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Economic opportunities or integrational challenges

The case study of Ukraine

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challenges**
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PhD dissertation

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1 Introduction

The following dissertation discusses the Europeanization process of Ukraine and the challenges it will pose. Among the post-Soviet countries, Ukraine has rapidly ascended since the beginning of the 2000s. Despite notable changes during the last six years, it still needs to be apparent whether Ukraine has its place in European integration. However, it became a member of the Eastern Partnership, the European Union's official Eastern neighbourhood policy, fifteen years ago (in 2008). Since then, they have revealed several economic issues related to their relations with the EU. The country was also facing a frozen conflict on its territory in connection to its dominant security-related challenge in the background.

This enormous country with a massive population of forty million people has faced an identity-seeking issue that has spirally come up on different levels every decade since its independence. Each Ukrainian government attempted to build strong political institutions, overcome considerable corruption, put economic reforms into effect, and, last but not least, lower the broad influence of the ascendant oligarchs. The unchanged conditions already resulted in a situation by 2010 in which Ukraine's fifty wealthiest people controlled nearly half of the country's gross domestic product. Even nowadays, it is not difficult to identify an oligarch who controls a region's economic and political processes.

Nevertheless, significant changes occurred in Ukraine's territory during the previous decade. There were necessary internal and external alterations. The country has decided to bring its markets closer to the European Union and to start cooperating more deeply with western partners than with Russia. The country's leaders have chosen the path of Europeanization as a possible way for further development instead of staying in the interest zone of Russia in a dependent status. On the other hand, the European Union is also struggling with massive challenges regarding its structural changes and future concepts. What is essential from the Ukrainian perspective is that enlargement is off the table from the EU's perspective.

Notably, due to the Russian-Ukrainian war, the political climate has changed. More and more politicians are urging a fast-track membership for Ukraine. In parallel, the newly emerged Ukrainian elite would like to receive political and especially security-related guarantees from the side of the EU. Even so, they want to save as much of their independence as possible. Therefore, the present situation is becoming clearer from both sides: each party would like to maximise the benefits and minimise the drawbacks of their cooperation.

To increase the transactions and create a more interdependent situation, the framework of the Eastern Partnership is the most suitable form. Some scholars have already tested the theory of economic integration maturity in the CEE and Western Balkan countries. In contrast, researchers have yet to widely discuss the post-Soviet region from the perspective of the Europeanization process. The existing methodology of integration maturity is only partially appropriate in their case, so it must be tailored to their characteristics. The timeframe for the economic analysis should be from the mid-2000s until 2019. We are excluding the effects of COVID-19 because they can provide controversial results. This approach can identify the most problematic areas, as seen in the case of Ukraine, and helps to navigate through many political and economic crises during this period. The final results then will be compared to the results of Western Balkan countries as they are also preparing for EU membership. In addition, in case of the qualitative analysis the whole period of Zelensky's administration will be covered as well. This part of scientific work analyses Ukraine's economic status until 2022 and its further possibilities. It also aims to provide a macroeconomic analysis of the Ukrainian economy. The concept gives a more profound outlook on the country's economic readiness and defines the required level of cooperation with the European Union to optimise the advantages.

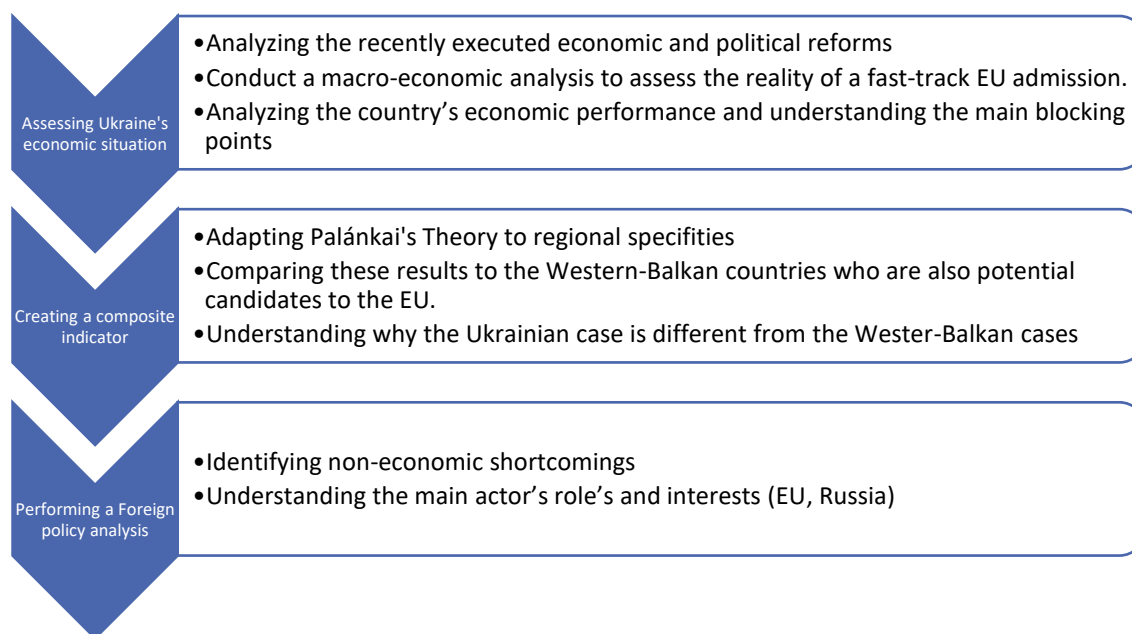
It is important to note that it will not contain a specific analysis based on the Copenhagen Criteria. Nevertheless, some aspects of institution quality and functioning market economy will be assessed through economic indicators such as transformation or competitiveness indices. On the one hand, assessors established them to evaluate the Central and Eastern European countries (post-Socialist countries and not post-Soviet ones). On the other hand, these criteria are already over 25 years old and must be updated. Instead, based on data analysis (using the databases of Eurostat, the World Bank, and the OECD) and document analysis, it can be examined how successfully a partner country could exploit the economic stimulating and spillover effects of bringing their markets closer to the European single market. With the assistance of economic integration maturity's methodology, it is possible to analyse their economic situation, identify the operative shortcomings, and provide a comprehensible answer as to whether the country shall receive a fast-track opportunity. It can present how an economy can exploit all the benefits of moving toward the single market while minimising the disadvantages of opening their markets to substantial foreign corporations.

The main idea for this research arose from the geopolitical challenge faced by these post-Soviet countries. The work argues that a security-related evaluation should be added alongside the economic readiness evaluation for the Eastern Partnership countries to understand their

assessment better. The geographic location of the region predetermines its strategic role in international relations. We must cover the topic by analysing the interests of the region's great powers (EU, Russia and partially US). Reviewing these dimensions would also be highly relevant from the EU's perspective. It would show the case's uniqueness, the alteration from other territories (like post-Socialist Central and Eastern Europe), and the area's characteristics. Mainly the EU's perspective will be assessed, as this research focuses on the economic integration of Ukraine. In parallel, the American interest is primarily military in Ukraine, which is not part of this analysis.

We are also going to present the external and internal challenges that are awaiting Ukraine. The possibility of disintegration is also a real threat and a valid option in the coming years. The economic and political reforms performed before the outbreak of the full-scale war will also be part of the analysis to understand the steps already taken in favor of closer ties with the EU. In parallel, there are also challenges in the cooperation with the European markets; therefore, all of these aspects will be listed and analysed.

Figure 1: Main goals of the paper



Source: based on the author's research

Why is this topic noteworthy, significant, and worth studying? The security challenges that Ukraine is facing are also identical to the whole integration process, as having peace in a neighbouring country is highly relevant for the EU. The influence and power of the US have been declining recently; in the meantime, Russia and China are rapidly growing. Lately, the economic pillar of European integration has also faced challenges. A strategic concept in the

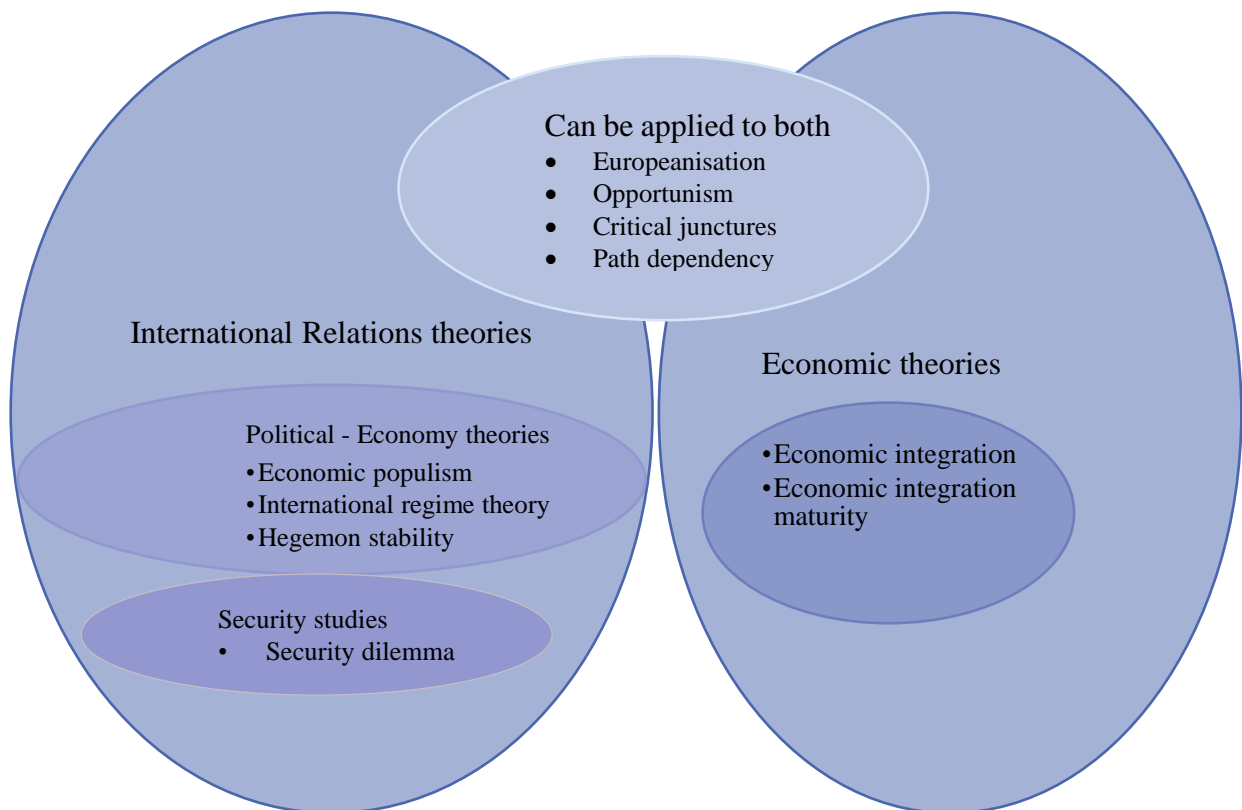
foreign policy-making of the EU needs to be worked out, which would be essential in the current circumstances. Based on the result of this work, a deeper understanding could be aligned for these aspects. Why Ukraine's case and development path is different, volatile, and unique? Why the level of oligarchy is so high? What lessons could be learned from the case of the post-Soviet bloc's transition process compared to other countries in the post-Socialist region? Would these aspects be another obstacle to the integration, or are the directions the same but the processes slower? If that is the case, what are the driving factors behind it?

In sum, as a result of this work, a final answer can be given regarding how European integration shall deal with the Ukrainian question. In 2022, candidate status has officially been provided to Ukraine, and many politicians are urging a fast-track membership. Despite the fact that war caused massive decrease in economic output, the country still has its huge potential and after the conflict it is likely that it will not return to the Russian interest zone; Ukraine's only option is the EU, but it requires preparation from both sides. Therefore, the research aims to provide a comprehensible answer for the above mentioned complex problems. As a result, the newly established methodological framework can also be used for other countries in the Eastern Partnership.

