribery to personal representation of big business in political offices. This article concentrates on business ties with the legislative and

the executive – the main political power centres triggered by the institutional changes in the course of critical junctures. It also summarises what model of state-business relations develops as a result of big business's political embeddedness and its interaction with political actors. Political science has up to now widely used the concept of power asymmetry between big business and an incumbent ruler to describe state-business relations.⁵ Accordingly, it distinguishes between state capture (power asymmetry to the benefit of big business at the expense of an incumbent, mainly a president) and business capture (power asymmetry to the benefit of an incumbent at the expense of big business) (Yakovlev 2006; Yakovlev and Zhuravskaya 2009). Still, the concept of power asymmetry cannot operationalise the scope of (i.e. identify the extent to which the incumbent/big business is subject to 'capture') and threshold between state and business capture (i.e. identify a measurement threshold where business capture ends and state capture starts, or vice versa). To trace democratising influences at the critical junctures and the reversal of autocratic trends, the article applies the concept of competitiveness to depict state-business relations. It distinguishes accordingly between a concentrated, hierarchical model with a president at the top, and a diffuse model with different power centres.

Political Embeddedness and State-Business Relations in Ukraine

Kuchma's presidency: all ties lead to the President

During Kuchma's presidency, Ukrainian big business intensively built ties with the executive. By contacts with the President and his administration and ministries it obtained access to such sources of rent-seeking as indirect subsidies, special treatment, and tax incentives (Melnykovska and Schweickert 2008). The position of presidential advisor in Ukraine, especially valuable to the symbiotic relationship between the President and business groups, was held for a long time by such oligarchs as Vadym Volkov and Oleksandr Rabynovich. The career of businessman Andriy Derkach is a pertinent example: in 1996 he was appointed as presidential advisor on foreign trade, and two years later became the chief of Kuchma's election team. Kuchma encouraged a president-centred political embeddedness of big business. In return for (informal) financial support given by Ukrainian big business for his presidential campaign, Kuchma appointed the representatives of regional business groups to national state authorities, where they could favour the interests of their business groups (Pleines 2005).

Apart from the executive, connections with parliamentary representatives or, preferably, a personal presence in Parliament, were also important. Initially, Ukrainian business groups simply bought slots on party lists (Whitmore 2005). They also used one-man constituencies in a mixed majoritarian and proportional representation system. From the 1998 parliamentary elections on, they also had their own parliamentary parties which were often regarded as the 'political project' of business: the Party of Regions (Rinat Akhmetov), the Social Democratic Party United (Viktor Medvedchuk) and the Fatherland Party (Yulia Tymoschenko) (Wilson 2005: 116-117). In such a way Ukrainian business groups transformed themselves into state actors, translating their interests into public policy by passing laws 'specially made for oligarchs'. In addition, they received full personal immunity throughout their term in office, which helped them to avoid criminal liability and secure their accumulated capital. Bargaining over legislation was common in the Ukrainian Parliament (Gel'man 2008). Thus, the Parliament was cynically labelled 'Ukraine's real stock exchange' (Aslund 2009).

Kuchma sought to incorporate business ties with Parliament into the presidential system of patronage by combining co-optation and coercion to form a pro-presidential majority involving business-financed parties. The MPs willing to join a pro-presidential majority got access to informal patronage networks and budget rents in return. By contrast, Kuchma's threats to oppositional MPs ranged from harassment by security services to blackmail by the tax authorities (both were under the President's control).⁶ Businessmen were eager to obtain

rents from their presidential patronage as the return on their large investments in ‘political projects’ (Puglisi 2003). Soon, a pro-presidential majority (led by former President Leonid Kravchuk) was built. It consisted of 11 centre-right parties and involved 241 MPs. Similarly, in the 2002 parliamentary elections the parties which represented the big-business groups achieved very good results. The business groups of the Labour Party and the Party of Regions together with the MPs from the single-member constituencies formed the largest faction (11.7% of the vote, but 175 of the 450 seats) – the pro-presidential bloc ‘For United Ukraine’.

