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Ukraine: The Country that Cannot Be Won, but Must Not Be Lost

Since late 2013/early 2014, a highly visible conflict has been going on in Ukraine. It started as a domestic dispute concerning the long-term politico-economic orientation of the country, namely whether Ukraine should turn to the West or to the East, should align its policy with Moscow or with Brussels and Washington. This was not the first time that Ukraine had faced this choice. Under different conditions, the same question had emerged a decade earlier when the Orange Revolution made it possible for the will of the Ukrainian people to be expressed and reflected in the result of a presidential election. Then, however, it was not as clear as it is nowadays that the choice was between two models. Russia had not yet used force to curtail the sovereignty of former Soviet republics, had not yet created “independent” states from de facto states, and had not yet annexed territory to the Russian Federation that legally belonged to another sovereign state. It had stopped short of those extreme ways of curtailing the territorial integrity of sovereign states in the former Soviet space and satisfied itself with curtailing their political independence.

Ukraine is the second most populous successor state of the Soviet Union and the third largest in terms of territory. It is adjacent to three former Soviet republics and four members of the European Union (EU) and NATO. Ukraine is not the only country in such a dual-periphery situation between East and West. Belarus and Moldova are in the same situation. Russia, Ukraine, and Belarus have one further shared feature: They are the three Slavonic successor states of the former Soviet Union. The three states of the Southern Caucasus, which belong to the EU’s Eastern Partnership, as do Ukraine, Belarus, and Moldova, are further from the new East-West divide and belong to a different cultural and linguistic sphere. They are not adjacent to the EU and only two of them, Azerbaijan and Georgia, are neighbours of the Russian Federation. Armenia is neither a neighbour of the EU nor of Russia. All three Southern Caucasian states are neighbours of NATO member Turkey (Azerbaijan via its exclave of Nakhchivan). Ukraine is the largest and most populous of the Eastern Partnership countries. With a land area of more than 600,000 square kilometres, a population of 44 million (counting Crimea in both cases), it has to be considered a mid-sized European power, even if it lacks some other attributes of powerful states. The three Slavic republics also have a longer history of belonging together in one shape or form than in the case of Russia and any of the other former Soviet republics.

Soon it will be three centuries since Voltaire wrote the following in his book on the king of Sweden, Charles XII: “Ukrania has always aspired to

freedom; but being hedged in by Russia, the dominions of the Grand-Seignior, and Poland, it has been obliged to seek for a protector (who is, of course, a master) in one of those States.”¹ One would be tempted to ask what has changed beyond the name of the potential protectors since the early 18th century.

States that do not find themselves among the great powers of the world may choose different ways to provide for their security and international relations. They may seek the protection of a great power and, although they would pay “rent” in the form of reduced sovereignty, they would also enjoy benefits. They may also seek the protection of a group of countries constituting an alliance or some other form of integration. They may also decide not to align their policy with a dominant state and try to keep their international relations in ostensible balance. This is what neutral and non-aligned countries do, although states belonging to the latter category may combine the two, seeking integration in one area and not in others (see e.g. the non-aligned members of the EU, who occasionally also align their policy with NATO despite not being members). Some former Soviet Republics also chose to declare neutrality, thereby reassuring Moscow, while also attempting to retain some autonomy in their international affairs. Other newly independent states have achieved the same by means of a “multi-vectoral foreign policy”. Since the early 20th century, choosing which great power to align oneself with has also meant taking a decision about which socio-political and economic model to follow. There have been cases where states merely paid lip service to a model of this kind and attempted to pursue their own pathways nonetheless. It is sufficient to mention the hesitant, if not outright reluctant association of Turkey with democracy, Greece with responsible economic management, or Hungary and Poland with democratic values, to illustrate this point.

This paper will make an attempt to present the current situation of Ukraine four years since the beginning of the conflict, including current prospects and some of the potential long-term international repercussions.

Ukraine: Four Years After

After the departure of President Viktor Yanukovich from power, his office, and the country, the new authorities energetically started to implement major changes. Three elections were held: presidential in May 2014, legislative in October 2014, and local in October 2015. The three taken together resulted in new authorities with full formal legitimacy. Understandably, the new legitimate organs could not operate on the entire territory of Ukraine, as Crimea had been annexed by Russia in 2014, while the south-east of the country, the

1 Voltaire, *History of Charles XII, King of Sweden*, originally written in 1727-28, and published in 1731. English translation published in 1908, p. 156, at: https://archive.org/stream/voltareshistory00vultuoft/voltareshistory00vultuoft_djvu.txt.

Donetsk and Luhansk regions, is under the control of Ukrainian separatists backed by the Russian Federation. When the territorial integrity of a state is challenged, it should be the primary task of the authorities to seek its restoration. However, this was simply beyond reach in the case of Crimea, while, in the separatist areas of the Donbas, it was not possible to establish a constitutional order equally acceptable to various actors, including the states of Ukraine and Russia and the separatists.