1.1 State of the field

Regarding the scholarly background of the paper's topic, the following concepts and theories can be listed: Europeanisation, opportunism, critical junctures, economic integration, economic integration maturity, path dependency, economic populism, international regime theory, hegemon stability, security dilemma. Even this list already represents how interdisciplinary this study will be. This section will summarise the relevant literature and present the relationship between these theories and the dissertation.

Figure 2.: Theoretical overview



Source: based on the author's research

First, economic cooperation is a form of international collaboration that aims to exchange industrial, financial, commercial, and technological resources that will result in economic development and gain for every participating actor (Snidal, 1991). Economic integrations are the means to reach these goals. These integrations always have a political aspect, as these forms of cooperation are mainly created for political reasons, but despite these motives, the economic outputs are continually noteworthy. According to Viner, 'political will is a primary factor in customs unions and integrations' (2014). On the other hand, trade barriers

should be considered in the case of non-competitive products in order to achieve sustainable cooperation. This paper argues that this situation is very likely in the case of Ukraine, as some industries will need further protection and will not be competitive in the European single market. As a result of the volatile macroeconomic performance during the last ten years, the country's labour cost has significantly decreased, which can be an essential comparative advantage. One of the main focuses should be on that. On the other hand, since 2014, the political will can be stated from the side of the Ukrainian government for deeper economic cooperation, which can lead to realising these goals.

The interconnections profoundly affect the main structures during the cooperation process, which will unite the different units in the long run (Perroux, 1955). In the early 1960s, Balassa (2013) provided substantial distinctions between the different levels of economic integration. He also defines integration 'as a process that contains regulations designed to terminate discrimination between economic units belonging to different nation states.' Another important distinction is being made between integration and cooperation. The author argues that cooperation has a slighter meaning and mainly aims to lessen discrimination, but the process of economic integration "entails the suppression of it'. It worth to note that when an integration reaches the level of economic union and operates with a common market, additional sources of economic gain can be listed, such as labour mobility, coordination of fiscal and monetary policies, and better income distribution (El-Agraa, 1989). Therefore, the importance of economic cooperation and regional integration is determined. For the CEE countries, there was no natural alternative after the fall of communism other than to join the EU (Jovanovic, 2006). The case of the Eastern Partnership countries was way more different, as they became independent directly from the Soviet Union, starting in another status. It does not mean their cooperation with the EU would not result in an economic gain on both sides. Regional economic integrations appear second-best; agreements can always be reached through common compromise (Jovanovic, 2007). The case of Ukraine could also show a similar result, as protecting some strategic industries will be inevitable, but deepening economic cooperation with the EU overall will be a primary necessity for significant economic growth.

The concept of Europeanization can be associated with both the political economy school and the international relations school, as it encompasses various aspects of politics, economics, and international relations. In this study it will mostly be linked to the integration theory, as it constructs, spreads, and institutionalises formal and informal rules, procedures, policy paradigms, styles, and ways of doing things and shares beliefs and norms that identify later the structures and policies (Radaelli, 2000). Europeanization is primarily a political term,

but at the end of the process, it also has outputs on economic relations. In the case of Ukraine, the end goal would be economic gain at the end of the process, but the political commitment has already existed since the new government came to power. It is not simply the synonym of European regional integration or convergence, but it can range over history, culture, politics, society, and economics. In the case of deeper economic cooperation with the EU, the European approach to doing things is a must, and currently, that is the central aspect that is missing in Ukraine.

In many cases, Europeanization means downloading EU policies to the national level and, in parallel, uploading national preferences to the EU level (Börzel & Risse, 2000). In the specific case of Ukraine, integration and deeper cooperation would mean both of them. Due to the size and economic potential of the country, there is room for manoeuvring. On the other hand, as accession is currently off the table, both parties are interested in maximising the growth benefits and minimising the drawbacks. In this particular case, the interests of both parties need to be met to create long-term, effective, and sustainable cooperation. Europeanization means, in many aspects, joining the European economic and political space. In the case of the CEECs, it has also meant a return to Europe. The Ukrainian case also shows its uniqueness in this manner, as it has never really been considered part of Europe. Therefore, their case would not be the return but their arrival in Europe. In my view, the process of Europeanization is a structural change that affects policies, institutions, economic actors, and interest groups. It results in a more profound integration of the European political and economic structures, which can lead to significant development and material gain for the country and its entire population.

Two further key concepts that can be associated with both main schools are belonging to historical institutionalism: path dependence and critical junctures. As described by Fioretos (2011), it 'refers to a process in which the structure that prevails after a specific moment in time (often a critical juncture) shapes the subsequent trajectory in ways that make alternative institutional designs substantially less likely to triumph, including those that would be more efficient according to a standard expected utility model'. Acemoglu and Robinson point out that 'history is not destiny' and vicious circles are not unbreakable' (2013). Critical junctures offer appropriate opportunities for 'breaking the mould',—which may or may not be seized. They constitute short breaks in the 'normal' historical process during which 'the structural (that is, economic, cultural, ideological, and organisational) influences on political action are significantly relaxed for a relatively short period'. Critical junctures "depend on which one of the opposing forces will succeed, which groups will be able to form effective coalitions, and which leaders will be able to structure events to their advantage'.

This work aims to be positioned in the literature of integration maturity, which means that I agree with the existing concept but, in parallel, I would like to further extend the geographical framework of it to the post-Soviet region. 'The integration maturity is the ability to maximise benefits from the integration and minimise costs and drawbacks. The balance of costs and benefits can measure it. If membership is a positive sum game, the country can gain or profit from it; the country is mature to enter integration.' (Palánkai, 2011, p. 378). Accession criteria define the minimum membership criteria, while maturity criteria go far beyond that and examine the general criteria of successful and efficient integration, which can be measured before and after the accession (Palánkai, 2006).

According to Tibor Palánkai (2010), economic integration maturity can be defined by the following essential aspects: a functioning market economy, competitiveness, macroeconomic stability, convergence, and financing ability. A functioning market economy is one of the Copenhagen criteria. It presupposes the free movement of market participants and prices determined by market conditions. Competitiveness was also partly an accession criterion until it was reformulated. It expresses the view that new members should be able to cope with the competitive pressures of the EU markets and compete against other European enterprises. However, it should be analysed flexibly using micro and macro approaches; countries compete against their social, economic, and institutional systems. Macroeconomic stability is crucial in order to get benefits from integration. Convergence is necessary in order to avoid the negative consequences of accession. I agree with the created aspects, as they consider not only the readiness of a nation's economy from a macroeconomic perspective but also focus on the transition and transforming processes. Discussing the case of Ukraine results in a unique extension of the theory, enriching its literature as a new region with a new framework presented and analysed.

The question of economic cooperation and the existence of effective regional integrations cannot be questioned anymore, as during the last 30 years, it has become inevitable to participate in them. Even so, the cooperation's main motive and driving force can be questioned. It was more about economic gain and growth than the distribution of norms and values. It is also true for the system's creators (regional hegemonies) and the participants. The Ukrainian case would support this perspective, as currently, both parties are interested in maximising their economic gains and interests.

As it is highlighted in Figure 2, regime theory and hegemon stability are part of political economic school. In the study, mostly works of realist scholars has been assessed, but the

institutionalist approach was also evaluated. For instance, in Keohane's view, regimes are the fundamental components of the international system, and they can promote the effectiveness of the international economy. However, according to the realist approach, these institutions are created by self-interested states that protect their interests rather than the community's collective interests. Despite this, the regime itself begins to live independently after a while, regardless of who initially set it up (Keohane, 1984). According to Robert Gilpin, a distinction can be made between international regimes based on a norm, a system of rules, or a specific institution. It is also argued, that we will always need a hegemon to create order. According to scholars who dealt with hegemon stability theory, it is not the balance of power but the hierarchy that creates order (Waltz, 1979). Assessing these theories will be crucial to understand Ukraine's position on the international field.

It is worth mentioning that populism is considered an opportunistic approach to politics to please voters (Weyland, 2017). According to another explanation, weak states and governance always create an opportunity for the frustration that motivates insurgency (Patrick, 2006). "Opportunism," which refers to a behavior or attitude of taking advantage of opportunities or situations, often with little or no regard for principles or ethics. In politics, for example, opportunism can refer to a politician's willingness to change their stance or align themselves with a certain group or ideology solely for political gain or personal benefit. With the assistance of the above mentioned concepts comprehensible understanding can be provided to Ukrainian politics that affected every section of the economic life throughout the previous decade.

Populism can be considered as a phenomenon that intersects with political economy theories, but it is not a distinct political or economic theory on its own. Populism typically involves political leaders or movements that claim to represent the interests of ordinary people against a corrupt or out-of-touch elite (Mudde, 2017). This can manifest in a variety of ways, such as advocating for greater economic equality, protectionist trade policies, or opposition to international institutions and agreements. From a political economy perspective, populism can be analyzed in terms of its underlying economic and social drivers, as well as its implications for economic policy and outcomes. For example, as Weyland argues populism is a response to economic inequality and insecurity (2017), and that populist policies may either exacerbate or mitigate these issues depending on the specific proposals put forward. Overall, while populism is not a distinct theory of political or economic organization, it is a phenomenon that can be studied and analyzed within the framework of political economy (Kaufman and Stallings, 1991) and in case of Ukraine an important aspect that shall not be undervalued.

Furthermore, political economy theories often examine how economic factors such as trade, investment, and resource distribution can shape international relations, including security dynamics between states. The security dilemma can be seen as a key factor in such analyses, as it highlights how states may pursue strategies that enhance their economic or military power in ways that undermine the security of other states, leading to potential conflicts and arms races. It is not strictly a political economic theory as highlighted in Figure 2, but it can be considered as a component of broader political economy analyses of international security and conflict.

The security dilemma is a concept in international relations and security studies, which analyzes the strategic interactions between states and how the actions of one state to enhance its security can unintentionally lead to increased insecurity for others. According to Posen, a security dilemma is when offensive and defensive military forces are more or less identical (Posen, 1993). According to Jervis, a security dilemma is a situation in which a state tries to increase its security to decrease the security of others (1978). Overall, while the security dilemma is not a political economic theory in itself, it can be integrated into broader political economy analyses to provide insights into the complex relationships between economics and security in international relations. In the Ukrainian case this theory has a special role. Posen already, in 1993, came up with the theory and warned the political leaders that this phenomenon in Ukraine could lead to a conflict later.

1.2 Project description

First, I want to define what and why I want to study in this research. I aim to attain a career where I can use my research skills and previous experiences in innovative technologies. I want to create something new and valuable with high added value so society can profit from it. I already have some case studies in the field of integrational maturity. There is already an existing methodology that can be used. Nevertheless, it can still be further specified and extended for the post-Soviet republics. My previous education and experience will be enough to fulfil the requirements, and I am also confident that this study can significantly contribute.

The following work will focus on enriching and extending the existing literature on integration maturity theory (Palánkai, 2004). The central concept is to provide an economic analysis of how European integration and Ukraine can deepen their collaboration and maximise the benefits of their cooperation. The main focus of the analysis will be on economic development and gain. However, it will also be highlighted why the case of Ukraine is so unique and why their relations were doomed during previous times. With the assistance of economic

integration theory (Jovanovic, 2007) on the one hand and international relations theories on the other, a comprehensive answer can be carried out for the specific case of Ukraine, which will eventually result in a unique extension of the integration maturity theory (Palánkai, 2017).

Why is this topic important momentarily, and why does it merit research? These days, the enlargement of the EU is a highly relevant question, as the EU has not been growing for several years, and on the other hand, some countries are almost ready to join the integration (Endrődi-Kovács, 2014). The case of Ukraine is not noteworthy specifically due to the likelihood of being recognised as a new potential member state; the possibility of their membership is very low. This paper is not aiming to analyse the results of the accession criteria.