Still, Kuchma sought to keep the majority weak by pursuing a ‘divide and rule’ strategy (Gould and Hetman 2008). He appointed and rotated the representatives of different business groups to similarly powerful positions within competing state authorities, in particular in the Cabinet of Ministers and the Presidential Administration.⁷ He thereby prevented any potentially upcoming internal challenges to his authority within the pro-presidential majority. Kuchma also sought to keep his independence from the pro-presidential majority in Parliament and continued to rule by decree (Protsyk 2004). His public popularity was beneficial in the rivalry with the Parliament – so that he repeatedly attempted to amend the Constitution, bypassing the Parliament through referenda in order to install a presidential system.⁸ However, Kuchma’s popularity was seriously hampered by the case of Heorhiy Gongadze, an oppositional journalist at the *Ukrainska Pravda* newspaper.⁹ Mass protests with the slogan ‘Ukraine without Kuchma’ spread.

The ‘Kuchmagate’ crisis encouraged defections from the pro-presidential majority and made big business strengthen its political capital vis-à-vis Kuchma. By 2001, Yulia Tymoshenko and her ‘Fatherland’ party transformed itself from a pro-presidential into an oppositional party. Some business groups, in particular new and medium-sized ones (such as those of Petro Poroshenko and David Zhvania), centred around ‘Our Ukraine’,¹⁰ the oppositional bloc led by Viktor Yushchenko. These oppositional parties won the 2002 parliamentary elections as regards proportional voting,¹¹ not least due to an increased popularity of Viktor Yushchenko, Kuchma’s challenger, which laid the foundations for the Orange Revolution (Kuzio 2013). Before the upcoming 2004 presidential elections, Kuchma decided not to run for a third term as his popularity was decreasing.¹² Viktor Yanukovich, his appointed successor,¹³ inherited his unpopularity and had to rely on massive fraud to win the 2004 presidential election.

Yushchenko’s presidency: don’t put all your eggs in one basket

The Orange Revolution transformed Ukraine into a parliamentary-presidential system and changed the institutional framework of power distribution between the legislative and the executive to the benefit of the Parliament, fuelling power struggles between President Yushchenko and the parliamentarian ‘orange’ majority. Thus, the unity within the orange opposition broke down soon. As a result, at least three power centres appeared in post-orange Ukraine: President Yushchenko with his ‘Our Ukraine’ party; Yulia Tymoshenko, who was Prime Minister, and her bloc; and Yanukovich with his Party of Regions (which still held a large share of seats in Parliament, consolidated and grew in influence by successfully exploiting disputes among the ‘orange’ forces).

Smaller business groups that had already supported Yushchenko in his presidential campaign developed their political embeddedness around the office of President and the ministries and state bodies subordinated to the President. Following the tradition of Kuchma, Yushchenko sought to counterbalance the Cabinet of Ministers through the Presidential Secretariat¹⁴ and the National Security and Defence Council of Ukraine (NSDC). He also relied on his powers to nominate several ministers – Defence, Foreign Affairs and Internal Affairs. He also appointed the heads of several economically attractive bodies, such as the State Property Fund. Yushchenko used these powers to bring representatives of business groups into office. Indeed, Petro Poroshenko, the owner of Ukrprominvest Holding and the richest businessman supporting Yushchenko and Our Ukraine, was NSDC secretary in 2005 and Minister of Foreign Affairs in late 2009/early 2010.