Ever since I have been observing the development of independent Ukraine, I have had the impression of a country that is unable to deal with the many problems it faces. Ukraine has been unable to establish the necessary structures, generate lasting popular support for vital national projects, and demonstrate the necessary national unity. This was understandable in the first years following the gaining of independence, as the problems Ukraine faced were massive, overwhelming, and required urgent resolution. However, this can hardly remain true more than 26 years after independence. During the last quarter of a century, Kyiv has shifted patronage again and again in order to guarantee its economic survival. But this external dependence disguises a domestic situation that is one of state capture, where an oligarchic class lives in symbiosis with the political establishment, and there are significant overlaps between the two. This is the new Ukrainian normal. However, the conflict with Russia since 2014 may simplify Ukraine's options. Ukraine's population may not support a return to Russia's orbit, even if Moscow would certainly welcome such a development, and there are those within the political establishment who might support such a course, whether as a result of their convictions or because they believe they would benefit from Russia's concrete "support".

Although the conflict has overshadowed many other aspects of Ukraine's development since 2014, it is essential to take a brief look at some other changes that have taken place in the country to see whether the situation is sustainable in light of economic fundamentals and the state of society. If we accept that Ukraine's dependence on external actors and the volatility that this causes are due to long-term socio-economic mismanagement, then it is necessary to consider the possibility of economic transformation.

Before the conflict broke out, Ukraine had gone through a fairly sustained period of rapid economic growth, although this was partly due to various subsidies and the dominance of state-owned enterprises. Due to low productivity and energy efficiency, the success was also dependent upon external financing and preferential trade with the Russian Federation. As a result of those factors, Ukraine did not embark upon major economic modernization, but rather took advantage of the windfall and distributed it within the society and among members of the establishment. However, already by 2012-2013, the situation started to deteriorate. In 2013, Ukraine had a current account deficit of 9.2 per cent and a budget deficit of 6.7 per cent that could not be cut due to the distorted economic structure and low productivity. In this situation,

the readiness of Russia to provide a loan of 15 billion US dollars by buying Ukrainian state bonds in return for Kyiv's remaining aligned with Moscow rather than turning to the EU was key, and the first instalment of three billion dollars was transferred to the Ukrainian central bank. It is important to call attention to one similarity between Ukraine and Russia: Both states were facing obvious economic difficulties, including slowing GDP growth, before the outbreak of conflict between them and the introduction of sanctions and counter-sanctions between the West and Moscow. However, both states tend to attribute problems to the sanctions in a way that is not strictly supported by evidence in every case. This matters less than the false image it generates that economic and other problems can be attributed to external factors.

The political crisis in Ukraine, the annexation of Crimea, and the high-intensity military conflict in the south-east of Ukraine resulted in a massive decline in economic output and capital withdrawal in 2014. The central bank of Ukraine moved to a free-floating exchange-rate system, which resulted in the devaluation of the national currency, the hryvnia, several times. This raised Ukraine's export competitiveness and, thus, slowed down the further deterioration of trade balance. It has also made imports more expensive, which helped to reduce imports of consumer goods, although it has also resulted in shortages of products necessary for modernization of the economy. Furthermore, foreign currency reserves declined from 25 billion US dollars to just 15 billion, which was sufficient to finance only two months of imports.

These factors increased Ukraine's dependence upon its new partners: Western states, the EU, and international financial institutions. The International Monetary Fund (IMF) approved various credit arrangements in both 2014 and 2015.² However, Kyiv was not able to fully benefit from the IMF's readiness to provide assistance, as it did not meet some of the IMF's conditions, which ranged from the classic macro-economic (improving export competitiveness, reducing subsidies, introducing budget constraints, eliminating losses in the energy sector, and stabilizing the banking system) to some broader legal and social conditions (including strengthening the rule of law, the judiciary, and the tax authority; combating corruption and money laundering more effectively; reforming public procurement; and improving the business environment). Ukraine also had to reach agreement with the private owners of 19 billion US dollars of Ukraine's eurobonds in order to remain eligible for further IMF credits. A deal was reached in August 2015, when the creditors accepted a 20 per cent cut and rescheduling of repayment from 2015/2016 to 2019 and beyond. The IMF used a novel approach in this case,

2 Cf. International Monetary Fund, *Press Release: IMF Executive Board Approves 2-Year US\$17.01 Billion Stand-By Arrangement for Ukraine, US\$3.19 Billion for Immediate Disbursement*, Press Release No. 14/189, 30 April 2014, at: <http://www.imf.org/external/np/sec/pr/2014/pr14189.htm>; International Monetary Fund, *Press Release: IMF Executive Board Approves 4-Year US\$17.5 Billion Extended Fund Facility for Ukraine, US\$5 for Immediate Disbursement*, Press Release No. 15/107, 11 March 2015, at: <http://www.imf.org/external/np/sec/pr/2015/pr15107.htm>.

approving a multi-year stabilization loan of 40 billion US dollars, which included expected contributions from other donors, among them the World Bank, in addition to the IMF's own resources of USD 17.5 billion.³

Later, when Ukraine proved outright reluctant to address some of the matters listed above, including the institutions to fight corruption effectively, various options were considered, even the eventual termination of co-operation with the IMF. As noted by one expert, without IMF funds, the Ukrainian National Bank's reserves will be critically low and the budget deficit might not be covered. When the exchange rate reacts, and the hryvnia is devaluated, the cost of imports, including the cost of natural gas, will increase sharply. Moreover, Ukraine will have to keep paying its debts without a fresh injection of cash. Hence, Ukraine simply cannot afford to break with international financial institutions (IFIs) although it remains hesitant, if not outright reluctant, to meet all their expectations. Hence, the ambiguous relations between Ukraine and IFIs will continue, as the IMF is also aware, due to pressure from its key contributors that it cannot break from Kyiv.