Nevertheless, it is crucial to understand what processes are ongoing right at the border of the EU and how it would be possible to exploit every benefit from a possible deeper economic cooperation. It is also worth examining whether, in the expansion policy, purely economic opportunities or value-based civilisation creation is playing the primary role (Gheciu, 2008). This question is repeated in the recently emerging discussion about Ukraine's immediate membership gain. A relevant fact worth noting is that the recently joined countries (since 2004) first became NATO member states; only after that could they join the EU (Karabeshkin & Spechler, 2007). The process is ongoing in the Western Balkans and will continue in South-East Europe. Therefore, the security dimension of these processes also deserves to be analysed, especially in the case of Ukraine, which is facing a remarkable security challenge.

The main hypothesis of the work is that Ukraine is far from exploiting all the benefits of Eastern Partnership due to the country's economic challenges, in spite of that the political will and commitment to drive the country towards the EU has significantly increased since 2014.

- *Subhypothesis 1: If Ukraine would like to establish a deeper economic cooperation with the EU, then the country must improve its economic maturity-preparedness in order to maximize the economic gains and benefits.*
- *Subhypothesis 2: Despite recent political intentions, Ukraine shall not be provided by a fast-track EU membership and favored against the Western Balkan (WB) countries since it is less mature based on economic terms.*
- *Subhypothesis 3: If Ukraine cannot overcome its security related concerns and challenges, then the country's participation in any economic or military cooperation may not be realized.*

In recent years, notable critiques have been levelled against Brussels, as their strategic planning about the future of the integration was not sustainable and detailed enough (Howorth, 2016). Significant fractures can be stated between the Western and Eastern member states regarding the principal directions (Copsey & Pomorska, 2014). A new system that fulfils everyone's interests shall be adopted to reach a balanced status. Germany does have a high responsibility in this field, and they should coordinate among the smaller member states as they are the leading and hegemon country and economy in Europe (Crawford, 2007). These changes can affect the future of the whole EU and even the neighbouring regions' daily politics. Creating this study will result in a genuine contribution due to its interdisciplinary approach. Sooner or later, it will need to be decided what the European leaders and citizens want to do with the integration. Ukraine's future is becoming an important topic in current politics; therefore, its future can also highly influence the whole integration process.

Essential linking debates will also be listed (Baldwin, 1993; Jachtenfuchs, 2002; Grieco, 1990, etc.) to understand better the current situation, which could help to identify other weak spots and leakages of the already existing theories. One of their problems is the timeframe of their analysis (Palánkai, 2004). Relevant changes occurred in Europe during the previous decade, which has not been further discussed in scholarly works. It is clear that the already existing literature has not discussed the cases of Ukraine, Georgia, or Moldova yet, but their possible accession only recently became a reality. The Western-Balkans case has been deeply analysed (Endrődi-Kovács, 2012, 2014; Kathuria, 2008), but the post-Soviet bloc is still missing. As the political will is already there in these cases, it is only a matter of time before we start the negotiation rounds with them and create deeper economic cooperation (Kerikmäe & Chochia, 2016). As a result of this work, it would be possible to identify the most crucial factors and weak spots of these collaborations.

The thesis will be based primarily on the processing of secondary sources. In general, secondary sources are usually written with the benefit of hindsight. These are mainly interpretations and evaluations of primary sources, commentaries, and discussions of the evidence. They present research findings, analysis, and the evaluation of the above researchers' works, like Palánkai, Jovanovic, Endrődi-Kovács, Aslund, Wilson, Kuzio etc. Particularly in the case of Ukraine, it is vital to examine sources from both narratives. As the country is deeply divided, scholars also have different approaches and theories (Dragneva-Lewers & Wolczuk, 2015; Haukkala, 2015; Velychenko, 2007). When comparing Ukraine with other regions, each analysed country's economic and financial results will be processed using a comparative methodology. Documents

from various sources are going to be used, such as central bank reports, economic forecasts, government documents, World Bank data, OECD country studies, IMF, and other international studies (EBRD, IMD, WEF, OSCE, OCHA, HRRMU studies), summaries, and professional analyses to examine the economic policies and legal harmonisation of countries. Accordingly, EU legislation and sources may often be referred to, including founding treaties, accession treaties, or reports of the European Central Bank or European Commission.

The structure of the thesis proposal can be divided into several parts, but basically, it consists of two major parts: the quantitative economic analysis and the qualitative security-related analyses. After the introduction and the hypothesis designation, the relevant literature will be listed alongside the theoretical overview of the topic and the main concepts. The main focus will be on presenting the topic from each perspective, including not only the publications of western authors but also the works of Russian and Ukrainian experts. After that, the methodological part of the work is described. Each analysis aspect will be presented in parallel with the steps of the composite indicator creation.

In the first part of the study, the already-implemented economic reforms will be analysed from a methodological perspective essential to understand what sacrifices have already been made by the Ukrainian government. Not only to understand their political commitment towards the EU but also to assess their effectiveness. Then Palánkai's previous integration maturity model will be used for the quantitative analyses. Nonetheless, as the methodology has been defined for post-Socialist countries, it will be partially modified to have a more precise economic analysis in the case of Ukraine or other post-Soviet Socialist Republics (like Moldova or Georgia, for example). The main difference between these two country groups was their "membership" in the Soviet Union, as opposed to the partnership in the case of post-socialist countries. These countries are former territories of the Soviet Union, which makes their situation more complex. It will also be described in more detail, including what it means on micro level. Most of the circumstances were different in these countries, especially after the fall of the Soviet Union; therefore, different kinds of measures needed to be implemented. However, as both country groups went through a similar development and transformation path (from planned economies to market economies), this paper argues that these processes lasted and took longer in the post-Soviet region than in the post-Socialist one.

Based on these facts, some variables will be exchanged from the original model (Palánkai, 2004), and the main reasoning for each change will be provided in the research design of the work. The dependent variable of the analysis in both hypotheses will be the integration maturity

and preparedness. It means whether a country is ready for cooperation to exploit all the benefits based on its national interests. The first part of the work will be examined from an economic perspective. According to the existing integration maturity model, the main aspects are a functioning market economy, macroeconomic stability, competitiveness, convergence, and financing ability. In order to analyse these features, the following independent variables are going to be used: BTI transition reports, WEF competitiveness reports, productivity, cost of labour, GDP per capita based on purchasing power parity (constant 2017 US\$), human development index, the ratio of citizens who have access to high-speed internet, GDP growth, inflation, government debt to GDP, FDI inflow, and non-performing loans.

In case of an unexpected and rapid joining to the integration, the economic drawbacks could be significantly high as the Ukrainian products need to be more competitive in comparison with the European products. There was a linking debate during the 1990s about the accession of the eastern members and whether they shall reach a constant level of development before joining the EU (a newly structured Marshall plan has been suggested to them in order to reach the same level of development as the previously joined member states). It has never happened in reality (Kostrzewa, Nunnenkamp, and Schmieding, 1989). Nevertheless, the theory proves that it is worth analysing possible limitations and drawbacks before creating deeper cooperation to reach the highest level of mutual benefits and economic gain. Other opinions would urge the country's accession to European integration. However, the paper argues that it would be a notable mistake by both sides as fundamental structural changes must be implemented in Ukraine before participating in deeper cooperation with any integration, especially with the EU. Based on the available data, Ukraine's economic model and its development will be presented with their positive and negative aspects, focusing on the dimensions of catching up and the progress in the fight against corruption, as these are directly related to the inflow of foreign capital and thus to the country's competitiveness. As economic power is based on human capital, an outlook will also be provided on these aspects. Nonetheless, after complex indicator creation the results from Ukraine will be compared to Western Balkan countries results that are also aiming for EU membership.

In the second part, the focus will be more on the non-economic theories and aspects. Firstly, the internal problems are going to be analysed. Specifically, the identity-seeking problem of Ukraine and the main driving forces of the conflict on the country's eastern side. Furthermore, examining subhypothesis 3, the main security-related challenges of Ukraine will be listed alongside its security dilemma, which has existed since its independence (Posen, 1993). On the

other hand, the necessity of the current existence of NATO and also its current challenges are going to be examined, as understanding NATO's relations with its eastern neighbours (Casier, 2015) is indispensable from the Ukrainian perspective. The major global players' roles in Ukraine will also be analysed.

Primary economic results and especially crucial structural changes cannot be reached without a safe environment, which would be of significant interest to the EU and Ukrainian sides. This part is mainly going to consist of qualitative analysis. In this case, it would be more suitable, as qualitative research primarily focuses on exploratory aspects, provides insights into a problem, uncovers trends, and dives deeper. Due to geopolitical challenges, it is unimaginable that economic cooperation can be established without solving these challenges (Gretskiy, Treshchenkov, and Golubev, 2014) and having a tight military alliance. Related questions: In the 21st century, which integrations are more essential and relevant? Economic or military cooperation? Is NATO an international regime? Is it going to operate until the US is interested in its existence? Momentarily, an identity-seeking crisis has been ongoing in Ukraine for a decade, and a similar process is about to start in the EU based on internal debates. Therefore, answering these questions related to security concerns can help clear the picture on both sides, opening up and creating the opportunity for closer economic cooperation in the long run.

As a result of this complex interdisciplinary analysis in the conclusion part of the dissertation, Ukraine's current position and its possibilities can be defined in the fields of international economics and political relations. These results can mean specific suggestions to the leaders of Ukraine for bringing the country closer to Europe, not only politically but also economically. The aim is to create a guideline or checklist for governments seeking close economic relations with the single market.

One of the noteworthy limitations of the existing theories is that they only consider economic and geopolitical aspects rather than analysing the quality of institutions, for instance. However, it is substantial to mention that there are concerns with the proposed interdisciplinary approach as well. The interdisciplinary perspective is way more time-consuming and presumes expertise in multiple fields, which can also be a limitation for using the same methodology in the future. On the other hand, in this specific case, a detailed and precise analysis can lead to comprehensive results. There are specific cases that require these informative approaches. The unique events of the Ukrainian case represent those specific signs, which call for an interdisciplinary analysis. As it seems that can be the most suitable method to provide a sustainable understanding of the country's overall challenges.

2 Theoretical assessment

2.1 Integration related theories

2.1.1 Economic integration

The integration theory was introduced to scholarly literature after the Second World War. However, the existence of the structures of economic cooperation has been laid down way before that. Since then, different approaches have been created by the different schools; these narratives will be presented in this section. The federalist, functionalist, and neo-functionalist theories are also mentioned regarding integration theory. Nevertheless, I would focus only on economic integration, as the main focus will be on that in the later sections of the work.

First of all, economic integration is a kind of cooperation among different actors in trade policies. In parallel, the most crucial point that needs to be noted is that the nations are willing to collaborate to achieve higher efficiency and production. The first form of this theory was Riccardo's comparative advantage theory (Ruffin, 2002). The main conclusion was that each actor should specialise in producing the most optimal products for them and then trade them. As a result, each actor can gain additional goods, and the overall efficiency and production in every sector will be higher.

Viner's work on the Customs Unions (2014) was the next critical piece of writing in the field of integration theory. The paper examines the nature, purposes, and mode of operation of a customs union as a form of tariff unification, which is another way of saying integration. One of the most important arguments that can be found in the paper is that if the unit cost of production falls as a result of the enlarged protected market, there will be a gain from the customs union for both members. What needs to be added here is that the rule is legit only for industries that are large enough to make optimum scale possible. Another vital piece of information that should be noted based on this work is that trade barriers might be considered for an industry or product that cannot maintain itself against foreign competition at existing price levels.

After the deeper cooperation among Western European countries started, the scholarly literature boomed with articles about the integration theory. Perroux has claimed that during the integration process, interconnections are so profoundly affecting the main structures that it is a uniting process that will result in a whole particular unit in the end (1955). By Balassa (2013), essential distinctions were made between the different levels of economic integration in the early 1960s, which are the following: free trade area, customs union, common market, economic union, and complete economic integration. He also defines integration as a process

containing regulations to terminate discrimination between economic units belonging to different national states. Another important distinction is being made between integration and cooperation. The author argues that cooperation has a slighter meaning and mainly aims to lessen discrimination, but the process of economic integration entails suppressing it. On the other hand, Balassa highlights the importance of location theory because regional trends can only be discussed with regional analysis.

