

The EU, Russia, the War in Ukraine and the New Realities of Political Risk Management in the post-Soviet space

Findings from EUCON Field Research

The EU and the Eurasian Economic Union: Competition, Conflict and International Business

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Ukraine, Russia and the EU

Characteristics of Ukraine

- Massive transformation problems
- Hybrid regime / Oligarchy
- GDP per capita, measured by purchasing power parity: 720,000. US dollars (103rd place worldwide)
- HDI: 0.73 (76th place)
- Economic devastation by war
- EU candidate status
- Pro Western government (NATO, EU) vs. Russian claims (Near Abroad, Russkij Mir)



Source: Aljazeera, 15 August 2022

Political Risk

- **Political Risk:**
- “Any occurrence in the international business context where public actions or non-state actors that are active in the host country of the international activities interfere with private international businesses and adversely impact the performance of the international operation.” (Leitner 2017: 29)

Political Risk Factors

Geopolitical Risk Factors (MIGA 2015)

Macropolitical Risk Factors (Robock, 1971; Alon & Martin, 1998)

Internal (de la Torre et al 1988)

State Capture:

Systemic Corruption
(Meissner 2017)

Systemic Favouritism
(Meissner 2017)

Institutional Ambiguity
(Meissner 2017)

External (de la Torre et al 1988)

**Regional, Bilateral
Conflicts and Diplomatic
Ties** (Alon & Martin 1998)

**Host country's attitude
towards international
companies** (Kobrin 1980)

Micropolitical Risk Factors (Robock 1971, Alon & Martin 1998)

Political Risks in Ukraine

- Soviet Legacy: Systemic corruption, weak separation of power, dominant bureaucracy, corrupt and non-democratic elites
- State capture/oligarchy: Institutional ambiguity, clientelism and corruption, low guarantee of property rights, dysfunctional judiciary
- Political instability internal and external (Russia)
- obstacle to domestic and foreign businesses and economic growth

EUCON Field Research Kiev, October 2021

Research Questions

- In what ways are companies confronted with political risks related to competition and conflict in the course of EU-EEU relations?
- How do they perceive the conflict in general?
- How do they manage the risks? How do they evaluate the potential for cooperation?
- Additionally, we were interested in the managers' perceptions of the root causes of the conflict between Russia and the EU as well as their ideas on future cooperation and convergence between EU and the EEU.

Methodology

- qualitative-interpretive research methodology
- 10 qualitative interviews in Kiev.
- All interview were done anonymously in Kiev in October 2022.
- (1) the manager of a consulting group, (2) the manager of an insurance company, (3) the country representative of an international business association, (4) the manager of a US multinational company, (5) the manager of an Austrian based industry company, (6) the manager of an Austrian agricultural company, (7) the manager of a technology company, (8) the manager of a high-tech company, (9) the executive from a consumer electronics company, (10) the manager of a water-technology company.

Findings

Political Risk Categories

Geopolitical Risks

- Global political constellation

Internal Political Risks

- Political Instability
- Corrupt practices

External Political Risks

- War
- Bilateral conflicts

Reputation Risks

- Media coverage
- Pressure groups

Geopolitical Risks

This narrative had also been reiterated by the manager of a consulting group which is active in the entire region.

Ukraine improved a lot when it comes to corruption, the state bureaucracy works more efficiently, internal political risks are decreasing.

The IT industry is booming, salaries rise and international investments into the sector are booming.

A similar scenario was mentioned from the manager of an international insurance company who said that despite current circumstances their business in Ukraine is developing very favorable.

- Biggest threat is a rising aggression of Russia. Russia, so the explanation, is extremely afraid of a successful Ukraine because it will lead Putin into the trap of needing to explain why “people do live wealthier in democracies than under his rule”

Internal Political Risks

*In contrast to prior research we conducted in Ukraine, the reference to **internal political risks** was hardly constructed this time. Even in 2016, only two years after the annexation of Crimea and the ongoing conflict in Eastern Ukraine, managers mostly mentioned the internal political risks as more prominent and a higher obstacle to business than external political risks, i.e. the war in Eastern Ukraine*

The manager of a US multinational company with factories in Western Ukraine stressed that Ukraine is a promising business hub with high potential, but that they are preparing themselves for scenarios which involve also a war between Russia and Ukraine.

The highest priority in such a situation would be to protect their employees, but also to enable production as long as possible. Additionally, logistics would likely suffer and the supply of raw material as well as the transport of the final product out of Ukraine needs to be secured. This same manager also said that “the Ukrainian workforce is highly committed” to continue production under any circumstances.

- **External political risks** seem to be much more important than internal political risks.

External Political Risks

*There are managers of international companies active in Ukraine, but also Russia, who highlight the increasing difficulties of their business. The manager of an Austrian based industry company said that “despite the deteriorating diplomatic relations with Russia we make very profitable business in Russia” and added that the biggest two risks would be **sanctions and reputation risks**.*

*A similar argument was brought forward by a representative from another Austrian company in the agricultural industry. They just recently closed a huge investment in Russia together with a US joint venture partner, therefore they are extremely exposed to **sanctions risks**.*

- **External political risks** are shaping managers' decisions in Ukraine.

Reputation Risks

*The manager of a technology company in Ukraine reported they are very nervous because of the increasing negative dynamic between Russia and Ukraine but also Europe/NATO/USA because of **reputation risks**.*

- **Reputation risks** are rated highest in relation to doing business in/with Russia.

Outlook

Outlook

- Russia's attack against Ukraine as a turning point in the history of Ukraine and international relations
 - Dramatic economic downturn: estimation: GDP 2022: -45% (industry in the east and south most affected, followed by agriculture and service sector)
 - Goal of Russia: Ukraine into own sphere of influence or destruction

Likely Scenarios	Consequence Short/Mid-Term	Long-Term
Long war with Russia	Downturn of Ukrainian economy will continue; braindrain	No prospect of recovery;
Russian victory	Economic reorientation of Ukraine towards Russia; end of reforms, braindrain	Ukrainian economy will stay weak
Ceasefire / subversive destruction strategy by Russia	High political risks: low/no FDI/local investments, brain drain, despite of economic stabilisation efforts by the West	Ukrainian economy will only partially/regionally recover

- Thank You!