In addition, Yushchenko gained the support of some big-business representatives from Yanukovych's camp, who sought thereby to exploit their political ties to the President in disputes with Yulia Tymoshenko and the business groups supporting her. In particular, Dmytro Firtash and his RUE (RosUkrEnergo) business group evolved in cooperation with Yushchenko, who in his turn supported the RUE group to make it the only intermediate agent in Russian gas imports to Ukraine in 2004–09. Valeriy Khoroshkovskiy, a member of the RUE group, was nominated by Yushchenko to be NSDC deputy secretary in 2005; he was also the head of the National Customs Service from 2007 to January 2009, and from January 2009 to March 2010 the first deputy chief of the Security Service of Ukraine (SBU). Similarly, Akhmetov also had some ties to Yushchenko's administration; and Raisa Bogatyreva, connected to Akhmetov's SCM (System Capital Management) group, was nominated NSDC secretary in 2007. However, as popular support for Yushchenko was decreasing and his chances to be re-elected vanishing, some business groups (e.g. ISD, the Industrial Union of Donbass group of Vitaliy Hayduk and Serhiy Taruta) preferred to support Yulia Tymoshenko, another politician in the 'orange' camp. In fact, some big businessmen even became members of the Yulia Tymoshenko Bloc (BYuT), such as Kostyantyn Zhevago (banking sector and metallurgy) Taniel Vasadze (car manufacturer UkrAvto Group) and the Buriak brothers (financial sector). But her party, being highly hierarchical and leader-centred with decision-making firmly in Tymoshenko's hands, took largely a protective stance to guard its political independence from businessmen. Some business groups, such as the 'Privat' group of Ihor Kolomoyskyi and Henadiy Boholyubov, preferred not to formalise their relationships either with the BYuT or Yushchenko's Our Ukraine, but preserved informal ties with both of the political centres of the 'orange' forces. Hence, the political embeddedness of business groups in the 'orange' camp was situational and unstable.

In comparison, big-business ties to Yanukovych remained largely stable. These were the business groups from the Donetsk and Luhansk regions who shaped their political embeddedness around Yanukovych. Their defeat in the Orange Revolution and the threat to their accumulated assets (due to the re-privatisation plans of the 'orange' politicians) consolidated these business groups with the Party of Regions, so that they made tremendous efforts to secure its success in the 2006 and 2007 parliamentary elections. In addition, many MPs from big-business groups who were dependent on a single mandate in the Donetsk and Luhansk regions gradually joined the Party of Regions, as Ukraine's electoral system was changed and the 2006 and 2007 parliamentary elections were conducted on proportional rules and with party lists. Furthermore, they sought to secure their capital by formalising their political embeddedness. In particular, the SCM group got almost half of the Party of Regions' seats in the parliament and Rinat Akhmetov, the chief of this group who previously avoided public political life, held MP seats after both parliamentary elections (Chyvokynya 2007). In addition, the RUE group of Dmytro Firtash kept its ties with Yanukovych and used them to establish dominant positions in Ukraine's gas transit and domestic gas markets. Its political embeddedness was also formalised, with members of the RUE group holding key positions in Yanukovych's government (2006–07): Yuriy Boyko was Minister of Energy and Serhiy Lyovochkin was head of Yanukovych's Prime Minister Secretariat in 2006–07.

Under conditions of the frequent parliamentary elections in 2006 and in 2007, the Parliament and the Cabinet of Ministers were a merger of mobilising 'electoral groups' rather than a coalition government (Flikke 2008). Accordingly, Ukrainian big business supported one or more of these power centres or shifted support from one centre to another depending on the support for each in the population (Matuszak 2012). The model of state-business relations was diffuse and highly unstable.

Yanukovych: from cartel-club to Yanukovych's 'familism'

Yanukovych's victory in the 2010 presidential election was narrow and his formal authorities limited, but his grasp for power was rapid and massive. By means of bribes and coercion he forced MPs' defection from Tymoshenko's governing coalition and formed a

new coalition in April 2010, the 'Stability and Reforms' coalition, with the Party of Regions dominating and its leader Nikolai Azarov as Prime Minister.¹⁵ Moreover, Yanukovych did not stop with transforming the Party of Regions into a dominant party in Parliament, which thereafter just rubber-stamped his orders (Bader 2011). He also encouraged his Party to dominate state authorities at the central / national and regional level, transforming Ukraine into a one-party state. The representatives of the Party of Regions made up two-thirds of the government and almost nine-tenths of all regional governorships; each governor became chairman of the local Party of Regions and after the October 2010 local elections, the Party of Regions dominated in local councils as well (Kudelia 2014). Both the coalition partners of the Party of Regions and oppositional parties were marginalised. Accordingly, political influence of those big-business groups which were not linked to the Party of Regions diminished significantly, while big-business groups politically embedded in the Party of Regions extended their influence and obtained access to new rent-seeking sources for further enrichment.