According to Deutsch (1968), the degree of interdependence also plays a principal role. He argues that more international transactions will result in more profound interdependence between the actors. This concept has been further described by institutionalist scholars, namely Keohane and Nye, which was also a response to the neorealist approaches (1973). They have provided different concepts to the main realist understandings, such as that states are coherent units and the dominant actors in IR, that force is an effective policy instrument, and that there will eventually be a hierarchy in international politics. Most importantly, they have stated that transnational corporations are also considered international actors, and political exchange does occur on their level.

On the other hand, when complex interdependencies prevail between nation-states, the role of military resolution becomes insignificant. Other liberal scholars also argue that inside integration of the free movement of goods and services is necessary because that is the only way unlimited free competition can be assured and rice equalisation achieved (Röpke, 1959).

In contrast, realist scholars have different understandings of the economic integration theory. Their approach is based on a double denial of globalisation and European integration (Wivel, 2004). In their understanding, power politics prevail due to anarchy in the international system, and the institutions only mirror the distribution of power and do not intervene in the process (Mearsheimer, 1994). It contrasts with the existence of the EU itself, as even the original aim was to negate future conflicts between France and Germany. On the other hand, they recognise states as the main actors in the international field. However, neorealists argue that in the case of integration, nation-states are willing to give up some of their sovereignty for additional gain and economic growth (Grieco, 1990). In sum, they see the age of globalisation and integration processes as another age of power politics, but very different from previous times. It is being argued that in the era of globalisation, the main field of conflict has moved from the military to the economic sectors. European integration is seen as governance by the most influential actors (the USA, Germany, and France). It is also being argued that the American grand strategy aims to maximise the power and security of the United States in an anarchic international system by

increasing interaction. In order to do that, promoting regional integration and globalisation is the most cost-effective option (Bacevich, 2009).

The neorealist theoretical school still needs help explaining the European economic and security integrations, but they have already tried to bridge the gaps. Rosato, for instance, claims that, based on the current uncertainty of the EU's economic future, it is unlikely to survive in its current state (2011). Mearsheimer also argues that the presence of US troops plays an essential role in securing the current status quo (2010). This statement introduces two concepts neorealist scholars use to explain the current European order. These are soft balancing and bandwagoning. Posen (2010) and Art (2006) state that, unnoticeably, the European nations appear to be balancing the US power internationally. Even so, the evolution of military spending and, since its creation, the role of European Security and Defense Policy is showing us different results. The concept of bandwagoning means that nations tend to follow the actions of the decisive majority. Schweller claims that European integration must be seen as an act of bandwagoning (1994), and he also states that power balancing and bandwagoning are not two opposite theories. Nevertheless, both of them can be considered at the same time in some cases. Wivel is on the same side; based on his work, the European nations follow and support the US-led international order (2008). These approaches directly connect with the debate over defensive and offensive power concepts. Yet, these aspects are unrelated to the integration theory, so they will not be discussed here.

Regarding the realist theories, further conceptualisation needs to be managed regarding the integration theory. The role of power politics is being defined very precisely. However, the answers to how the integrations affect the international field and their relation to the globalisation process still need to be provided. I would also argue for the theory of soft balancing in the case of the EU and the US, as basically, most of the time, they are acting in a coordinated way, and the European countries should not be considered the counterbalances of the US hegemon but rather its supportive power. During the last 30 years, there were some standoffs between the two powers in cases of military interventions (Iraq, Lybia), but from an economic perspective, the only example that can be mentioned is the Transatlantic Trade and Investment Partnership, and the majority of Western European states have supported even that. The internal debate among realists about power balancing or bandwagoning relates to power's defensive and offensive aspects. The concepts of offensive power and bandwagoning are more realistic, as every actor increases his performance to maximise his interest in the first place and not out of fear of the other. It is already dealing with the tricky concept of examining the other actors' strategies, which will always be subjective and unpredictable.

In sum, economic integrations are mainly created for political reasons, but despite that and disregarding the main motives, the economic outputs are continually significant. In the case of a customs union or a free trade area, the possible sources of economic gain are based on: a more efficient and higher level of production, an improved international bargaining position due to the larger size that results in better terms of trade, intensified internal competition; and technological advances due to the spillover effect. When an integration reaches the level of economic union and operates with a common market, additional sources of economic gain can be listed, such as labour mobility, coordination of fiscal and monetary policies, and better income distribution (El-Agraa, 1989). Therefore, the importance of economic cooperation and regional integration is established. For the CEE countries, there was no natural alternative after the fall of communism other than to join the EU (Jovanovic, 2006). The case of the Eastern Partnership countries was way more different, as they became independent directly from the Soviet Union after starting in another status. It does not mean their cooperation with the EU would not result in an economic gain on both sides. Regional economic integrations appear second-best; agreements can always be reached through common compromise (Jovanovic, 2007). The case of Ukraine could also show a similar result, as protecting some strategic industries will be inevitable, but deepening economic cooperation with the EU overall will be a primary necessity for major economic growth.

The importance of economic growth is exceptionally high for every actor In the international field, especially in the long run. It affects every aspect of the economy, but from the perspective of the population, the most critical factor is the living standard. The income of a country determines every aspect of its position. As previously stated, that is the primary goal of international cooperation: to maximise the benefits to reach higher incomes. According to Acemoglu (2012), the currently existing income gaps among the countries originated in the late 18th century. It affects every aspect of the economy, but from the perspective of the population, the most crucial factor is the living standard. The income of a country determines every aspect of its position. That is the primary goal of international cooperation: to maximise the benefits to reach higher incomes.

Since then, the Western European states have been proliferating, leading to the differentiated world we can experience today. Therefore, seeking growth and economic gain became essential to every actor in the international field. There are a bunch of models for economic growth. However, from the perspective of Ukraine, the Schumpeterian or competitive innovations model should be followed (Barro, 1996), as the most important aspect currently is to close the gap. Technological innovations could be a practical choice, but for successful implementation,

more than significant changes must be made by the leaders of Ukraine. According to the theory, creative destruction would occur if the main focus was on evolving institutions, entrepreneurs, and technological change. Ukraine has been stuck and could not use its potential for 30 years. Relevant economic reforms shall be executed with a clear strategy and view of prospects. In order to fulfil that, the innovation-based growth model could be the most appropriate. The sooner the institutional challenge is met, the higher and more sustainable growth will follow, providing additional capital and know-how simultaneously (Ofer & Pomfret, 2004).

The concept of Europeanization can also be linked to the integration theory, as it constructs, spreads, and institutionalises formal and informal rules, procedures, policy paradigms, styles, and ways of doing things and shares beliefs and norms that identify later the structures and policies (Radaelli, 2000). Europeanization is primarily a political term, but at the end of the process, it also has outputs on economic relations. It is not simply the synonym of European regional integration or convergence, but it can range over history, culture, politics, society, and economics. In the case of deeper economic cooperation with the EU, the European approach to doing things is a must, and currently, that is the central aspect that is missing in Ukraine. In many cases, Europeanization means downloading EU policies to the national level and, in parallel, uploading national preferences to the EU level (Börzel & Risse, 2000). In the specific case of Ukraine, integration and deeper cooperation would mean both of them. Due to the size and economic potential of the country, there is room for manoeuvring.

On the other hand, as accession is currently off the table, both parties are interested in maximising the growth benefits and minimising the drawbacks. In this particular case, the interests of both parties need to be met to create long-term, effective, and sustainable cooperation. Europeanization means, in many aspects, joining the European economic and political space. In the case of the CEECs, it has also meant a return to Europe. The Ukrainian case also shows its uniqueness in this manner, as it has never really been considered part of Europe. Therefore, their case would not be their return but their arrival in Europe. The process of Europeanization is a structural change that affects policies, institutions, economic actors, and interest groups. It results in a more profound integration of the European political and economic structures, which can lead to meaningful development and material gain for the country and its entire population.

2.1.2 The theory of economic integration maturity

Every integration has its criteria for letting new members in. In the case of the European Union (at that time, the European Economic Community), the first criteria were introduced by the

Treaty of Rome. These were just the following: the candidate country should be European and democratic (Baldwyn & Wyplosz, 2004). As integration expanded, candidate'' integration preparedness became more and more relevant. As a result, the European Communities formulated concrete accession criteria in 1991 in connection with the transition to an economic and monetary union (Palánkai, 2014). Following the Maastricht criteria for the introduction of the euro, new conditions were created in connection with Eastern enlargement in 1993, the so-called Copenhagen criteria, which are: stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities; a functioning market economy and the capacity to cope with competition and market forces; and adaptation of the *acquis communautaire*. So, there is a political, economic, administrative and institutional criterion based on the official requirements of the EU (European Commission, 2019).

If a country wants to join the European Union, it must fulfil the Copenhagen criteria, and the European Commission prepares reports on how the candidate fulfils them. Unfortunately, although outdated, the Copenhagen Criteria are still in force (Palánkai, 2017). Nonetheless, based on the lessons of previous accession rounds, it became apparent that economic, political, administrative, and institutional accession requirements, which the European Union sets, do not reflect the readiness of a candidate country to enter the union. These official requirements are not coherent, clearly structured, or well-composed. Some theories have previously emerged on measuring integration preparedness or capacity in ways other than the European Union does (e.g., Schimmelfenning et al. 2015 or Bergs 2001). Bergs, for instance, has been analysing the level of FDI and intra-industrial trade, while Schimmelfenning has been focusing more on the political criteria. Bergs' analyses showed that some countries are deeper integrated (such as Hungary or the Czech Republic) than others. However, she could not provide a picture of the preparedness of these countries. None of these analyses was complex enough to assess a country from multiple perspectives. Some others analyse other regions of the world economy (Chen & Woo, 2010) or only such specificities as financial integration (Phylaktis & Ravazzolo, 2002). The most complex is Tibor Palánkai's integration maturity theory, which takes several economic factors into account in order to maximise the benefits of cooperation on both sides. Based on that, this is the one that will be analysed deeper and adapted for the case of the Eastern Partnership countries. With the assistance of this theory, it is possible to examine whether these countries are mature for further economic integration and cooperation.

‘The integration maturity is the ability to maximise benefits from the integration and minimise costs and drawbacks. The balance of costs and benefits can measure it. If membership is a positive sum game, the country can gain or profit from it; the country is mature to enter

integration' (Palánkai, 2011, p. 378). Accession criteria define the minimum membership criteria, while maturity criteria go far beyond that and examine the general criteria of successful and efficient integration, which can be measured before and after the accession (Palánkai, 2006).

Four dimensions of integration maturity can be distinguished: economic, political, institutional, and social; in this analysis, the focus is on the first one since the economic dimension is the most objective, tangible, and quantifiable, which can give relatively objective conclusions. According to Tibor Palánkai (2010), economic integration maturity can be defined by the following essential criteria: a functioning market economy, competitiveness, macroeconomic stability, convergence, and financing ability. A functioning market economy is one of the Copenhagen criteria. It presupposes the free movement of market participants and prices determined by market conditions. Competitiveness was also partly an accession criterion until it was reformulated. It expresses the view that new members should be able to cope with the competitive pressures of the EU markets and compete against other European enterprises. However, it should be analysed flexibly using micro and macro approaches; countries compete against their social, economic, and institutional systems. Macroeconomic stability is crucial in order to get the benefits an integration itself. Convergence is necessary in order to avoid the negative consequences of accession.

It is well known that integration between less developed and more developed industrialised countries can be a source of serious problems (Röpke, 1959). For example, due to sharpening competition, most producers may lose markets, severely deteriorating underdeveloped countries' current accounts and balance of payments. It can cause serious problems regarding employment, the budget, and halting economic growth. In addition, a more developed state can better adapt to changing competitive conditions, more easily mobilises its capital resources, and converts to more modern techniques. Financing ability contains the availability of domestic capital resources, how an economy is capable of producing the resources for its development, and how a country operates in capital markets, so it shows the ability of a particular country to absorb capital, both in terms of external investments of private capital (e.g., foreign direct investments) and the intake of budgetary transfers (Palánkai, 2011).

