

Ukraine and the Empire of Capital

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From Marketisation to
Armed Conflict

Yuliya Yurchenko

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Per aspera ad nebulae or to market through a hybrid civil war: survival myths of systemic failure

Three years into its deepest crisis since the demise of the USSR, Ukraine is on a brink of yet another Maidan. Weakened by civil armed conflict, corrupt state administration apparatus and paralysed by the excesses of the debt burden, Ukraine's economy is showing few signs of recovery while it continues to accumulate loans with increasingly draconian structural adjustment requirements. Simultaneously, the living standard, poverty and inequality are at their worst to date. The combination of ill-prescribed market transition reforms, loaned funds mismanagement and misappropriation by the kleptocratic ruling bloc have resulted in a toxic debt dependency that has become a tool for manipulation in the renewed geopolitical confrontation between Russia and the USA/EU. Debt geopolitics in the context of the Deep and Comprehensive Free Trade Areas (DCFTA) negotiations have cost Ukraine its residual de facto sovereignty and at the same time continue to undermine possibilities for stabilisation of the geopolitical order.

Ukraine is stuck in a vice of authoritarian neoliberal kleptocracy with fascicisation tendencies. Further implementation of DCFTA means more austerity, more inequality, more privatisation, and fewer support mechanisms for everyday social reproduction via access to health care, childcare, education, affordable utilities and food. The privatisation of land and re-privatisation of fracking fields also means an ecological catastrophe. The liberalisation on exports of timber to the EU already spells the destruction of Carpathian centuries-old forests for short-term economic gain. Debt has become a geopolitical tool in Ukraine's foreign relations to be used sparingly by its lenders. Exploration of the post-2013/2014 extremes of foreign debt dependency show that the latter, in the context of the kleptocratic neoliberal regime, has led to an effective erosion of Ukraine's sovereignty that by now barely hinges upon

the dangerous rhetoric of ‘patriotism’, that is, the infusion of right-wing sentiment as a defensive mechanism against any criticism of the shaky oligarchic kingdom.

Crimea is not likely to be returned peacefully soon; nor is the Donbas conflict likely to be reconciled in the immediate future. What is certain is that authoritarian fascicising neoliberal kleptocracy is increasingly dispossessing and alienating the country’s labour beyond the limits of the possible that are necessary for everyday social reproduction. As even the so-called ‘right-wing patriots’ are being disposed of as the enemies of the system in Poroshenko’s address to the parliament this September, social discontent is brewing stronger. This dispossessed labour force is awake; it is aching from the freshly inflicted wounds and covered in the blood of its children; it is armed; and it is desperate. It is pregnant with the next Maidan.

In early 2014, when Ukraine became the frontline story of global media, few understood how pro-European Union association demonstrations had turned into armed clashes. The unprecedented violence that shook the country was alarming in that the extreme destabilisation of the increasingly dispossessed society brought to centre stage the geopolitical contestations that many thought had been left behind in the pre-1989 era. Speculations of a new Cold War, imperialistic clashes, and even looming Third World War flooded the discourse space of mass media, politics and academicians,¹ which more often than not contributed to the misunderstanding of the crisis.²

The conflict did not start with the first bullets fired in Kyiv in the winter of 2014. Putin’s ambitions, Nuland’s leaked cables, Biden’s visits, McCain’s and Tymoshenko’s inopportune NATO comments, and the like have had little power to automatically translate into an armed conflict. The conditions had to be right. The bullets and the rest burst the floodgates of discontent that have been brewing for some 25 years and that were stirred by a set of dangerous myths in and of the post-Soviet space. The myths were a product of minds that were unwilling and often incapable of engaging with the social or economic reality of those whose future they dangerously had the most power to shape. In this book, I show that the story of Ukraine’s degeneration into a hybrid civil and armed conflict is the story of ill-conceived myths used as foundations for real life politico-economic transformation and the dangers that that process entails. All myths are social constructs, which are created by people and exist for their specific purpose.³ *The underlying purpose*

and effects of the myths that have been shaping Ukraine's transformation since 1991 are the securing of expansion of the empire of transnationalising capital. It is precisely the social effects of that complex process that have produced conditions where the civil confrontation and the armed conflict became possible and it is the investigation of that process that is the task of this book.