Still, the power centre was the President. As the Party of Regions was highly hierarchical with Yanukovych at the very top, the one-party state was de facto a one-man state. The Party of Regions merely served as the structural framework for presidential patronage. Whereas his allies were bestowed with clientelistic benefits, the rivals were coerced, even by the threat of public trials. The Prosecutor General's Office and the Security Service became the main instruments of coercion in the hands of the executive. Moreover, Yanukovych put the judiciary under his control: the Supreme Court lost its appellate powers to the benefit of the President, and he now appointed and dismissed judges and made them subjects of disciplinary investigations. Hence, dozens of pro-orange politicians were charged with law-breaking or had to flee the country. The politically motivated sentence passed on Tymoschenko, Yanukovych's rival in the presidential run-off, and her allies, is the most prominent case. Eventually, the concentration of power in Yanukovych's hands was formalised by the return to the 1996 Constitution,¹⁶ which together with the pro-presidential majority in the Parliament practically implied a super-presidential political system.

During the initial period of Yanukovych's presidency, the cartel-like club of big-business groups with Yanukovych as an arbiter at the top was established. Positions in the Cabinet of Ministers and the Presidential Administration were divided between two business groups: the RUE group of Firtash and the SCM group of Akhmetov. Linked to Firtash, Serhiy Lyovochkin was nominated to head the Presidential Administration; Yuriy Boyko was appointed Energy Minister and thereby controlled the gas sector; Valeriy Khoroshkovskiy directed the Security Service of Ukraine and in 2012 became First Deputy Prime Minister. Linked to Akhmetov, Iryna Akimova was appointed First Deputy in the Presidential Administration; Borys Kolesnikov was made Deputy Prime Minister in charge of the EURO 2012 Football Championship and Minister of Infrastructure; Raisa Bogatyreva was made Secretary of the National Security and Defence Council and later Deputy Prime Minister and Health Minister. The appointment of Mykola Azarov, a representative of the old nomenclature, to the head of the Cabinet of Ministers was thought to balance the power of these two strongest business groups (OSW 2010). The pro-presidential majority in parliament was joined by businessmen (e.g. Taniel Vasadze) who were elected on the opposition list of Yulia Tymoshenko, Bloc Batkivshchyna (BYuT). The other business groups (e.g. of Kostyantyn Zhevago) still supported opposition parties, but reduced their financial support significantly (Matuszak 2012).

While Yanukovych sought to incorporate all big-business groups into his government in 2010–12, after the defeat of the Party of Regions he began to distance himself from the unpopular party and shrank his power base to a narrow circle of family and friends (Kudelia 2012).¹⁷ Party functionaries in the Cabinet of Ministers finance flow-relevant bodies and in the security services were replaced with members of his inner circle, especially friends and cronies of his son Oleksandr¹⁸: Serhiy Arbutov was appointed Chair of the National Bank of Ukraine; Oleksandr Klimenko became the head of the State Tax Service; Vitaliy Zakharchenko was appointed Minister of Internal Affairs; Ihor Kalinin became head of the

Security Service of Ukraine; Dmytro Salamatin – Minister of Defence and Henadiy Reznikov – head of the State Special Communications Service. This ‘family first’ approach was employed to further consolidate Yanukovych’s authoritarian regime before the upcoming presidential elections to be held in 2015 (or 2016).

In addition, several big-business groups were pushed outside the presidential system of patronage. Consequently – and importantly – ‘outsider’ business groups started to develop ties with the oppositional parties in parliament. Even close allies of Yanukovych diversified their risks (in the face of increasing influence of Yanukovych’s family clan) and established ties to different parties, including oppositional ones (e.g. Firtash’s business group cooperated with Klitschko’s oppositional UDAR) (Theise 2015).