During the toughest years for Ukraine, it was, as it always is, the people who had to bear most of the hardship.⁴ In 2014, Ukraine's GDP contracted by 6.6 per cent, shrinking by a further 9.8 per cent in 2015. The marketization of energy prices hit the poorest Ukrainians, including the many pensioners, the hardest.⁵ However, recent reforms, including a combination of domestic and international efforts, have been partly successful in alleviating the situation. The domestic reforms centred on austerity measures, but also built on the strengths that the Ukrainian economy had retained over the last few decades. These include Ukraine's national industrial capacity and the cheap and skilled labour force.⁶ Due to the recent steep reduction in Ukraine's trade with Russia, the EU has increased its share in Ukraine's foreign trade and, for three consecutive years, has been Ukraine's number one trading partner. For its part, Ukraine was the EU's 27th largest trading partner and the total value of trade both ways was close to 30 billion euros in 2016. Although the EU exports more to Ukraine than it imports, trade relations are not badly imbal-

3 Cf. Anders Aslund, *Things Are Looking Up for Ukraine: Debt Deal Reached*, Atlantic Council, 27 August 2015, at: <http://www.atlanticcouncil.org/blogs/ukrainealert/things-are-looking-up-for-ukraine-debt-deal-reached>.

4 Cf. International Monetary Fund, IMF News, IMF Country Focus, *Ukraine Receives IMF Support But Must Accelerate Reforms*, 4 April 2017, at: <https://www.imf.org/en/News/Articles/2017/04/03/na040417-ukraine-receives-imf-support-but-must-accelerate-reforms>.

5 Although average pensions are low in Ukraine (approximately 60 euros per month), the retirement age is also low (60 years for men and 58 for women in 2017) and there are several categories of employees that benefit from exceptionally early retirement (law enforcement agencies, military officers). This burdens the social system, a matter Ukraine is addressing as part of its economic reform agenda, with the pensionable age planned to rise to 62 for men and 60 for women by 2021. Still, as of 2017, twelve per cent of Ukraine's GDP was spent on pensions, and this is not sustainable, particularly given the rapid decline of the population.

6 For an overview of this, see: Tadeusz A. Olszański, *A Quarter-Century of Independent Ukraine*, OSW Studies Number 64, Warsaw, November 2017, pp. 117-119, at: https://www.osw.waw.pl/sites/default/files/prace_quarter_ukraine_net.pdf.

anced.⁷ The international support has entailed continuing forms of assistance and credit in various forms, including credit guarantees to make Ukraine a more favourable debtor, as well as the introduction of a broader array of measures, including the facilitation by the EU of an accord between Navtogaz and Gazprom on gas transit and Russian gas exports, and a deal on visa-free travel of Ukrainian citizens to the EU, reciprocating a similar visa waiver for EU citizens on Ukraine's part that has already been in place for several years.⁸ The most important arrangement, however, was the Deep and Comprehensive Free Trade Agreement (DCFTA), which entered into force in 2016 and means that virtually all trade between Ukraine and the EU is now duty free.⁹ By these means, Ukraine has become more closely linked than ever with the West, notably with the EU, which provides better prospects for the country's economic future.

The concrete macro-economic transformation can be regarded as largely successful, though incomplete. Ukraine's GDP had already started to grow during 2016, albeit slowly, and it is expected that this trend will continue, with accelerating growth rates in the years to come. However, there are factors in the broader socio-economic environment that may interfere with the process. The single most important problem is that Ukraine, under the current leadership, cannot wave goodbye to corruption. A very large part of the political establishment was socialized in a corrupt environment and has no reason to break with the tradition. The president once even said "that the high level of corruption in his country can be explained by Soviet mentality".¹⁰ It is tempting to ask in this context how come Georgia, another successor state of the Soviet Union, was ranked 133th on Transparency International's Corruption Perceptions Index in 2004 yet 46th in 2017. Ukraine, by contrast to Georgia, has largely maintained its position. In the last three years it was 142nd in 2014, 130th in 2015, 131st in 2016, and 130th in 2017.¹¹ With between 168 and 180 states on the list, this is far from reassuring and is one of the worst performances in Europe, ahead of only the worst-ranked European country in 2017, the Russian Federation. Politicians, investors, and experts have called attention to this on many occasions. The then US vice-president,

7 Cf. European Union, Directorate General for Trade, *European Union, Trade in Goods with Ukraine*, at: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113459.pdf.

8 The accord finally entered into force in June 2017 and was celebrated joyously in Ukraine, although it only established visa-free travel for stays up to 90 days in the Schengen area and only with biometric passports.

9 Under DCFTA rules, as of 1 January 2016, Ukraine abolished 99.1 per cent of customs duties on EU products, while the EU did the same with respect to 98.1 per cent of Ukrainian products.

10 Vesti.ru, *Poroshenko: korrupciya na Ukraine rodom iz sovetskogo proshlogo* [Poroshenko: corruption in Ukraine comes from the Soviet past], 28 July 2017, at: <http://www.vesti.ru/doc.html?id=2903981> (author's translation). The article reports on an interview given by President Poroshenko to the French newspaper *Le Figaro*.

11 Details of the most recent (2017) Corruption Perception Index are available at: https://www.transparency.org/news/feature/corruption_perceptions_index_2017; for results from previous years, see: <https://www.transparency.org/research/cpi/overview>.