The function of myths in a changing political and economic reality is to produce social cohesion, support, or – in the words of Gramsci⁴ – to a specific mode of governance, production and social reproduction. The mode that since the 1970s has underpinned the global political economy is that of neoliberalism or financialised capitalism, which since the financial crisis of 2007–2008 and the ensuing recession has only become further entrenched,⁵ and has been assuming overtly authoritarian features.⁶ The most prominent aspect of the latter are the ongoing financialisation and enclosures,⁷ that is, the privatisation of publicly owned assets and the assaults on social welfare provision. Market-based constitutionalism is the new world order⁸ where we see the socialisation of corporate losses⁹ combined with extreme disciplining in the workplace¹⁰ and systemic social exclusion of labour¹¹ with added extortion by indebtedness,¹² in-work poverty¹³ and austerity policies. All of the above are popular and successful exports from the core of the capitalist system to its semi-/peripheries to which Ukraine is no exception, as I will show in this book.

The expansion of the global capitalist system to the post-Soviet space since the early 1990s has created a pronounced intensification of transnational class struggles and East–West geopolitical tensions – primarily between the USA and Russia. Weakened by the demise of the USSR and later economically strengthened by the industrialised world's dependence on oil and gas, Russia became a state-run oligarchy that entered into a new competition with the USA, this time without a proper ideological component. Since the late 1990s, the Kremlin's aim has been to beat the USA at their own game, the capitalist competition/world dominance game; that has included, among other aspects, economic, political and military control over the post-Soviet states, which were slipping away from Moscow's gravitational pull one after another. The Commonwealth of Independent States (CIS; founded in 1991), the Collective Security Treaty Organization (CSTO; founded 1992, reformed in 2002), and the more recent formation of the Eurasian Customs Union in 2008 are some of the examples of Russia's attempts to re-establish and maintain

dominance over the space it often used to control directly, even before the formation of the USSR. The USA's push to spread NATO to Eastern Europe and Russia's military involvement in Transnistria and Abkhazia are also part of the Washington–Moscow geopolitical game. The effective manufacturing of frozen conflicts in Moldova and Georgia led some to interpret Putin's annexation of Crimea and the military incursion into Eastern Ukraine as a reaction to fears over the expansion of NATO too.¹⁴ What advocates of Russia's right to defend its interests¹⁵ fail to acknowledge is that Ukraine is a sovereign state and that Russia's disagreement with its foreign and trade policy choices does not grant the Kremlin rights to violate Ukraine's borders. Nor does it justify the transformation of Russia's mainstream political discourse that, since the early 2000s, has been based on a bizarre mix of the resurrected and glorified imperial past and reinforced pride over monopolised credit for the Soviet Second World War victory. The use of the imperial history of 'ownership' of Crimea combined with the need to protect ethnic Russians as a pretext for military incursion into Ukraine speaks of the Kremlin's imperialist ambitions: the rhetoric of geopolitical self-defence is hard to sustain in the light of such 'diplomacy'. And indeed, the imperialist clashes of the West and East extend beyond the post-Soviet states and into the international military and economic arena. The confrontations between Russia and the West/USA over Libya and Syria in the UN are just some of the many illustrations of those clashes and their recent intensification.

The long and complex historical relationship with Russian Empire and the then Soviet Russia secured Ukraine a special place in the renewed geopolitical confrontation. Internally, the state-building process was complicated by the legacy of centuries of being divided between east and west, empires and forms of social organisation intermeshed with brief periods of sovereign statehood.¹⁶ Unified in its current borders by the Soviets in mid-twentieth century, the multi-ethnic, multi-religious, multilingual nation needed a strong cosmopolitan foundation myth to bring it into a sovereign existence.¹⁷ The pivotal principles of the country's Constitution, adopted in 1996, contained all the required ingredients for that. However, marketisation and geopolitical games in the post-Soviet space were in contradiction with the potential construction of a cosmopolitan, egalitarian society and thus, different, divisive myths were used to shape public imagination. A regime of neoliberal kleptocracy, where typical neoliberal features are exacerbated by omnipresent corruption and institutionalised state asset embezzlement, emerged.¹⁸

The country found itself placed into a vice of neoliberal kleptocracy and intensified geopolitical tensions. The effective dispossession of the masses and the manipulative divisive political myths used to manufacture consent to the regime of dispossession have continuously eroded social cohesion since the early 1990s.