Decision-making became highly centralised and concentrated in the President. On 21 November 2013, just a week before the Vilnius Summit where the Association Agreement (AA) was to be signed, Yanukovych decided practically on his own to stop preparations for signing the AA and to make a deal on closer integration with Russia instead, in exchange for cheap loans of money and gas. But he underestimated the popular discontent this decision could ignite. State violence against the peaceful demonstrators further fuelled the protests. Three oppositional parties, Fatherland, Svoboda and UDAR, joined forces and took to the streets.

The reactions of big business to the mass protests were heterogeneous. While several groups (e.g. Poroshenko’s, Kolomoysky’s and Pinchuk’s groups) supported mass protest with the dissemination of information over their media outlets and publicly condemned Yanukovych’s repression of demonstrations and secretly negotiated with the opposition (e.g. Firtash’s group), while others (e.g. Akhmetov’s) remained loyal. Parliamentary voting on the so-called dictatorial laws in January 2014 demonstrates that there were only a few defections from the pro-presidential business groups in Parliament, so that the opposition could not bring the president down by constitutional means (Solonenko 2014).

Ironically, the concentration of power in the hands of the ‘family’ and the cohesion of the Party of Regions hindered a resolution to the conflict through elite bargaining within the existing institutional framework of power-sharing: the Constitutional Court was under the President’s control and could not figure as an arbiter; in the highly centralised system, an offer of the Prime Minister’s position, such as Yanukovych made to the opposition leaders, was of low worth and could not ‘buy’ the compromise with the opposition; and finally, the family cronies in the security services had no exit options and employed hard means of cohesion (e.g. torture and killings of protesters).

Having agreed on a deal with the opposition with foreign negotiators at the table, Yanukovych lost his executive powers¹⁹ and this cut at the very base of his regime. His regime broke down: the Party of Regions MPs defected on a massive scale and the security forces left the presidential buildings without protection. Yanukovych fled the country on 21 February. The resulting power vacuum was filled by the early presidential elections in May 2014.

Poroshenko’s presidency: with sticks and carrots to a new balance of state-business relations

Petro Poroshenko was elected President by an overwhelming 54.7% of the vote in the first and single run. With Poroshenko as President, a representative of big business rose to the highest political office in Ukraine. In 2014 Poroshenko held 6th place in the ‘Ukraine’s 100 richest’ ranking by the magazine ‘Forbes Ukraine’; his capital worth was estimated at \$1.3 billion. His party, the ‘Bloc of Petro Poroshenko’ won the parliamentary elections in autumn 2014, and with 139 seats (of 422) constitutes the largest fraction in the Parliament. It also won the local elections in autumn 2015. However, Poroshenko can hardly dominate in the political system, as was the case in Yanukovych’s presidency.

Ukraine’s contemporary political system is largely decentralised. With 302 MPs the pro-presidential coalition has a constitutional majority, but it could hardly be expected to agree on any increase in formal presidential powers. Moreover, Poroshenko has to bargain as well as

share competencies and positions with the coalitional partners, in particular with the second largest party in the Parliament, the 'People's Front' of Arseniy Yatsenyuk. Hence, Poroshenko's powers are counterbalanced by Yatsenyuk's, who holds the position of Prime Minister and represents an alternative to the presidential power centre. Accordingly, the government's composition is a balancing act: while the Ministry of Defence, the Security Service and the Prosecutor General belong to President's domain; the Ministry of Internal Affairs with armed volunteer battalions under its control is the domain of the Prime Minister. Poroshenko and Yatsenyuk also have to bargain with the smaller coalition parties – 'Samopomich' of Andriy Sadovyi, BuT, and the 'Radical Party' of Oleg Lyashko – who do not miss any opportunity to criticise the government. Furthermore, Poroshenko's fraction is heterogeneous; apart from business representatives, it includes civil society activists who also criticise their party leadership and are united in a sub-fraction in the fight against corruption. In addition, the 'Oppositional Block', the successor-party to the Party of Regions, has certain leverage over political decision-making. As it is mainly supported in the southern and eastern regions of Ukraine, the positioning of the Oppositional Block can add legitimacy to one or another government decision. Thus, Ukrainian big business has several options to build up its political ties in the new political setting.