Joseph Biden, used every opportunity to address it. When he addressed the Ukrainian parliament, the *Verkhovna Rada*, he elaborated on it extensively. Vice-President Biden pointed out that “you cannot name me a single democracy in the world where the cancer of corruption is prevalent. You cannot name me one. They are thoroughly inconsistent. And it’s not enough to set up a new anti-corruption bureau and establish a special prosecutor fighting corruption.”¹² As usual, the US has “put its money where its mouth is” and has allocated some 190 million dollars to help fight the corruption Biden was discussing. When the US vice-president returned to Kyiv on his last trip in January 2017, he elaborated on the same issue again. The matter has both an internal and an international aspect. In the long run, corruption creates distortions in the economy, services become over-priced while quality falls. The public authorities act for their own benefit, the legislative branch does not serve the public interest (MPs are either corrupt or can be corrupted), and the judiciary does not provide remedy but rather contributes to injustice in cases affected by corruption. Beyond the domestic repercussions, it weakens a state’s international resilience. This is particularly dangerous in a situation when the main foreign rival is deeply familiar with the Ukraine, well connected with members of the establishment, and not hesitant to use various methods to increase its influence in Ukrainian politics, having demonstrated its routine reliance on corrupt means in several other interstate relations.

Corruption remains the single most controversial issue on the Ukrainian political agenda. Since spring 2014, various initiatives have been undertaken, ranging from the naive to the sophisticated. It started with the vague idea of then Prime Minister Arseniy Yatsenyuk to appoint a deputy minister in every ministry, specifically responsible for addressing corruption. A later measure made it mandatory for MPs to declare their wealth, which ended up providing some anecdotal evidence about the state of affairs in Ukrainian politics.¹³ More recently, controversy surrounded the National Anti-Corruption Bureau of Ukraine (NABU), the Specialized Anti-Corruption Prosecutor’s Office (SAPO), and the High Anti-Corruption Court (HACC). Such special institutions were found necessary by the world at large, including international institutions, as it was the general assumption that law enforcement agencies and the normal courts were intertwined with corruption and political dependencies. As NABU and SAPO started to attempt to clean up the law enforcement agencies and the judiciary, the latter sought top-level political support

12 The White House, Office of the Vice President, *Remarks by Vice President Joe Biden to The Ukrainian Rada*, The Rada, Kyiv, Ukraine, 9 December 2015, at: <https://obamawhitehouse.archives.gov/the-press-office/2015/12/09/remarks-vice-president-joe-biden-ukrainian-rada>.

13 Ukrainian society was shocked when, in October 2016, MPs declared large stocks of cash, real estate, fleets of luxury cars, Swiss watches, and fur coats, while the average salary in the country was around 200 US dollars per month. Cf. Alessandra Prentice, *Ukrainians shocked as politicians declare vast wealth*, Reuters, 31 October 2016, at: <https://www.reuters.com/article/us-ukraine-crisis-corruption/ukrainians-shocked-as-politicians-declare-vast-wealth-idUSKBN12V1EN>.

to abolish the anti-corruption institutions, regardless of the fact that, in the longer run, this unresolved issue may well damage Ukraine's efforts to gain greater international support and, ultimately, to become part of the Western community. The IMF closely monitored the process and called the Ukrainian authorities' attention to the position elaborated by the Venice Commission and to the dangers entailed in delaying the start of work of the Court. This was a reflection of the fact that the independence of the judiciary and other law enforcement agencies remained highly questionable. The European Commission expressed its doubts concerning the bill as well. The IMF's two most important financial contributors were, thus, on the same side.

State of the Conflicts on Ukraine's Territory

The Minsk II agreement of February 2015 created the foundation for the devolution of power in the areas where the so-called Donetsk and Lugansk People's Republics claim authority. The draft law, based on Minsk II, states that "specific arrangements for self-government in some parts of Donetsk and Luhansk oblast's [sic!] shall be set forth in a separate law".¹⁴ Many believed this rule had been imposed on Ukraine from outside and, thus, it was found objectionable by certain "patriotic" forces in the country. Other forces, including Russia-backed separatists were also dissatisfied with the legislation, as it clearly stated that the elections for local governments must be held according to the constitution of Ukraine and with international monitoring, including by the OSCE and the Council of Europe.¹⁵ This also presents a problem for Ukraine, as the law states that elections can only be held when there is sufficient security in the area. Although the security situation has improved in the Donetsk and Luhansk area and the conflict has moved from high to low intensity since the signing of the Minsk II accord, the situation is far from settled and hence elections cannot be held. Who should provide security is also an open question. Kyiv, which is the official sovereign power in Donetsk and Luhansk, the separatists who control the territory, or the Russian Federation, which backs the latter with a wide range of support, includ-

14 Law of Ukraine on amending the Constitution of Ukraine (as to decentralization of power), Draft Introduced by the President of Ukraine, in: European Commission for Democracy through Law, Draft Law on Amending the Constitution of Ukraine as to Decentralization of Power, Introduced by the President of Ukraine to the Verkhovna Rada on 1 July 2015, Strasbourg, 7 July 2015, Opinion No. 803/2015, CDL-REF(2015)022, pp. 2-8. Her: p. 8. at: [http://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-REF\(2015\)022-e](http://www.venice.coe.int/webforms/documents/default.aspx?pdffile=CDL-REF(2015)022-e).