Complex and far-reaching historical processes do not simply happen. There are social forces and people with names who drive them in specific directions. It is through the identification of those forces and the identification of their main interests that we can understand the reasons behind their strategic choices, however questionable those may appear – as at first it may seem to be in the case of Ukraine. One must look into the relationships between the systemic transformation of Ukraine as a part of the changing global capitalist system, associated geopolitical shifts and the class formation process, for example, the emergence of oligarchy, on the level of ideology and the changing individual material positioning towards the means of production in the process of privatisation, that is, accumulation by dispossession.¹⁹

In this book, I show how the problematic integration of Ukraine into the global capitalist system has fertilised internal political destabilisation, while simultaneously fuelling geopolitical tensions in the region, thus making the civil and armed conflict possible. The abstract separation of civil and armed conflicts is crucial here as political divisions are currently as rife in the country as are their armed expressions, while civil–political conflicts exist on and extend beyond the frontline of Eastern Ukraine.

THE EMPIRE OF CAPITAL, SOCIAL FORCES AND METHODS OF INQUIRY

The end of the Golden Era of capitalism in the late 1960s–early 1970s opened the door for the *laissez-faire* economy once more. ‘The revenge of the rentier’,²⁰ earlier ‘euthanised’ by the economic theories of John Maynard Keynes,²¹ was imposed to overcome the limits of the possibility that the mass production/mass consumption based post-Second World War regime of ‘embedded liberalism’²² had by then been reached. Declining profitability, stagflation and the increased labour militancy²³ of the late 1960s–1970s in the USA and Great Britain was met with monetarism, business re-regulation²⁴ and neoliberalism, more generally speaking. Founded on the economic theories of Friedrich von Hayek (1899–1992) and Ludwig von Mises (1881–1973) and an update to

nineteenth-century liberalism, neoliberalism was ‘a consequence of incorporation of marginalist economic thought ... with critiques of equilibrium theory.’²⁵ The outcome rested on two tenets drawn from von Mises and Hayek respectively: (1) that ‘egoism is the basic law of society’²⁶ and (2) that ‘free markets lead to “spontaneous order” that solves the problem of economic calculation.’²⁷ It became a ‘theory of political economic practices that proposes that human well-being can be best advanced by liberating individual entrepreneurial freedoms and skill within an institutional framework characterised by strong private property rights, free markets, and free trade.’²⁸ Crucially, neoliberalism was conceived as an ideological theory-project aimed to counter ‘the inherent totalitarianism of collectivist and state planning of the economy drawing on economic theories which, in turn, posited the impossibility of economic planning in the first place.’²⁹ The irony here is that neoliberal distaste for planning is but declaratory and often selective as austerity politics, the redesigning of the international trade architecture and the demands for Structural Adjustment in low- and middle-income countries loudly testify. Both nationally, and globally, neoliberalism roots itself through the institution of the state as the main legislative authority capable to legitimately perform such rooting. Thus, the state is assigned a role ‘to create and preserve an institutional framework appropriate [for neoliberal] practices.’³⁰ This transformation gave rise to what Robinson calls the ‘transnational state’³¹ – a key change of the recent decades that involves the extension of existing and the creation of new mechanisms for lessening state control on capital, while tightening control on labour in terms of regulations and taxation. The state itself is a terrain of class struggle, where the dominant classes and their fractions tend to determine its strategic direction;³² in a transnational state, the transnationally orientated fractions are dominant. Structural adjustment programmes and loans (SAPs and SALs) exported the neoliberal transnationalisation model to the low-income countries after the 1980s Latin American Debt Crisis and, since the 1990s, to the post-Soviet states, including Russia and Ukraine.³³