Ukrainian big business counts on its ties in parliament. Akhmetov's and Firtash's business groups, which were politically bound to the person of Yanukovych, have re-shaped their political embeddedness to secure their capital and adjust their production processes and economic activities (primarily situated in the Donetsk and Luhansk regions) to the military conflict. While Akhmetov remains the main supporter of the Oppositional Block, Firtash has diversified by additionally supporting the Radical Party (Bilousova 2015). Furthermore, the business groups that were not involved in Yanukovych's patronage system are back in politics with the aim of accessing new rent sources. Mykola Martynenko and Andriy Ivanchuk, by financing the People's Front of Yatsenyuk, have entered parliament on this party list (Mostova 2015).²⁰ Several businessmen, such as Serhiy Taruta, are in parliament on a single mandate.

To counterbalance Parliament, Poroshenko seeks to develop the system of presidential patronage. He is not a newcomer in Ukrainian politics. Since his election to Parliament in 1998 he has changed political camps several times. First, he joined the fraction of Social-Democratic Party (united) and then in 2001, with his own party 'Solidarity', he founded the Party of Regions. At that time he belonged to Kuchma's supporters. However, at the end of 2001 he moved with his party to Yushchenko's electoral block, 'Our Ukraine'. This political migration provided him with ties across different – often rival – political camps. Hence, despite political turbulence, he has held positions in different governments: during the 'orange' coalitions he was NSDC secretary (2005), chairman of the supervisory board of the National Bank (2007–12), and Foreign Minister (2009–10). In Azarov's government he was appointed Minister of the Economy. As President he has used his political ties across different camps to bargain a new model of state-business relations under his control.

Poroshenko started with the establishment of an 'inner circle'. The new political office has allowed him to appoint his close associates and business partners to those government positions and state agencies under his control: Volodymyr Groysman is Chairman of Parliament; Boris Lozhkin is head of the Presidential Administration; Ihor Kononenko leads the President's fraction in Parliament and is said to control the office of Prosecutor General; Volodymyr Hrytsak heads the Security Service of Ukraine; Valeriya Hontareva heads the National Bank; and Konstantin Hryhoryshyn (while not personally the Energy Minister) is said to have a superior grasp on Ukraine's position in energy markets through his representatives in the Ministry of Energy (Vinnichuk 2015b). In return for their loyalty, the members of this inner circle are said to receive priority access to rent sources in the course of the presidential war on oligarchs, labelled 'de-oligarchisation' (Samofalov 2015; Musaeva-Borovyk 2014).

In fact, Poroshenko relies on both sticks and carrots to engage the largest Ukrainian business groups in the presidential system of patronage. He started with a 'war' on

Kolomoysky, who had gained popular support as governor of the Dnipropetrovsk region. In spring 2014 Parliament passed amendments to the law on joint stock companies that lowered the number of shareholders required to be present for a quorum in order to take votes at general meetings of shareholders. The new regulation deprived Kolomoysky of control over Ukrnafta, an oil company in which he is a minority shareholder. At the same time, Oleksandr Lazorko, Kolomoysky's associate and chief executive of the state-owned oil pipeline operator Ukrtransnafta, was removed by the government. After the armed attempt to keep these companies under his control, Kolomoysky lost the position of governor. A court case was also opened against his close ally Hennadiy Korban. Similarly, Firtash lost his control over several chemical enterprises, including Odessa Sea Port; the law to break his monopoly over Ukraine's domestic gas sector was passed; his associate Valentyn Nalyvaichenko was dismissed as the head of the Security Service of Ukraine and several members of the Radical Party were arrested after the party withdrew from the pro-presidential coalition (Olszański 2015). Akhmetov tried to pressure the government on coal prices by staging protests of mine workers in Kyiv, but with little success (Vinnichuk 2015a). Against the management of his power company DTEK criminal cases were opened; the government changed the energy prices and a court decision reversed the privatisation of the electric and thermal energy producing company 'Dniproenergo'. All these actions were assumed to be means of political pressure on Kolomoysky, Firtash, and Akhmetov used by the President (Kalachova 2015, Mostova 2015). However, as far as some business groups indicate their willingness to cooperate, threat of the use of 'sticks' diminishes: criminal cases are halted or closed and new laws remain without real implementation (Samofalov and Musaeva-Borovyk 2015).