15 Cf. Zakon Ukraïini, *Pro osoblivij porjadok misceвого samovrjaduvannja v okremich rajonach Doneckoji ta Luganskoji oblastej (Vidomosti Verhovnoji Radi (VVR))* [Law of Ukraine On the Special Procedure of Local Self-Government in Some Districts of Donetsk and Lugansk Oblasts (Bulletin of the Verkhovna Rada (VVR)], 2014, No. 45, item 2043), article 10, para 4, at: <http://zakon3.rada.gov.ua/laws/show/1680-18>.

ing denied¹⁶ military assistance? The situation is perfectly suited for a “blame game”.

A further problem is presented by the fact that times are becoming less favourable for such a highly controversial decision as the devolution of power to the territories that Kyiv does not de facto control. Elections will be held in Ukraine in 2019 (and not earlier), as President Poroshenko announced.¹⁷ Radical Ukrainian forces are highly unlikely to accept any concessions, arguing that the government is “selling out” the country. For the shrinking power bloc in Kyiv that continues to be dependent upon Russia, both of these conditions present problems. A settlement of this kind may be unlikely for another reason: Would it be in Kyiv’s interest if the conflict in south-eastern Ukraine were to become “frozen”? What would Kyiv’s leverage be, if it were no longer at the centre of a geostrategic conflict?¹⁸

In spite of the importance of the conflict for Ukraine’s international visibility and the value it has in generating support and legitimacy for the government in fighting an external adversary, its resolute position has not always been supported by its partners. The Obama administration indicated occasionally that it would have been satisfied with breaking the deadlock on the devolution of power.¹⁹ It is not clear whether this was in order to achieve a more constructive relationship with Moscow, a partner whose co-operation was necessary in areas of great importance, ranging from local conflicts (Syria, Iran, North Korea) to nuclear weapons, space exploration, and combating terrorism. It could also have been more directly related to the conflicts in Ukraine, based on the hope that Russia would recognize that its support for the separatists in the Donbas could never achieve more than a stalemate and would, thus, seek a compromise that would weaken Kyiv’s political inde-

16 Military intelligence services have regularly taken photographs of armaments and equipment being handed over to the separatists at the Russian border close to the Donetsk-Luhansk area, and Russia has gradually weakened its denials of a Russian military presence. Moscow has shifted from the absurd claim that, if there were Russian military personnel in the Donbass, they were simply there on holiday to the recent statement of the Russian President who said in his annual press conference that “there is no Russian army on the territory of Donbass but there are certain militia formations that are self-sufficient and ready to repel any large-scale actions against Donbass.” President of Russia, *Vladimir Putin’s annual news conference*, 14 December 2017, at: <http://en.kremlin.ru/events/president/transcripts/56378>. It is not too difficult to regard those words as indirect recognition of a Russian military presence.

17 Cf. Interfax-Ukraine, Poroshenko says next election in Ukraine to be held in 2019, in: *Kyiv Post*, 30 June 2017, at: <https://www.kyivpost.com/ukraine-politics/poroshenko-says-next-election-ukraine-held-2019.html>.

18 Cf. Gábor Stier, *Ukrajna a háborúra alapozza legitimációját* [Ukraine bases its legitimacy on war], in: *Magyar Nemzet*, 30 December 2017, at: <https://mno.hu/moszkvater/ukrajna-a-haborura-alapozza-legitimaciojat-2436837>.

19 Memorably, then US Vice-President Joseph Biden, after extensively addressing Russian “actions” in the Donbas in his address to the Verkhovna Rada, said the following: “Constitutional reform that includes judicial reform and decentralization does not compromise your sovereignty.” *Remarks by Vice President Joe Biden to The Ukrainian Rada*, cited above (Note 12).

pendence without endangering its territorial integrity.²⁰ It is also possible that Washington persuaded Kyiv to take a more conciliatory stance to eliminate Russia's ability to claim that it is not contributing to conflict settlement due to Ukraine's rigidity. With this, responsibility for the stalemate would move to Russia. Nonetheless, in spite of all efforts, Ukraine has not yet passed the legislation necessary for the devolution of power in Donbas and the holding of elections.

For Russia, the Ukraine conflict also provides domestic legitimacy. The Russian leadership has used the conflict to gain popular support. Moscow does its best to hide the costs – both financial and human – of its activity in Ukraine. This demonstrates that the Russian leadership is aware that popular support is not unconditional and guaranteed forever.²¹ Whether gaining domestic legitimacy or achieving the international status it aspires to is more important for Russia is an open question. What is certain is that Russia wishes to continue to generate the impression that it will protect ethnic Russians in other countries. Either way, Russia may also be reluctant to seek to resolve the crisis in the Donetsk and Luhansk areas. This is complemented by the fact that Moscow may not be interested in contributing to any impression that the leadership in Kyiv has achieved a breakthrough. In sum, neither Ukraine nor Russia is interested in the resolution of the conflict in the Donetsk and Luhansk areas in the foreseeable future.²² Even in the long run, conflict settlement could take place only under conditions that are largely unacceptable to the other state party.