2.1.3 Extending the existing theory of maturity

Since the creation of this methodology, it has been widely used among scholars studying integrational maturity. As the following country that will successfully finish its accession

criteria will probably be a Western Balkan country (Montenegro or North Macedonia), the methodology has been used for their cases (Endrődi-Kovács, V., 2012, 2014). A year later, the same kind of approach was used for Eastern Partnership member countries by professors Palánkai and Endrődi-Kovács at the Jean Monnet Seminar in Tbilisi. At that time (2015), the integration maturity in Azerbaijan and Georgia had been studied. In parallel, the methodology has also been used for other regions of the world (Nagy, 2017), for example, in the case of MERCOSUR. In that study, the established methodology was reviewed and modified according to the local circumstances and regulations. The topic of convergence has been profoundly defined and analysed in these countries.

Nevertheless, it is essential to note that the case of the post-Soviet region is far more different than the case of the post-Soviet countries. Although both regions were part of the Soviet-Socialist bloc, their economies had evidential dissimilarities, especially during the last decade of the bipolar world (the 1980s). Partially, some market openings could be noted among the socialist block countries, not even mentioning their rapid privatisation processes after the fall of communism (Papava, 2018). In the case of socialist countries, we are speaking about nation-states that were mostly independent before WWII and already had their own extraordinary experiences with capitalism. On the other hand, we are speaking about countries that were vital parts of the Soviet Union and only became independent after the fall of the Berlin Wall. Most of these countries have yet to have the chance to act in their interests or based on their own decisions. Therefore, the system change process could not be as quick or efficient as in the socialist block. Great examples are the cases of Ukraine and Poland, which have more or less similar populations and economies (important agriculture but also an advanced industry level).

It is evident that the primary basis of the Integration Maturity Theory is a well-defined and established approach; however, it has been specifically created for the countries of Central and Eastern Europe (Uszkai, 2014). Based on this fact, it is worth extending the existing concept created by Palánkai and optimising it for the case of the current members of the Eastern Partnership, which would result in a new geographical frame for the theory. Therefore, it can be argued that as a starting point, its methodology can be used, but with an additional characterisation for the members of the Eastern Partnership. In parallel with the economic aspects, there is also a significant security challenge for these countries in the vicinity of the Russian Federation, which is also trying to advocate its interests efficiently. This factor must be considered when working out new accession criteria for the mentioned country group, even if it is only an economic approach.

How does the case of Eastern Partnership countries differ from that of CEECs? First, the regime change has not been as efficient and successful as in the case of the Central European countries. It can be argued that in these cases, the level of privatisation, the price definition, the distribution of income, the consumption inequality, the system of taxation, etc., have been far more different than in the case of the CEE countries, as has already been described by Kornai (2006). The satisfaction and trust in institutions and political order could also be mentioned. Nevertheless, from an economic perspective, these approaches could be more relevant.

To conclude, the process of economic structural changes was supposed to be analysed in a more detailed way in the case of the post-Soviet countries as they were deeper integrated into the Soviet Union's economy, and their transformation took more time as different approaches and more drastic decisions were needed. Even so, Palánkai's methodology has a section on the functioning market economy (2004). I think a more profound analysis needs to be provided on the transition processes based on the mentioned reasons to have a clearer view.

On the other hand, participation in free trade agreements was also an essential point of comparison between the two regions. Initially, the CEE countries created their area (CEFTA) to bring their economies closer to the European markets. In parallel, the post-Soviet countries formed the Commonwealth of Independent States right after the fall of communism. There was a massive overbalance of Russian interests then, and the newly independent countries needed more experience to focus on their specific interests. The specific coordination in multilateral economic cooperation needed to be included, which has resulted in a severe economic downturn in every CIS country. Regarding the free trade agreements, the CISFTA was officially signed in 2011, and only some Commonwealth countries participated in it (Coleman & Underhill, 2012).

The entire region of the Eastern Partnership Countries has so many aspects, different approaches, and different interests, which could also be listed here but would lead to different directions and results. The specific interest groups can be easily identified based on the participant's willingness to contribute in multilateral cooperations. During the last 30 years, establishing the main directions in their foreign policies took much work. However, after several discussions and even military conflicts in some cases, every country now has a clear foreign policy direction that defines its economic commitment. Currently, there are three countries which have clearly stated their deep interest towards European Integration, and these are the following: Georgia, Moldova, and Ukraine. Another three countries could be mentioned (Armenia, Azerbaijan, and Belarus), but during the last ten years, it has become clear that they are more interested in cooperating with Russia and the Euro-Asian Economic Union than with

the European Union. Nevertheless, it would be worth analysing those three countries as well. Even so, as the political will is only represented in Ukraine, Moldova, and Georgia, it is clear that currently, their chances for Europeanization are significantly higher (Devrim and Schulz, 2009). This work aims to provide an up-to-date characteristic for the case of Eastern Partnership countries and to create a sustainable analysis matrix that can be used during this decade, with the assistance of the geographically comprehensive methodology of integration maturity. The unique case of Ukraine has the most dichotomy of the countries mentioned above. Their economic prospects are the most promising from the EU's perspective, so their case will be analysed deeper.

2.1.4 Absorption capacity from the side of the EU

It worth to note that regional integrations are an unstoppable process in which Europe is currently at an advanced stage. In general, European integration has two directions: deepening the current structures (toward a fiscal union, for instance) or widening the existing collaboration with new regions and members. The level of economic integration had been rapidly developing throughout the previous decades. Among the participants, there was an important step forward in their cooperation in a qualitative way (Kelemen, Menon, and Slapin, 2014). This process in Western Europe was happening in parallel with globalisation, which led to a more effective and robustly growing economy in each member state. However, while new methods and alternatives have been established in the case of European integration, the idea of bringing closer the national economies in the time of global supply chains was a familiar thing (Machlup, 1977). Regarding integration preparedness, one of the first debates that need to be mentioned is deepening or widening (Guérot, 2004). The discussion became vital after the fall of the Berlin Wall when the German reunification process started (which was also an integration process that is still ongoing). There were many arguments on both sides, but the result was a political decision—first widening and, after that, or in parallel deepening. After the former German Democratic Republic became part of the European Communities, it was not even a question that new member states would join the cooperation soon (Goebel, 1992). Formerly the Maastricht Treaty was signed in 1992, which resulted in deeper structures (financial and also political) among the member states. In 1995, three new countries joined the EU very soon: Austria, Finland, and Sweden. These countries were non NATO members. Important to distinguish as during the next accession rounds countries first joined NATO and only as a second step the EU. Then the common currency was officially introduced in 2002; nevertheless,

ECU had already been used since 1979. During the next decade, 13 new member states joined the cooperation, mainly from the post-Soviet region.

The enlargement was more efficient than the process of deepening the existing structures. Even so, this debate is ongoing, as the union has different interest groups. Until 1995, the picture was quite clear: more or less equally developed countries had joined the cooperation and were already members of the European Free Trade Agreement (Cameron, 2004). These countries are currently interested in deepening the existing structures, as the optimal economic degree has already been met, and further steps are supposed to be implemented. On the contrary, the post-socialist region lagged during the 1990s (Balcerowicz, 2005). As a result of the differences, these countries are unwilling to deepen the current economic cooperation. Instead, they would bring in new member states who could boost the economic development of the whole union. Some other experts argue that the whole debate is a false dichotomy, as the EU has been deepening its structures well enough during the last 30 years, and in parallel, it has also increased the number of its member states. In 10 years, the participating countries' contributions doubled, and noteworthy economic and political reforms have also been introduced in Maastricht and Lisbon.

Both processes are vital. However, if we analyse the effectiveness of the current structures, we can see that urgent proceeding and deepening would be necessary to use the full potential (Palánkai, 2018). In our current challenging world, this would be more than crucial. On the other hand, if we analyse the driving force of the economic growth in the recent period, it comes out that enlarging the union was more than necessary, as the new markets and the transnational cooperation boosted the economies of every participant. All in all, it is even defined in the core of economics that the ways of economic expansion are either internal or external. In the case of external expansion, the total scale of economic activity is higher, more goods and services are available, and the costs decrease. Even historical examples could be mentioned, but the level of economic cooperation was significantly different in every period; therefore, it would not be 100% identical. I argue that the EU should continue its expanding policy (Schrader and Laaser, 2019) and cooperate deeper with the post-Soviet region.

2.2 Theories related to international political economy

After assessing the most relevant integration related literature, the next step is to discuss the non-economic ones. In this section mainly relevant theories describing Ukraine and the

international order will be listed. Mostly works of realist scholars has been assessed, but the institutionalist approach was also evaluated.

Realist and institutionalist schools of international political economy (IPE) are two important approaches that seek to explain how economic interests and political power intersect in the global arena.

The realist school of IPE emphasizes the role of power in shaping international economic relations. Realists view states as the primary actors in the international system, and they argue that states use economic power to advance their national interests. Realists believe that states are motivated by the pursuit of power and security, and that economic interests are subordinated to these broader objectives. They also believe that international economic relations are characterized by competition, conflict, and the pursuit of relative gains, rather than cooperation and mutual benefit (Waltz, 1990).

The institutionalist school of IPE, on the other hand, emphasizes the role of institutions in shaping international economic relations. Institutionalists view international economic relations as a complex system of rules, norms, and institutions that govern the behavior of states and other actors. They argue that institutions can help to mitigate conflicts and promote cooperation by creating common standards and procedures that reduce uncertainty and facilitate exchange. Institutionalists also believe that institutions can help to address collective action problems by providing mechanisms for monitoring compliance and enforcing agreements (Keohane and Martin, 1995).

While realists and institutionalists differ in their theoretical perspectives, they both acknowledge the importance of economic factors in shaping international relations. Realists focus on the distribution of power among states and the use of economic instruments to advance national interests, while institutionalists emphasize the role of institutions in promoting cooperation and managing conflicts. Ultimately, both schools of IPE offer valuable insights into the complex and evolving nature of international economic relations. In this section such theories are going to be discussed that are highly relevant in understanding the case of Ukraine.

2.2.1 International regime theory

It is important to note that security and development are related and have strong connections, as any societal progress requires reduced insecurity. First of all, there are noteworthy economic costs associated with a conflict. For instance, people who fight in a conflict often cannot work productively any longer due to long-term physical and psychological injuries. It could lead to a

lack of adequate and productive labour, resulting in lower exports and reduced foreign exchange earnings. This spillover effect can lead to higher imports and further constraining output, ending in declining employment and growth rates (Stewart, 2004).

On the other hand, conflicts are always leading to sectoral shifts in the economy, and the industries with higher added values are affected the most. Even the workforce, which is not participating in fights, needs to assist in making other products, lowering the national income. Most of the time, the overall consumption also falls, as the population is unwilling to purchase non-elemental products. Last but not least, the share of government expenditure on the military significantly rises in these cases, taking away most of the resources from further economic development. In times of peace, that capital could be used for social welfare, education, or advancing research and development. The role of foreign direct investment shall be kept secret, as even the working capital flees the country in times of conflict.

In sum, it is also worth stating that there are serious methodological issues with measuring what would have happened in the absence of war. In geoeconomics, it is also argued that nation-states mainly trade with their allies, seeking other ways to achieve self-sufficiency (Cable, 1995). Other scholars also support the idea that security promotes trade among the allies by providing the opportunity for deeper cooperation (Mansfield and Bronson, 1997). This is why it is essential to understand the role of regional (and global) hegemonies and the theory of international regimes, as their contribution to international peacekeeping is relevant. In the case of Ukraine, this needs to be taken into account to have a clear understanding of the economic prospects, as they are still facing a frozen armed conflict.

To have an overall better understanding of Ukraine's unique situation and a sustainable economic outlook and prognosis, it is crucial to comprehend the geopolitical challenges related to its security questions. As it seems, NATO is still maintaining its expanding policy. New members from the Balkans have joined and are about to join the cooperation. This process can lead to Serbia being surrounded in the next ten years. However, the results of the Russian-Ukrainian war can also lead to a strategic breakup between Russia and Serbia.