Poroshenko's strategy has brought mixed success. Some business groups seem more ready to get involved in informal negotiations with the executive: Firtash can use his ties with the 'UDAR' party (a part of Poroshenko's bloc) to bargain with Poroshenko, while Akhmetov is said to be developing closer ties to Yatsenyuk (Samofalov 2015). Other business groups are in no hurry to join Poroshenko's camp. Rather, they further seek to strengthen their political embeddedness independently of the presidential executive. In particular, Kolomoysky went further, staging a public confrontation with the President and launching several new party projects, such as 'Ukrop' and 'Vidrodzhennya' (Samofalov and Musaeva-Borovyk 2015).

Overall, a new model of state-business relations is in the making. It is diffuse, as it involves several power centres as big-business groups diversify their risk by developing ties with different political actors.

Conclusion

Ukrainian big business went through several models of state-business relations in reacting to the changes in political settings over the course of critical democratising junctures and reverse autocratic trends. Ukraine's political system in Kuchma's era was de facto a super-presidential one: highly personalised and of a corporatist and patrimonial nature (van Zon 2005). Hence, big business subordinated its ties with Parliament to closer ties with the President and the Presidential Administration. After the Orange Revolution and the constitutional amendments which broke the presidential monopoly on power, Ukrainian big business diversified its political embeddedness by supporting rival political forces and reacting to the fluctuations in parties' popular legitimacy. As a result, the model of state-business relations was diffuse and highly unstable. Yanukovych made this model more stable, but still highly hierarchical with the President at the top and eventually narrowed to his family clan. The end of his rule made Ukrainian big business re-shape their political embeddedness by developing its ties to the new power centres and persons in political offices. Although today Poroshenko seeks to engage big-business groups into close ties with the presidency and create his own patronage system, business groups have continued diversifying their ties – either by supporting other coalition partners or financing their own – old and new – party projects.