The conflict over Crimea is frozen without resolution, as both Ukraine, which lost this territory, and a good portion of the wider world are of the view that the annexation of the territory was unacceptable and should be reversed. The Russian Federation claims to represent a principled position: The territory changed hands, a referendum was held, the upper house of the Russian Duma approved it, and the matter is, thereby, closed. Vladimir Putin has reiterated this view several times in front of both international and domestic audiences, most often using language that makes clear Moscow's determination on the matter: "As for Crimea, we believe the issue has been closed for good. This is a historical decision of the people living in Crimea, and Russia

20 There were passing references to this option also in the Ukrainian press contrasting Crimea with Donbas emphasizing the importance of the former as a showcase for Russia while the Donetsk-Luhansk area is not and consequently Russia gradually reduces the resources allocated to the latter and also its commitment. Cf. Alya Shandra, *Russia set to cut funding of proxy „republics” in Donbas in favor of Crimea – media*, Euromaidan Press, 25 September 2017, at: <http://euromaidanpress.com/2017/09/25/russia-mulls-cutting-funds-for-proxy-republics-in-donbas-in-favor-of-crimea>. It is difficult to see conclusive evidence supporting this view.

21 This is demonstrated by the effort the Russian authorities have made to avoid holding funerals for Russian soldiers killed during combat in the Donetsk-Luhansk area and paying (extra) compensation for families in return for their not speaking up about this.

22 The interests of the external actors will be briefly presented in the section on "International Repercussions" below.

will never discuss the issue with anyone.”²³ For a domestic audience, the Crimea matter was de-emphasized so as to make it clear there was no pending issue there: “The people of Crimea made their own decision, I am sure we will get over this. Some people believe that it is better for Ukraine to develop as an independent state. So be it. If people believe so, this should be done and supported. It is absolutely pointless and counterproductive to try and suppress this opinion.”²⁴ This statement is a demonstration of the Russian president’s mental difficulty with accepting Ukraine’s independent statehood 26 years after the end of the Soviet Union. Projecting this view may resonate well with some strata of the population. However, it gives backwind to those who can imagine there was a reversal of history.

It remains to be seen whether Russia’s clear determination to decouple the conflicts related to Crimea and in the Donetsk-Luhansk area will be successful. The Russian Federation has created a situation where the settling of the situation in the Donetsk-Luhansk area may be so welcome to some in the world that they would be tempted to live with the transfer of Crimea. Whether the situation will mature in a way that will test this assumption remains to be seen. However, a formal tit-for-tat is out of question, as that would give recognition to a territorial gain resulting from aggression. We can assume that the Russian sovereign control over Crimea will remain a source of sanctions and contribute to the periodic deterioration of relations. Furthermore, the sanctions for the occupation and annexation of Crimea are separate from the ones imposed due to Russian meddling in Donetsk and Luhansk, which makes it possible to lift some and apply other EU and US sanctions.

Understandably, decoupling the two sets of sanctions would be unacceptable both for Ukraine and internationally. Russia committed a sudden and gross violation of international law with the annexation of Crimea and the fact that it had some reasons for it (first and foremost the danger that the new Ukrainian government, under external influence, would have eventually terminated the stationing of the Black Sea Fleet in Crimea)²⁵ did not make the occupation “less illegal or more legal” and more acceptable. Ukraine, shrewdly and in order to avoid providing Moscow with a good excuse to occupy Crimea, did not put this matter high on the agenda when the temporary authorities were formed in Kyiv after the departure of President Yanukovich from the country. It merely opened “consultations” with Russia on the status of the Russian Black Sea fleet. However, concerning the likely outcome, the writing was on the wall.

23 President of Russia, *Joint press conference with Prime Minister of Greece Alexis Tsipras*, 27 May 2016, at: <http://en.kremlin.ru/events/president/news/52024>.

24 President of Russia, *Vladimir Putin’s annual news conference*, cited above (Note 16).

25 Understandably, this matter was never high on the agenda of the Western media. Furthermore, the new Ukrainian leadership was quite careful in managing it. Rather than starting with highly visible, symbolic, and abrupt measures, it initiated consultations with the Russian Federation on the Black Sea fleet not long before it lost the territory, which rendered the discussions superfluous.

Although casualty levels have declined since Minsk II was signed (according to the UN “only” 98 people died in Donbas between January and November 2017), the overall human loss of more than ten thousand people is staggering. The Russian Federation won Crimea, but lost a lot in this conflict. It has lost, first of all, the sympathy of the Ukrainian people and consolidated Western support for Kyiv. Furthermore, it contributed to forging a Western unity that it wanted to undermine by driving wedges and creating divisions. The fact that the West faces many other, often lasting and severe, problems does not make Moscow a winner. With the conflict in Ukraine, Russia demonstrated that it is ready to embark upon risky endeavours to make the point that it is a great power whose views cannot be ignored. It has also achieved a lot in terms of indoctrinating the country’s population about Russia’s international standing. However, great power status will not help compensate for various other weaknesses of Russia in the long run. It is only a matter of time until the population also draws this conclusion and reacts accordingly.