Nonetheless, the Moldova, Georgia, and Ukraine cases are different. All these three countries are facing a frozen conflict on their territories, which prevents them from joining the military alliance as they lack territorial integrity, which is a must for every participating country. It is worth mentioning that as a result of these frozen conflicts, Russia is preventing a possible membership in the military alliance for these countries. Please note that since the born of this paragraph, the frozen conflict in Ukraine has turned into a full-scale war.

It is crucial to discuss the hegemon and regime theories in this section to understand Ukraine's ongoing processes better. Even though most scholars do agree that military power is not as central as it used to be, it is getting more expensive and less effective than it was previously. The devaluation of military power is an ongoing process. On the other hand, economic power has dominated the field of international relations in the last few decades. Even when it is not apparent, economic interests play the most critical role in most conflicts. Economic interdependences provide new alternatives, opportunities, and directions, while using hard power has become costly and inefficient. Both approaches were critical in the post-Soviet bloc, especially during the previous decade when the region's economic potential became highly prevalent.

As a starting point, the primary definition of international regime theory is supposed to be provided. One precise definition is that a regime can be defined as a set of implicit or explicit principles, norms, rules, and a decision-making mechanism in the particular field of international relations to which the actors are expected to adhere (Kőváriné, 2008). According to Robert Gilpin, a prominent representative of International Political Economics, a distinction can be made between international regimes based on a norm, a system of rules, or a specific institution. Nevertheless, this term is often misused in international political economy, according to Gilpin (2016).

Based on political economy theories, regimes can solve the theoretical debate about the prisoner's dilemma. In Keohane's study, it is clearly defined that regimes as institutions can successfully solve this problem in international institutional systems (Keohane, 2005). In his opinion, the most important reason that could lead to such situations is a lack of information (Vigvári, 2012). Through the contradictions of the used car market, he presents this problem in his study in a way understandable to everyone. In Keohane's view, regimes are the fundamental components of the international system, and they can promote the effectiveness of the international economy. However, according to the realist approach, these institutions are created by self-interested states that protect their interests rather than the community's collective interests. Despite this, according to the author, the regime itself begins to live independently after a while, regardless of who initially set it up (Keohane, 1984).

There is an interesting debate related to the topic. Can we have a stable world economic and political system without a hegemon? We will always need a hegemon to create order. According to scholars who dealt with hegemon stability theory, it is not the balance of power but the hierarchy that creates order (Waltz, 1979). Differentiated economic growth can create dynamic shifts in power. Can the liberal economic order survive with the recent changes happening on

the international level? Liberal institutions can survive and give some transparency about what is going on exactly, according to Ikenberry (2011). Even so, it is also important to note that even these liberal institutions can be influenced. The world is much more complex than creating some new regulations, and the big players need to deal with this fact.

What is an exciting question in balancing the power if multipolarity could once again return? According to Carr or Morgenthau, multipolarity was much more stable as there were more directions and options, and the different power centres could balance each other (Morgenthau, 1985). In the bipolar world, someone always annoyed the other country, and the players lacked trust. You can never trust the other, so every actor is more cautious about difficult decisions. Other scholars say that the unipolar world is the most suitable for our current world (Wohlworth, 2009). It is even the most stable one, as the hegemon power can create its reality due to the lack of fundamental threats in the system.

Two other key concepts of historical institutionalism are also worth mentioning: path dependence and critical junctures. As described by Fioretos (2011), it 'refers to a process in which the structure that prevails after a specific moment in time (often a critical juncture) shapes the subsequent trajectory in ways that make alternative institutional designs substantially less likely to triumph, including those that would be more efficient according to a standard expected utility model'.

Acemoglu and Robinson point out that 'history is not destiny' and vicious circles are not unbreakable' (2013). Critical junctures offer appropriate opportunities for 'breaking the mould',—which may or may not be seized. They constitute short breaks in the 'normal' historical process during which 'the structural (that is, economic, cultural, ideological, and organisational) influences on political action are significantly relaxed for a relatively short period'. Critical junctures "depend on which one of the opposing forces will succeed, which groups will be able to form effective coalitions, and which leaders will be able to structure events to their advantage'.

Concerning the international regime theory, Schimmelfening focuses on norms and values and synthesises the rationalist-constructivist debate. It could be the proper interpretation from a European perspective (2015). Nevertheless, if we assess the EU and NATO enlargement from a global and geopolitical aspect, then spreading norms and values to Central and Eastern Europe seems to be secondary. The primary reason was interest-based, specifically, economic and military interest, which was in the background. The Russian perspective is very similar. They see both integrations as international regimes serving directly or indirectly the economic and military interests of the US. Expanding these cooperations with the post-Soviet bloc is a real

threat to Russian security and economic interest. The opportunist approach is the one that explains the process to us most efficiently. There was a lack of power after the dissolution of the Soviet Union, and Western institutions have only filled space. In parallel, a regime's success may also positively affect the behaviour of self-interest-following states. That is why international regimes are necessary and indispensable for maintaining and stabilising the international economic order.

In my opinion, with the assistance of hegemonic stability theory, it is possible to understand the formation and creation of NATO better. First of all, in international relations, the behaviour of states is commonly similar, and the pursuit of security is one of the most important determining factors. However, the priorities of each government's security policy take time to adapt to the frequent changes in international political relations (Valki, 1999). It is also difficult to align the theoretical issues of security policies with real-world events. There are also different views regarding the regime theory; for instance, RBJ Walker says, "Security is the responsibility of the Ministry of Uncertain Affairs" (Walker, 1993, p. 82). Ken Booth states, "security is what we make of it" (Booth, 2007, p. 14). By Barry Buzan, "security is the possibility of survival among all the threats to human life" (Buzan, Wver, and De Wilde, 1998, p. 27). Based on Egon Bahr's concept, "security in the past is absolute, in the present relative, and the future unpredictable" (Bahr, 1998). Even so, Kenneth Waltz, a US political scientist, has the most accepted view. According to his suggestion, we can talk about security on three levels: the individual level, the state level, and the international system level. I believe the last aspect should be highlighted to understand the creation and transformation of NATO.

NATO was created by politicians who had experienced the horrors of World War II and decided to create a system that would exclude further war threats among European nations. On the other hand, it has been established to provide effective and sustainable protection against any external threat. (Matus, 2005). Considering the unique situation in post-war Europe, a natural solution could only come from the United States. As a result, in 1947, the triple goal of American foreign policy was formulated: the principle of stopping the Soviet Union's expansion, the Truman doctrine, and the Marshall Plan. At that time, it was clear that the Soviet leadership would not give up an inch of its bitterly acquired positions, so confrontation between the two sides would soon ensue. It could not have been otherwise, so the North Atlantic Treaty Organization was established on April 4, 1949, by 10 Western European countries, the United States, and Canada.

Many believe that (Masters, 2016), as long as the Soviet Union existed, this military alliance could work more efficiently, as there was an opposing party. However, with the collapse of the

bipolar system, NATO has also fallen into crisis. In the first half of the 1990s, we saw that NATO members could not act efficiently anywhere (Fierke and Wiener, 1999). For instance, the Yugoslav crisis should have been solved sooner and more confidently. The upturn in the tendency that began with the collapse of the Soviet Union—that almost all states moderated military spending in Europe—started to threaten the whole existence of the alliance—even during German unification, NATO leaders, especially American officials, stated to the Russian decision-makers that NATO would not take any step further towards Central or Eastern Europe in exchange for unified Germany's full NATO membership (Shiffrinson, 2016). Nevertheless, they had to break their promise, as in that case, the military bloc would have unavoidably started to collapse, which could have raised serious security issues at that time. Even so, in the long run, this has led to a wedge between catching up with Russia and Europe, which is now culminating in serious sanctioning policies and may lead to another Cold War.

The role of path dependency is also vital to the existence of NATO. Path dependence is generally associated with historical institutionalism, although it is not its 'proprietary concept'. As described by Fioretos, it 'refers to a process in which the structure that prevails after a specific moment in time (often a critical juncture) shapes the subsequent trajectory in ways that make alternative institutional designs substantially less likely to triumph, including those that would be more efficient according to a standard expected utility model'. The central idea of the literature is 'that once a path is taken, it can become "locked in" as all the relevant actors adjust their strategies to accommodate the prevailing pattern.

Authority established by the 'founding' political institutions tends to reproduce itself. Hence, the distributional status quo impeded or thwarted any policy change. The functional explanation highlights the 'sunk costs', which complicate any change. As explained by Thelen, 'once a set of institutions is in place, actors adapt their strategies in ways that reflect but also reinforce the "logic" of the system (Thelen, 1999). Levi argues that a tree is a better metaphor than a path and explains that although 'from the same trunk, there are many different branches... the branch on which a climber begins is the one she tends to follow' (Levi, 1997). Once the rules have been laid down, the participants tend to follow them. Based on Levi's arguments, it can be accepted that the European states followed a free rider policy, as they got used to it during the bipolar world. There are plenty of examples from the last 70 years when they acted according to American interests (Iraq, Afghanistan, Yom Kippur War, Arab Spring, etc.). Without any concerns, there were also critical junctures when the change of rules could have resulted in a different kind of cooperation. With the new president's administration, Joe Biden, another critical juncture is being met, especially from a European perspective. Based on the declining

power of the US, if the European states would be willing to act more and take responsibility, then setting up new processes could result in a reformed regime that could take into account more than just the American interest.

During the last eight years, there have been significant changes in the narratives towards NATO from both the EU and US sides. From a European perspective, the question of forming a joint army has been discussed, but real actions have yet to be taken. However, even the personality of the current EU Commission president can symbolise the higher intentions on this topic. In parallel, since 2016, with Donald Trump's rise to the presidency, the American commitment towards NATO has also been challenged (Kaufman, 2017). Due to their lack of contribution, he has started criticising the structure's existence, especially the contribution of European states. Nevertheless, this narrative from the Americans was already in place; for example, in 2014 in Wales (Lasconjarias, 2014), the request for spending 2% of the GDP from each member had already been presented.

After a while, the regime reached a path of dependence that made it hard for its members to find a way out. Critical junctures have been met, but the natural character of the alliance, which is its main defining factor, could not be reformed. Therefore, the cooperation itself can be considered stagnant and stiff, which status can lead to fractures in the long run if the emerging problems are not analysed and solved. There was no notable change in their dominant status; the Americans are still responsible for 70% of the total budget and use the alliance for interest advocacy (Matthijs, 2021). Nevertheless, the European nations are starting to spend more and more; during the last six years, every member state has increased its proportion of spending, especially those who were behind. It can mean that their free-rider behaviour will end, and they will be able to contribute more to the existence of the alliance, which can strengthen the core relations among the members. Based on these numbers, it can be concluded that NATO indeed can be considered an international regime, and its acts can be further evaluated based on the interests of the hegemon.

The truth can be found somewhere in the middle of the debate surrounding the theory of international regimes and institutions. I reckon that Keohane states the international political order well, and indeed, a new international regime or organisation will be created if it is in the interest of a hegemonic state and will be maintained until it is in the interest of the creator(s) (e.g., Bretton Woods). However, I agree with Strange that regime theory has been designed to legitimise US interests primarily in international trade and security policy (Strange, 1982). Other scholars agree with this statement, for instance, Grieco. According to him, the EU functions the way it is because of US interest (and, of course, German interest). On the other

hand, ASEAN is not functioning as an international regime because there needs to be more American interest in that region (Grieco, 1999).

If we turn back to our starting point, we can say that Keohane's and Gilpin's conception is true, as it has been proven that a current hegemonic power creates the regime with its own rules and norms and maintains it until its interests are met (Gilpin, 2004). With the failure of the bipolar system, NATO was supposed to be eliminated, as the biggest threat has also been eliminated. It was possible to establish deep and comprehensive security cooperation among the actors, which served the interests of European peace and tackled the process towards a united Europe. NATO has been maintained, and its border has constantly been approaching Russia. It is a natural reaction that this process appeared as a threat to the Russians. Instead of seeking to establish a common European security and defence policy, they have sought allies in the other direction so another international regime, the Shanghai Cooperation Organization, could be established.