In a world shaped by increasingly transnationalising processes, societies and institutions, we need analytical tools that allow us to cut across the outdated categories and respective terminologies. Transnational historical materialism – or the Neo-Gramscian method – permits precisely that, as it is ‘the application of the historical materialist method to the study of transnational social relations.’³⁴ It is a dialectical scientific

method of Gramsci,³⁵ further articulated by Robert W. Cox,³⁶ Stephen Gill *et al.*,³⁷ and Andreas Bieler and Adam Morton³⁸ – among the more notable – that allows one to trace the formation of social forces in themselves and for themselves along the lines of the relations of production and through the processes of accumulation of capital, passive revolution and *trasformismo*. In the study of Ukraine, such an approach is highly useful in explaining how, through the process of privatisation (i.e. primitive accumulation of capital), oligarchic groups and financial industrial groups (FIGs) were formed (i.e. concentration of capital); how from the body of employees of the same state-owned enterprises (SOEs) few turned into oligarchs and the rest into workers/unemployed/dispossessed (i.e. capitalist and working class-in-itself formation); how and why new political parties and movements emerged which were representative of or in alliance with concrete oligarchs (i.e. class-for-itself formation), and in support of different directions of foreign policy, for example, the global West versus East. The method allows us analyse how public consciousness transformed to consensually accept a concrete new regime, reforms and people in charge by bringing in the concept of *passive revolution*, that is, the gradual and consensual transformation of social order without meaningful inclusion of the interests of the subject or affected social groups; that is achieved partly by the process of *trasformismo*, where political forces strategically align despite their differences until the differences are submerged in the initially dominant group's framework.³⁹ Westernisation in all its forms – marketisation, cultural assimilation and so forth – is precisely the process of passive revolution and *trasformismo*.

Social forces are central to our analysis, so particular care is required when delineating the categories of analysis. Readers of scholarship on Eastern Europe are only too familiar with terms such as 'clans' and 'elites' (which I will delve into more detail in later chapters). Here, I propose to set them aside. Their assumed, essential homogeneity obscures the contradictions and frictions within which they are bundled as social groupings. They also fail to explain situations when those groupings cooperate, thus impeding potential clarity and compromising the validity of the final analytical results. How do we explain why members of different 'clans' cooperate and members of the same eliminate each other? Why do people from different social strata and classes protest together for months in freezing cold in the Kyiv's Maidan Square? Fluid categories are needed to achieve any precision in analysing fluid social

contingencies such as societies undergoing major transformations, that is, Ukraine under scrutiny. Transnational historical materialism here too comes to rescue. We start with a situation as a unit of analysis, that is, Ukraine's civil and armed conflict, and identify who and why is interested and who is not in concrete outcomes of concrete scenarios of its making. Next, we identify their belonging to specific class fractions, classes and historic blocs depending on positioning in class alliances, the system of ownership of the means of production and ideological/ideational consciousness – if very short-lived, such as during the Maidans of 2004–2005 and 2013–2014. The latter form is what Gramsci called 'historic blocs' – a 'unity of opposites and distincts',⁴⁰ 'complex, contradictory and discordant *ensemble* of the superstructure [that is] the reflection of the *ensemble* of the social relations of production.'⁴¹ The contradictions and reactionary nature of the Maidan protest bodies, as historic blocs, are thus a direct reflection of the fact that Ukraine's (political) economy is an *ensemble* that is complex, contradictory and discordant. The ongoing nature of protests in the country that I address in the book also means that internal contradictions in that historic bloc have still not been reconciled – and that for a new, stable, hegemonic historic bloc/social consensus to be formed 'an appropriate political initiative is ... necessary' to 'change direction' of forces that need to be absorbed.⁴²

The empire of global capital spreads through transforming societies and their institutions by passive revolution and *trasformismo*, where the ruling bloc are often willing and responsible implementers and beneficiaries of marketisation reforms. Market fetishisation, that is, treating marketisation as the only viable reform option, is the myth on which the neoliberal comprehensive concept of control⁴³ rests. The latter is an ideological foundation that underpins the preferred dominant mode of accumulation in global economy as a temporary compromise between class fractions linked to different circuit of capital – commodity, productive and money,⁴⁴ – which under neoliberalism are more often interconnected via ubiquitous financialisation. In other words, a concept of control is a combination of an 'accumulation strategy' with a 'hegemonic project'.⁴⁵ Crystallised in economic models, the concept of control then is channelled indirectly via international institutions (International Monetary Fund [IMF], European Bank for Reconstruction and Development [EBRD], World Trade Organization [WTO],

the EU/EC and alike) and directly, via interest and lobby groups, of which in Ukraine, there are four: – American Chamber of Commerce (ACC), Centre for US–Ukraine Relations (CUSUR), US–Ukraine Business Council (USUBC) and European Business Association (EBA). I discuss them all in detail later in the book. The concepts of control are articulated in reform prescriptions to ‘transition economies’/Ukraine, among others via structural adjustment loans (SALs), where the myths of growth through neoliberal marketisation aim to secure consent to the reform implementation at any cost.