The fact that Russia has lost a lot in the Ukraine conflict does not make Kyiv the winner. Irrespective of official statements to the contrary, Ukraine has irrevocably lost a part of its territory. It is largely impossible to imagine a scenario under which Crimea would return to Ukrainian rule. The Ukrainian attitude to the part of the Donbas controlled by the separatists is inconclusive. There are forces that would like to win the hearts and minds of the people in those areas to regain them for Ukraine. They base their position on the fact that not every Donbas inhabitant supports the separatist forces – which is a solid view grounded in fact. However, there are others that would abandon that part of Ukraine, interpreting the situation as simply part of a territorial contest with Russia that they have lost. Such views, which would suggest that Ukraine does not care about the people over there, are to the detriment of Ukraine. Meanwhile, Russia has begun creating close links with the Donbas to connect the Donetsk and Luhansk area with “mother Russia”. A series of measures were taken during 2017, including the introduction of the Russian ruble as the official currency, the recognition of various documents issued by the Donetsk and Luhansk authorities, such as birth and wedding certificates and diplomas, and the lowering of the transit fees for coal and steel exported to Russia. Those two tendencies taken together have resulted in a greater-than-necessary loss for Ukraine.

International Repercussions

With four EU and NATO members and three former Soviet Republics in its neighbourhood, Ukraine is a country in a dual periphery position. The country thus finds itself within the sphere of influence of two powerful neighbours. The Russian Federation is of the view that the former Soviet space is its privileged sphere of influence. The European Union regards Ukraine as

part of a “shared neighbourhood”, together with other states of the Eastern Partnership. However, it faces difficulties in demonstrating that this neighbourhood should properly be considered as “shared”.

Russia’s position is clear. Moscow has made statements that indicate that it would like to have an “exclusive” sphere without rivals. It has drawn “red lines” around the area of the former Soviet Union and has punished actors that sought to cross them. Georgia, for instance, lost 20 per cent of its territory in this process following a war that it mistakenly launched following massive and serial provocations by Russia. Ukraine also faced consequences when it sought to leave Russia’s orbit. Russia interfered in its domestic affairs, including the 2004 elections, when President Putin directly advocated one candidate and participated in his election rallies. Although later Russian “involvement” became less direct, the use of Ukraine’s external dependence continued.

The EU’s relations with its Eastern neighbours are different, as the means it can apply to anchor partners in its orbit are less direct and rely on a different set of sources of influence. It relies more on its attractions, first and foremost its rich economic resources and its declared values, including democracy and human rights. Tools of direct coercion, so important in Russia’s arsenal, are largely absent.

Both powerful entities have taken steps that would raise doubts about the credibility of their readiness to “share” the neighbourhood. Again, Russia’s attempt to gain influence is clearer, as it has relied more openly on measures of coercion. The EU less so, although the same cannot be said about the West more broadly, which tends to apply camouflaged methods of coercion in crucial moments. The reluctance to share gained a new dimension with efforts on both sides to claim a monopoly over Ukraine’s future by consolidating their economic influence via the founding of the Eurasian (Economic) Union (EAEU) by Russia and the offering of DCFTA to Georgia, Moldova, and Ukraine by the EU. It is the widespread and well-founded view that both arrangements constrain the economic sovereignty of states that join them.

If we take a look at the states in this *shared* or, more realistically, *contested* neighbourhood, it is clear why Ukraine has a special role in it. Ukraine is the largest of the six states that belong to this group; it is associated with the history of the Russian empire as “the cradle of Russian civilization”, due to the Kievan Rus, and it is one of the relatively few successor states of the former Soviet Union to produce high value-added industrial products. Ukraine’s geostrategic significance is also based on its location as a connecting element and buffer zone between Russia and East-Central Europe, including Moldova and Transdnistria. It is clear that Moscow would like to avoid Ukraine becoming a Western bridgehead that would diminish the Russian Federation’s “exclusive” sphere of influence.

However, the four years that have passed since Yanukovich's fall in 2014 have only brought partial clarity as far as Kyiv's current and future orientation is concerned. The Ukraine crisis has become a protracted conflict and thus an important factor in the deeply damaged relations between Russia and the West. The last four years for Ukraine's international relations have demonstrated the following:

- The reorientation of Ukraine is real and ongoing. The Russian Federation has lost Ukraine, as a large majority in the country now regard Russia as an aggressor, with good reason. The fact that a large part of Ukraine's population is not satisfied with its own government and the country's situation does not make Russia a more attractive partner. Whether the leaders of the Russian state will find the strength to take a fresh look to the situation or will try to pursue the partially failed policy further is an open question.
- The vague formulations that encourage the Russian leadership to draw the conclusion that the "main lesson in Ukraine for Russia [...] is *the need to attentively observe, deeply analyze and try and understand Ukraine* which [...] will be an important neighbor for Russia"²⁶ is not going to be sufficient to open a new chapter in Russian-Ukrainian relations. Furthermore, it does not seem that the Russian establishment has already reached a point where it is fundamentally reconsidering the foundations of its Ukraine policy. And even if it were to reconsider, under the current conditions it would be extremely difficult to find partners in Kyiv.
- With Ukraine's lasting distancing and alienation, Russia has gained an opportunity to form its own national civic identity that identifies it with the people that live on the territory of Russia. This could help to bring about a new phase in the development of the former Soviet Union area as a whole. However, such a major change is unlikely if we extrapolate from the trends in Russian politics over the last 20 years or so.
- Ukraine has largely reorientated its international relations and is focusing its attention on the West. 1. Compared to the years following the Orange Revolution, Kyiv's current pro-Western orientation is significantly stronger and longer lasting. There are two reasons for this: Russia has occupied a part of Ukraine's territory and backs the separatists in the south-east of the country. Instead of giving "verbal reassurances" to pro-Russian forces as Russia did in 2004, including to presidential candidate, Viktor Yanukovich, a decade later, Russia appeared as an imperialist power that claimed and occupied a part of Ukraine's territory. This has pushed Kyiv towards the West. 2. The political shift is more

26 Dmitry Trenin, To Understand Ukraine, in: *Russia in Global Affairs* 4/2017 (emphasis in the original), at: <http://eng.globalaffairs.ru/print/number/To-Understand-Ukraine-19268>.