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Notes

- 1 In addition, the package deal involved the adoption of a new proportional electoral law, the imperative mandate, and a new law on local self-administration (see more details in Flikke 2008, 378, Kudelia 2007, 92-97).
- 2 In October 2010, under pressure from the President, the Constitutional Court suspended the constitutional changes that had been made in the course of the Orange Revolution in 2004.
- 3 The only exceptions were the agrarian and coal-mining business groups. Agrarian business groups had already been established in Soviet times and remained influential in Ukraine's politics (through the Agrarian Party) during the early years of Ukraine's independence. Similarly, the coal-mining business groups used their ties to the coal ministry and government and support of miners' trade unions and of the coal enterprise directors to obtain subsidies, and blocked restructuring reforms to the mining sector in the early 1990s. However, the influence of the agrarian and coal-mining business groups had declined already in Kuchma's era. Cross-sector business groups took over the agrarian and coal clans' influence in politics.
- 4 Big-business groups were mainly concentrated in the eastern regions, the Donetsk, Luhansk, Dnipropetrovsk and Zaporizhia Oblasts, where most heavy industry was situated (Matuszak 2012).
- 5 An overview of research literature on state-business relations is elaborated by Lang and Tenbücken (2006).
- 6 Through informal mechanisms and by non-democratic means, Kuchma controlled the economy, media, elections and so-called 'power ministries' (the Ministry of Interior, the security service, the General Prosecutor's Office and the tax authorities) (Darden 2001). By appointing the heads of oblast state administrations he controlled political and economic processes in the regions.
- 7 The Presidential Administration was established in 1991 and initially had no influence on political decision-making. Kuchma upgraded the importance of the Presidential Administration by bestowing it with governmental functions.
- 8 He disregarded Articles 155 and 156 of the Constitution, which were specifically designed to prevent such amendment methods.
- 9 On 16 September 2000, the journalist disappeared. The discovery of his decapitated body and suspicious handling of the case by investigative authorities (who rather created the impression that they wanted to hide something) triggered societal outrage. Kuchma's former bodyguard ultimately released tapes that provided evidence of Kuchma's order to murder Gongadze.
- 10 Thus, the Orange Revolution was often labelled 'the revolt of the millionaires against the billionaires'.
- 11 With 24.5% of the vote, Yushchenko's party 'Our Ukraine' won the largest share of seats. While the opposition parties won their seats where proportional voting was applied, pro-Kuchma deputies were mainly elected in one-man districts by majority voting. As a result, a pro-presidential majority was built.
- 12 By exploiting the demands of the 'Ukraine without Kuchma' protest movement, he tried to force through constitutional changes that would transform Ukraine into a parliamentary system and give him a chance to keep his rule as Prime Minister (without term limitations). However, the MPs from his own camp, especially those supporting his nominated successor Viktor Yanukovych, did not support these constitutional amendments.
- 13 Initially, Yushchenko figured as Kuchma's possible successor. However, as Yushchenko was not very loyal to Kuchma and thus might have prosecuted Kuchma's inner circle and family, Viktor Yanukovych was nominated instead (Kudelia 2008:168).
- 14 The Presidential Administration was renamed Presidential Secretariat to avoid the negative image of Kuchma's administration. However, the Secretariat kept its functions and was employed by Yushchenko in a manner similar to Kuchma's Presidential Administration.
- 15 Presidential control over the Parliament was visible in the ratification of the controversial Kharkiv Accords which extended Russia's lease of the Black Sea Fleet base in Crimea until 2042.

- In October 2010, under pressure from the President, the Constitutional Court suspended the constitutional changes that had been made in the course of the Orange Revolution in 2004.
- 17 Right before the 2012 parliamentary elections, popular support for Yanukovich and his party was at rock-bottom. Whereas the country's economic resources were used for patronage and the personal enrichment of Yanukovich's family clan, the population had to stand the hardship of economic crisis. To distract his core supporters in the south-eastern regions, Yanukovich used the old 'card' of linguistic, cultural and historical controversies. Parliament passed a controversial law on regional language, in fact prioritising the Russian language. In addition, the use of the Soviet flag in celebrations of the victory in World War II was legalised (Kuzio 2011). To neutralise the opposition parties in the central and western regions, Yanukovich co-opted the agenda of the orange forces by seeking a closer relationship with the EU and signing an Association Agreement (AA) with the EU. Sceptical about the effects of these manipulations on public opinion, Yanukovich made Parliament change the electoral law: parliamentary elections were now conducted according to a mixed system (instead of a proportional party-list system). Furthermore, practices of massive electoral fraud were used to ensure the electoral success of the Party of Regions. The 2012 parliamentary elections were manipulated to such an extent that the observers argued that Ukraine's minimalist electoral democracy had been transformed into an authoritarian electoral system (Kudelia 2014, 21). Still, the Party of Regions received far fewer seats in a proportional party-list vote than in the previous parliamentary election, but compensated this loss by the seats it obtained in the single-mandate constituencies. Only with the support of some independent MPs and the Communists, the Party of Regions was able to build the majority and form the government.
- 18 Within one year after the elections (by the end of 2013), the capital assets of Yanukovich's son Oleksandr in the All-Ukrainian Development Bank doubled and amounted to \$100 million.
- The pact, negotiated and signed on 21 February, involved: 1) an immediate return to the 2004 Constitution, with reduction of presidential powers and Parliament's right to form a new government; 2) further constitutional changes by September 2014, which eventually would add to the power of Parliament; 3) an early presidential election by December 2014; 4) an investigation of violence and killings during the protests, to be overseen by the Council of Europe; and 5) an end to harassment and the use of force.
- 20 Due to allegations of corruption and an investigation in Switzerland, Martynenko recently lost his deputy mandate.

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