It is important to note that every post-socialist country had its referendum on joining any integration; however, the narratives were the same in every case, with the governments and the majority of the population supporting these directions. That is another question whether these countries would have had any other option during the late '90s. Nevertheless, the same question arises in the case of Ukraine, where the situation is way different than in the case of the CEECs. There was no lack of power during the last ten years as Russia became more powerful both internally and in the region. Even so, the economic and military interest is still there from the Western perspective. It is a fact that there were no referendums held in Ukraine on whether they should join the EU or NATO (Van der Brug et al, 2018). Until 2014, the population was massively divided about these questions. After the revolution, only those political actors who supported the idea could survive. Obviously, after 2014–2015, most people do not support any cooperation with Russia, and only one option remains cooperation with the West. Although this is a very simplified approach to the critical question of Ukraine's geopolitical direction in the future, in my opinion, the current government is providing a very wise narrative based on its cautiousness towards every major power. Ukraine should focus on its strengths and interests and seek to cooperate effectively with every neighbour and regional power. An effective strategy is to launch integration projects to lower transaction costs, reduce the risk of monopolisation, and increase the likelihood of playing a bridge role.

2.2.2 Path dependency - revolutions without regime change

There is a fundamental question related to the power structures in Ukraine. Were there any regime changes in the country since the 2014 revolution? It can be argued that despite the elites' more outstanding quantitative renewal than in the post-orange period, qualitative change has yet to occur (Matsiyevsky, 2018). The old operational code continues to operate. A regime changes when new players are on the political stage or accept new game rules. 'Whenever there is a change of players, without a change of rules, there is no ground to argue that a regime has changed. The point that rules must be changed, whether developed or imposed, means that they must be accepted and followed' (Skaaning, 2006, p. 10).

'The lack of elite renewal and the dominance of informal rules over formal procedures are the two factors that keep the institutional core of Ukraine's hybrid regime unchanged' (Matsiyevsky, 2018, p. 349). Yanukovych's regime has gone, and Poroshenko's regime has been installed. The corruption, clientelism, and rent-seeking practices have not been contained. It is commonly called regime change, but the system remains the same. Ukraine's regime survived the revolution. During the last forty years, the country's regime has changed only once, after the fall of the Soviet Union. The major democratisation indices (Freedom House) demonstrate that since the mid-90s, the political regime in Ukraine has been the same and dominated by oligarchic rule.

In Serbia and Georgia, the personal changes in power also resulted in elite change, while in Ukraine, neither the 2004 electoral revolution nor the 2014 political one has produced a similar outcome. Matsiyevsky argues that 'Ukraine did have a political revolution, but the institutional core of its hybrid regime remains largely unchanged' (2018, p. 350).

In contrast to the Baltic and Central European states, Ukraine's democratic opposition was organizationally weak, divided, and outnumbered by the communists, who gained two-thirds of the seats after the 1990 parliamentary elections. 'It prevented lustration, gave rise to the oligarchy, and put Ukraine on the partial reform track' (Wilson, 2015, p. 172–176). The capture of the state by the new elite brought about the decline of formal, constitutional rules and strengthened the informal ones.

Out of eleven analytically extracted elements of a revolution, in the 2004 events, there were only three: conflict between elites, mass mobilisation, and charismatic leadership, whereas, in the 2014 events, seven elements were visibly present: international pressure, economic decline, paralysis of the state, a conflict between elites, mass mobilisation, multiple sovereignty, and violence (Matsiyevsky, 2018b). The lack of these aspects always shows that there was only a

political change, not a social one. In contrast to 2004, the 2014 crisis was triggered by a new European hope, as Yanukovych refused to sign the Association Agreement with the EU, and people started to protest against him.

The Euromaidan revolution resulted in personal changes in many positions, but the social structures and relations remained unchanged. Based on Matsiyevsky's findings, the institutional trap is one of the most primal reasons. 'It is a set of ineffective yet stable institutions that no major political actor is interested in changing' (2018, 351). During the 30 years of independence, the institutional building could not reach a successful level, especially regarding the rule of law. The personal changes were limited to elite renewals, and most importantly, the structure of interest groups remained the same, which is responsible for inefficient bureaucracy.

In 2014, a new hope emerged, and it was assumed that the long-awaited democratic breakthrough could come, but in reality, it was still the same elite's rotation within the same regime. Nevertheless, it is essential to note that there were no new elections; most of the parliament deputies just fled the country. It is how the rest could become the majority. This majority has turned Ukraine from the president-parliamentary model to the premier-presidential model that the country had between 2005 and 2010. In practical terms, it was what Hale calls a shift from a 'single' to a 'competing pyramid' system. 'A single pyramid system assumes that the power is concentrated in the hands of one entity, be it a ruler or a group' (2014, 422-436). Most positions have been taken by agreement and without any democratic election. Poroshenko was building a single-pyramid system and followed his predecessors in building a client network.

In Ukraine, the movement of elites has never led to true renewal. True reformers did not replace firmly entrenched rent-seekers in 1991, 2004, or 2014. Elite circulation adopted a reproduction throughout regular election cycles. Parliamentary seats have changed hands for between 3 and 10 million dollars. At most, six to seven dozen lawmakers may be considered reformers (Savchenko et al, 2018). The parliament requires at least 50% of its members to be reformers to escape hybridity and return to sustainable development. It indicates that the state cannot be permanently transformed by a simple "quantitative" renewal of the legislative elite. The absence of "qualitative" Rada renewal precluded the development of a solid pro-reformist core in the parliament.

Corruption and unofficial agreements are added to oligarchic influence, clientelism, and the appointment quota for public officials. The most significant challenges to sustainable development in Ukraine are these behaviours. If Ukraine's regime had changed, we could have seen a clear improvement in things like democracy, the rule of law, governance, and the

economic climate. However, most metrics show very little progress, which indicates that the institutional environment is substantially stable. Since the Euromaidan revolution, Ukraine's democracy score, developed by Freedom House (2022), has only marginally improved: from 4.93 in 2014 to 4.64 in 2018 on a scale from 7 to 1 (with one being the best). Nevertheless, it is poorer than Ukraine received in 2005 (4.21), a year before the Euromaidan revolution. The World Justice Project's rule of law index for Ukraine was 0.47 (on a scale of 0 to 1) before the Euromaidan revolution, and it barely increased to 0.50 in 2018. The economic freedom index shows improved outcomes. Ukraine was able to exit the group of repressed economies thanks to an increase in the score of nearly six points (from 46.3 to 51.9 on a scale of 0-100) compared to 2013.

After independence, the regime in Ukraine changed only once, lasting from the late 1980s to the mid-1990s. Since that time, the political regime in Ukraine has been hybrid. High hopes were replaced with discontent due to pervasive corruption, anarchy, and deteriorating living conditions. Therefore, Poroshenko's four years in office show that he was unable or unwilling to "reset the system." An essential component of the hybridisation of the regime and proof that these institutions may endure for more than 20 years in Ukraine is the presence of informal politics in the political process. The previous finding does not imply that Ukraine is destined to stay hybrid. The rise of informality is the rent-seeking elite's inevitable response to the increasing internal (reform push) and foreign (Russian aggression) problems. The institutional trap that has developed in Ukraine since the middle of the 1990s shows the regime's capacity to survive and reproduce even in the face of severe internal and foreign shocks like revolution and war (Kuzio, 2018).

Ukraine is in a situation of path dependence and cannot break out of clientelism. There were already more critical junctures (in 2004 and 2014), but wrong implementations were carried out in both cases. The nomenclature has stolen the people's dream for renewal and a European future. The most extensive trials stem from the wrongly carried out privatisation. Specific examples are going to be analysed in Section 4.2.5. Ukraine was the most remarkable example of how managers could become owners and, after that, oligarchs who influence the economic and political structures.

What could be the solution? It is a complicated question; oligarchs should be punished, and their economic power should become state-owned again. An option would be to build a system similar to the Chinese, but with much more serious punishment for corruption. However, it is also important to note that the ongoing full-scale war can wipe out these existing oligarchic methods more effectively than anything previously.

2.2.3 From hope-to-disappointment – rising populism in Ukrainian politics

The last 30 years of Ukraine's history were filled with an enduring hope that turned to disappointment later. Zelensky's support is still relatively high, but he also promised much more than he achieved later. It is worth mentioning that populism is considered an opportunistic approach to politics to please voters (Weyland, 2017). The first attempt at reform was in 1994 by Leonid Kuchma, who appointed a special economic team to accelerate the transition to a market economy (Aslund, 2009). Eventually, during his presidency, the country's economy was still struggling while the influence of oligarchs emerged. Then, after his re-election in 1999, he appointed Yushchenko as prime minister, who was recognised as a remarkable reformer at that time (Kuzio, 2005). The hopes were relatively high, but the disappointment came quite early. After a year of clashes between the Presidential Administration and the Cabinet of Ministers, the parliament voted Yushchenko out, who was replaced first by Kinakh and then in 2002 by Yanukovich, both related to pro-Russian oligarchs (Osipian, 2006). Yushchenko's reforms were too much for the oligarch-backed president. As a result of the Orange Revolution, Yushchenko received another chance from the public, this time as president. He appointed a very effective reformer as prime minister, Yuliya Tymoshenko. During Yushchenko's presidency, he constantly blocked any attempt by Tymoshenko to implement significant reforms (Kubicek, 2009). They two could never really achieve a compromise, and their fight ended with Yanukovich as prime minister again and Tymoshenko in prison. After the Maidan revolution in 2014, the hopes were high again, but the Yatsenyuk-led government could only partially fulfil them.

Nevertheless, they have successfully cleaned up the central budget and introduced price reform at Natfogaz. Before he could start to overlook the banking sector, he was dismissed by Poroshenko, and in parallel, the pace of the reforms also slowed down (Konoczuk, 2015). Poroshenko's administration missed the opportunity after the Maidan, resulting in his defeat in the 2019 presidential election. Now it is Zelensky's turn; after two years of his presidency, many criticised him (Kranolutska and Verbyany, 2020), but he has achieved more than his predecessors.

According to Ivan Krastev (2006), four key factors characterise populism in the post-Soviet region. These include anti-corruption rhetoric, anti-elite awareness, antagonism against privatisation, and fighting against social inequalities rooted in transitioning from a communist economic system to a market economy. Similarly to Hungary (Benczes, 2016), all these aspects can be found in Ukrainian politics specifically the first two factors.

Populists in Ukraine and Europe are anti-globalists. They criticise the IMF for imposing heavy demands on the government in return for financial assistance. Tymoshenko and other members of the Batkivshchina party, the Radical Party (led by Lyashko), and the Opposition Bloc of Poroshenko often verbally accused these institutions of reducing the sovereignty of Ukraine with their demands (Oxford Analytica, 2019). Populists everywhere use radical rhetoric against corrupt elites, the 'liberal establishment,' and authorities. The case is similar in Ukraine, where corruption is exceptionally high and has become a kind of routine for populist politicians.

Another aspect is that populists are authoritarian and potentially threaten democracy. It is embodied in the lack of transparency and the mystification of their policy implications or in the promotion of using a 'strong hand' in leadership, which results in stability in the long run (Halmai, 2019). They also tend not to listen to external advice and use populism to maximise their authority and power. Populists provide weak, or outside powers unfairly impose no support for reforms they believe. During the previous parliamentary period, the two populist parties (Batkivshchina and the Radicals) had the poorest attendance record, and their votes for reforms were by far the weakest. They did not support judicial, pension, or healthcare reforms (Kuzio, 2019).

Many Ukrainian political parties pursue populist policies, but few are ethnic nationalists. Patriotism rather than ethnic nationalism is more prevalent in Ukraine, with popular opinion showing high levels of negativity toward Russian leaders but not Russian citizens (Kulyk, 2014). Usually, in countries ruled by populist parties, nostalgia plays an important role. Nevertheless, it is different in Europe and the US, as in Ukraine and other post-Soviet countries, nostalgia for the Soviet Union dominates (Pourtova, 2013). However, they are both based on a longing for the past. Among European populists and nationalists, it mainly represents the status quo of the pre-immigrant era when they were ethnically more homogenous. It is often only a counter-reaction to multiculturalism and immigration. These aspects do not exist in Ukraine.