The demise of the USSR was a unique historic opportunity for transnationalising capital and the capitalist system as a whole. While Western political leaders celebrated the ‘end of history’, business lobbies celebrated the discovery of ‘a new South-East Asia on [the EU’s] doorstep’ (a quote from the former Secretary-General of the European Round Table of Industrialists [ERT], Keith Richardson in an interview with the CEO).⁴⁶ In the post-Soviet republics, people were also excited about the new ‘market opportunities’. They were the liberal intelligentsia, fractions of the nomenklatura who sought personal enrichment and the shadow economic element who now could operate legally, if they chose to do so. The latter two formed the criminal–political nexus⁴⁷ that would become the backbone of the regime of neoliberal kleptocracy by exploiting the accumulation mechanisms already present in the capitalist system rushed on them by international financial institutions (IFIs). Transnationalisation of Ukraine’s state was also part of the welcome package. Where old economic ties were being broken, new were being forged by old directors/new owners of privatising SOEs, paving the way for the oligarchic conglomerates of today. Rivalries between Western, Eastern and domestic forces in the process of capital accumulation and its geopolitical expressions will shape the future of Ukraine and the rest of the post-Soviet states for the years to come. Some got rich by dispossessing others while leading them into a desperate head-to-head clash over the few remaining and mostly non-material treasures: language, ethnicity, religion, and memory. Even with the breakout of the armed conflict, the oligarchs have remained in power while the dispossessed masses earned the privilege of shooting each other near border trenches of the country’s industrial east.

The economic results of Ukraine’s marketisation are also shocking. By May 2015, Ukraine’s economy was one of the worst performing in

the world, with nominal year on year GDP in US dollars down by 28.1 per cent and per capita 23.9 per cent between 2013 and 2014; in UAH (Ukrainian Hryvnia – the currency of Ukraine), the respective indices are up by 7.7 per cent and 13.9 per cent. In addition, Ukraine's economy is heavily dollarised, while being burdened with US\$58.1 billion of debt at US\$130.9 billion nominal GDP, with the US dollar exchange rate going up from 8 UAH on 1 January 2014 to some 21 UAH on 1 May 2015. Such abysmal performance can only partly be blamed on the 'anti-terrorist operation', the annexation of the Crimea and the loss of revenue from industries based in the territories controlled by separatists. It is rather a testimony of the expansion of transnational capitalist imperialism to which Ukraine is merely one of the many, compliant victims. It is a result of socially destabilising, economically expropriatory and rigged reform instrumentally adapted from ill-conceived transition modelling heavily prescribed to the country by the IMF, the World Bank and EBRD – the harbingers of now authoritarian neoliberalism. The *modus operandi* and survival of the latter are also based on the myth of the necessity of an ever-expanding market run by private capital as a solution to all social, economic and political problems; and thus, the myth of the need to transition to market is its direct extension.

In Ukraine itself, I identify four main myths that underlie its post-Soviet reality and sustain the shaky consent for the regime of neoliberal kleptocracy, allowing it to remain dominant and survive: (1) the myth of transition, (2) the myth of democracy, (3) the myth of two Ukraines, and (4) the myth of 'the Other'. Each of the four is complementary to the rest and is amorphous, that is, their definitions and perceptions are not clearly demarcated and have proven to change over time via situational instrumental adaptations by the ruling bloc and power shifts within it. It is important to stress here that despite the Orange Revolution and the insurrection of 2013–2014, the regime was not challenged – only some of its agents were dislodged and thus we do not talk of the dominance of concrete agents of the ruling class/bloc but of the materialisations of the class-for-itself, the Modern Prince,⁴⁸ the abstract party of the dominant regime. The reshuffling of concrete agents then becomes less important, even though still relevant. The resilience and reification of the four myths lies in their designed and contingent, while mutually reinforcing, nature. The myths together are the pillars on which the comprehensive concept of control of ongoing neoliberal financialisation rests.