- organic than it was in the past and is underlined by an economic re-orientation that provides prospects for Ukraine.
- Russia will continue to make attempts to influence Ukrainian politics via proxies in the establishment, corruption, and the remnants of its economic leverage. It is uncertain whether it will find the adequate means in the delicate situation that it has largely created.
 - The Western commitment to backing Ukraine is long-lived, but it usually takes into consideration the international realities. It is establishing organic links with Kyiv, yet avoiding symbolic gestures that Russia could regard as provocative. Offering the prospect of EU and/or NATO membership to Kyiv would be the ultimate provocation.²⁷ Moreover, as things stand, Ukraine is currently not an attractive candidate for either organization. It is, therefore, not realistic to assume that Ukraine will become a member of either the EU or NATO. Kyiv will have to live with this ambiguity for a long time to come. The EU appears extremely cautious in its policy towards Ukraine, at least in comparison to the US, which is more willing to test Moscow's limits. This was adequately demonstrated when, after long hesitation, the Trump administration agreed to sell lethal, though defensive weapons to Ukraine in late 2017.
 - The deep divide between Moscow and Kyiv also means that other states on the territory of the former Soviet Union will have to reconsider their positions, options, and policies. It is apparent that some states, above all Belarus and Kazakhstan and, to some extent, also Armenia have understood this. The former two have put themselves on the map as parties in various conflict mitigation and mediation efforts that matter to Russia. Armenia, a state that is fully dependent upon Moscow, is developing a pro-Western vector, albeit one that remains extremely weak. These are just some of the spillover effects of the conflict between Ukraine and Russia.

Conclusions

A lasting interstate conflict is always a negative sum game. People lose their lives, livelihoods, wealth, development potential, and years of GDP. However, history is not a neat process, and epochal changes always have a price tag.

The current conflict centring around Ukraine is a high intensity phase of a nation choosing its future. This is a fundamental choice between socio-economic systems that offer very different values and prospects for the country and its people. As a country, Ukraine did not prove its strengths during its

27 Cf. Poroshenko: Ukraina budet v NATO i ES [Poroshenko: Ukraine will be in NATO and the EU], in: *Kapital*, 10 June 2017, at: <http://www.capital.ua/ru/news/93075-poroshenko-ukraina-budet-v-nato-i-ec>.

first quarter century of independence. Its poor performance, the dead weight of tradition, and various external push and pull effects have contributed to Ukraine's remaining an unsettled country. It failed to demonstrate a clear orientation or, rather, offered different orientations simultaneously, very much reflecting its dual periphery position and the different expectations of different parts of the population.

Ukraine's search for a post-Soviet identity may prompt political processes in which other states also have to make their choice. It is apparent that under such conditions it is the Russian Federation that will face the most challenging task – that of reducing its paternalism in the post-Soviet space. Although Moscow will ultimately be unable to avoid answering this challenge, it can postpone it for quite some time. Longing for stability for domestic reasons, Moscow may be tempted to continue its familiar course, even though this offers only a temporary remedy. This will perpetuate the conflict.

Ukraine also has very difficult choice for three reasons: 1. The conflict will continue for quite some time and will divert attention and resources away from other priorities that may matter more in the long run. 2. Although Ukraine has achieved a lot in recent years, it has not done all that it should have. It has an image problem as a country that goes wherever the prevailing wind blows it and cannot make up its mind. Apparently there are also major forces in Ukraine that either do not understand the importance of addressing corruption or assume that facing this challenge can be deferred. 3. Ukraine will have to live without EU and NATO membership for a long time to come. This does not mean that the country will not be supported in its current transition. It does, however, mean that it will be able to rely less on external support than it sometimes optimistically declares.

The Ukraine conflict has brought to the surface concerns that will result in further divisions in the area of the former Soviet Union and a barely visible formation of new groups of forces and realignment of loyalties. It appears that, for the Russian Federation, keeping the other former Soviet Republics in line and in its orbit, is both a challenge and a liability – as it used to be for the Soviet Union to keep some of the East-Central European countries in line between the 1950s and the 1980s.

Compared to these historical challenges, the task of settling the current conflict(s) is less important, although it attracts the most attention among political analysts. The Crimea conflict has been closed for discussion without resolution. Thus, it can now be used as a point of reference by Russia, Kyiv, and the West to maintain the tension between Russia and the West. The conflict in the Donetsk-Luhansk area will require flexibility from Ukraine if it has to accept that it is not going to regain full sovereign control over the south-east of the country. At the same time, Kyiv will be unwilling to entirely relinquish responsibility for the region, while Russia will use the ambiguous status of the Donbas areas to blame Kyiv for any problem occurring over there, thereby gaining influence in Ukrainian politics. Avoiding further

human suffering and economic losses is a challenge that can only be faced jointly, but the parties may not be ready to live up to this responsibility.