Related to the above discussion, for Ukrainians, the threat to the country's sovereignty comes from Russia, not the EU (Yekelchuk, 2015). The ideological divide in Ukraine was not between defending national sovereignty and EU membership, as in Central Europe, but between integration into Europe or integration into Moscow-led and Russian-dominated Eurasia (Kuzio, 2018). A similar factor is that the older generation and 'transition losers' tend to vote for populists, such as the losers of globalisation in Western Europe or the US. Nostalgia for the USSR was mainly found in the Donbas and Crimea, where the Soviet identity remained popular. Twenty-one per cent of Ukrainians would like to see the revival of the USSR, with the highest

proportions in the east (26 per cent) and south (29 per cent), with a more significant proportion in the over-60 age group (40 per cent), and among ethnic Russians (36 per cent) (Kulchytskyy and Mishchenko, 2018, 187–188).

An important concept that needs to be mentioned is the heartland. It refers to the people who represent the majority of a country. Suppose it is being introduced in a country's politics after the pure vs corrupt dichotomy. In that case, the voters immediately consider themselves members of the pure, and this majority is the core of the heartland in this manner. According to Canovan, heartland mainly reflects on the past or on something that has been lost. She also argues that the expression is being used because it is more felt than reasoned and can be easily used for massive manipulation (Canovan, 1984). It is also argued that populism always occurs as a response to a crisis (Hawkins et al., 2017). The pro-European nationalistic Ukrainians consider the whole territory of Ukraine "motherland". The abovementioned concept is purely descriptive of the existing mentality, even among the not-very-nationalistic Ukrainians. In our case, populism has started to rise not only as a response to a crisis (which was economical and political as well) but in parallel, "something" has also been lost. That "something" was the strategic territory of the country. However, the double Russian-Ukrainian identity of the population stayed, and the clashes between them just got stronger. When discussing the cultural backlash narrative, it is essential to state that populism and nativism are two different descriptions (Mudde and Kaltwasser, 2012). The pure people are often recognised as natives, and the corrupt elite is the one that is supported by external powers. In the case of Ukraine, the two sides are clear. The corrupt ones are the Russian-speaking elite who have been in power since the country's independence, and the pure people are pro-European western Ukrainians.

The country of 42 million people has struggled with identity questions for 30 years since it became independent from the Soviet Union. None of the Ukrainian governments could resolve the internal divisions or build solid political institutions, implement economic reforms, overcome corruption, or reduce the influence of powerful oligarchs. All the presidents allowed oligarchs to gain increasing control over the economy; that is how we could reach a situation by 2010 when Ukraine's fifty wealthiest people controlled nearly half of the country's gross domestic product (Rojansky and Wilson, 2013). According to these numbers, it is not even a question that elites are dominating not only Ukraine's economic life but also its political life.

The rising economic insecurity among the voters could result in a higher amount of populist voters in the end. Based on some polls and measures, the importance of insecurity has indeed played a role among populist voters (Margalit, 2019). Nevertheless, a telling differentiation appeared when cultural attitudes were added (Inglehart and Norris, 2016). Based on that, it can

be claimed that the most influential internal aspects of rising populism in Ukraine are corruption, the crisis, economic insecurity, and cultural backlash. Even one of these aspects would have been enough. Even so, due to these root causes, the rise of populism in the country was inevitable, not even considering external factors.

3 Methodology

3.1 Research design

Methodology is an essential aspect of an academic paper as it provides a clear and systematic approach to conducting research, collecting and analysing data, and drawing conclusions. A sound methodology helps to ensure the validity and reliability of the study and enables other researchers to replicate or build upon the findings. My central hypothesis is that *Ukraine is far from exploiting all the benefits of Eastern Partnership due to the country's economic and geopolitical challenges, in spite of that the political will and commitment to drive the country towards the EU has significantly increased since 2014*. On the one hand, quantitative figures will be presented and analysed. In parallel, a qualitative analysis, reports, and literature will be provided, resulting in a mixed methodological approach that incorporates both methods in different phases to obtain a broader perspective.

An evidentiary advantage of the quantitative approach is that the results are valid, reliable, and generalisable to a larger population (Chor, 2010). The paper intends to use composite indices for the analysis based on the World Bank's and the OECD's databases, resulting in more reliable results. On the other hand, when it comes to human behaviour or other hardly definable topics, numbers can be wrongly used as many of these aspects cannot be quantified. A profound advantage of qualitative research (Kelle, 2006) is the ability to analyse descriptive data about social circumstances by creating case studies. These studies are easily replicable or generalisable to some of the population. In this work, a mixed methodology will be presented, harmonising both qualitative and quantitative methods, as the particular case of Ukraine requires that approach due to its current circumstances.

In the case of the first sub-hypothesis - *if Ukraine would like to establish deeper economic cooperation with the EU, then the country must improve its economic maturity-preparedness in order to maximise the economic gains and benefits*-, the theory of economic integration maturity and its methodological model are going to be used, which was initially created for the Central and Eastern European countries. This paper will extend the existing methods and the geographical framework of the theory, and in parallel, an additional aspect will also be created.

The analyses will be based on the criteria of a functioning market economy, competitiveness, convergence, macro-stability, financing ability, geoeconomics, and security-related factors. The timeframe of the analyses will be from the mid-2000s until 2019. Tibor Palánkai's work played a central role in the methodological development of integration maturity as a discipline (2004). Initially, the criteria were developed according to the specificities of the Central and Eastern European Member States. Those results allowed us to judge whether a Member State was ready to join the integration. Extending the theory (see Table 1) to the Eastern Partnership countries can provide a clear understanding of how the participating countries and the EU can benefit from the cooperation. Under what circumstances would it be possible to maximise both sides' advantages and economic growth? By discussing this question and providing a comprehensive answer based on specific suggestions for economic governance, the dissertation's relevancy would be higher, and its results would be more time-lasting.

Table 1: Comparison between the applied indicators in the case of the original and the extended methodology

	Original Methodology	Extended Methodology
Functioning Market Economy	EBRD reports	BTI reports, CPI
Competitiveness	IMD and WEF reports	WEF reports, LFP rate
Convergence	GDP, GDP per capita, Life expectancy, Current Account Balance	GDP per capita at PPP, Current Account Balance, Access to high-speed internet, HDI, Government debt to GDP
Macroeconomic Stability	GDP growth, Unemployment rate, Inflation	GDP growth, Inflation, Unemployment rate, IMF Credit to GDP
Financing Ability	FDI, absorption rate	FDI inflow, Non-performing loans, Gov net lend/ borrow

Source: Palánkai, 2004

Before listing the next part of the study, it is important to understand the several similarities that the Western Balkan and Ukraine have. First, both the Western Balkans and Ukraine have rich histories and cultures that have been shaped by their geography and geopolitical position. Both regions have been influenced by various empires, such as the Ottoman and Russian

Empire, and have experienced periods of conflict and political instability. They also have diverse populations with different ethnic and religious backgrounds. This diversity has sometimes led to tensions and conflicts, particularly in regions where different groups are concentrated. Probably the most important aspect is that both regions have expressed a desire for closer integration with the European Union. The Western Balkan countries are currently in the process of negotiating their accession to the EU, while Ukraine signed an association agreement with the EU in 2014 (Dragneva and Wolczuk, 2014). They are highly dependent on imported energy as well, particularly natural gas from Russia. This dependence has left both regions vulnerable to price fluctuations and supply disruptions, and has been a source of political conflict. Last but not least, significant economic challenges occurred in recent years, including slow growth, high levels of unemployment, and corruption. Both regions have also struggled with issues such as inadequate infrastructure, limited foreign investment, and weak governance.

Overall, while the Western Balkans and Ukraine are different regions with their own unique challenges and characteristics, they share similarities in terms of their history, culture, and economic and political context. Most importantly, Western Balkan countries have the highest possibility to get EU membership as they started the process earlier than Ukraine, therefore their economic development can be a perfect role model for the post-Soviet region.

In the case of the second sub-hypothesis (*Despite recent political intentions, Ukraine shall not be provided by a fast-track EU membership and favorized against the Western Balkan (WB) countries since its less mature based on economic terms.*), a statistical methodology will be used, and a composite indicator will be created. This process aims to have a deeper understanding of the ongoing integration process in Ukraine. Since a single variable cannot fully characterise it, it is worth creating a composite indicator that compresses the relevant indices, which determine integration maturity. The statistical process is based on the "Handbook on Constructing Composite Indicators" published by the OECD (2008). Creating a composite indicator allows comparing and scaling countries easier while still having a deep and complex overall picture.

Working with one single variable is usually easier than identifying similar trends among several indicators (OECD, 2008). Based on the above-mentioned aspects, the newly created indicator will conclude each part of Palánkai's factors. The specific variables that have been used can be seen in Table 2.

Table 2: The methodological framework of the composite indicator

Criteria	Indicators	Data source(s)
Functioning market economy	Indices of BTI reports, Corruption Perception Index	Bertelsmann Stiftung, Transparency International
Competitiveness	Global Competitiveness Index, Labor force participation rate	World Economic Forum, International Labor Organization
Convergence	GDP per capita at PPP, Current Account Balance, Access to high-speed internet, HDI, Government debt to GDP	World Bank WDI, IMF WEO
Macroeconomic stability	GDP growth, Inflation, Unemployment rate, IMF Credit to GDP	World Bank WDI
Financing ability	FDI inflow, Non-performing loans, Gov net lend/ borrow	World Bank WDI

Source: Based on authors' research

Last but not least, in the case of the third hypothesis (*if Ukraine cannot overcome its security-related concerns and challenges, then the country's participation in any economic or military cooperation may not be realised*), the already complex analyses are going to be extended with an additional security aspect that is required due to the uniqueness of the Ukrainian case. For this hypothesis qualitative analysis will be used as it is the most crucial empirical method in international relations that covers security-related challenges. A qualitative methodology has high flexibility and applicability: a textual record exists for almost every major international event in modern history. Qualitative research also delivers impressive explanatory insight, rigour, and reliability (Moravcsik, 2014); therefore, the third hypothesis is going to be discussed with this methodology based on the aspects of political economy theories, as it seems in the case of Ukraine that economic growth and development cannot be reached before solving its security concerns. Since the armed conflict's outbreak on the country's eastern territory, the security question has played an important role. But all in all, the security dilemma has already existed in the country since its independence. On the other hand, the necessity of the current existence of NATO and also its current challenges are going to be examined, as understanding NATO's relations with its eastern neighbours (Casier, 2015) is indispensable from the Ukrainian perspective. The major global players' roles in Ukraine will also be analysed.

3.2 Composite indicator creation

It is important to note, that in chapter 3 only the methodology of composite indicator creation will be discussed, in parallel with a detailed explanation for variable selection. The execution of the specific steps will be presented in chapter 4.

Composite indicators, which combine multiple individual indicators into a single numerical value, have become increasingly popular tools for measuring and comparing complex phenomena across different entities and time periods. Despite their widespread use, these indicators present both strengths and weaknesses that must be carefully considered. In this part, we will discuss the advantages and disadvantages of composite indicators, focusing on their utility, potential pitfalls, and implications for policy and decision-making.

One of the most significant strengths of composite indicators is their ability to simplify complex information, making it more accessible for policymakers, researchers, and the general public. By consolidating numerous individual indicators into a single value, composite indicators facilitate easier understanding and comparison of the phenomena under investigation. Moreover, composite indicators serve as an effective communication tool by highlighting key issues and trends. They can help stakeholders focus on essential aspects of the problem at hand and identify areas that require attention or improvement. Furthermore, composite indicators enable comparisons across different entities, such as countries or regions, and time periods, which can be valuable in identifying best practices, monitoring progress, and setting targets for improvement. Another advantage of composite indicators is their multidimensionality, allowing them to capture a comprehensive view of the phenomenon being measured by incorporating various dimensions. This aspect is particularly relevant for complex, multifaceted issues, such as sustainable development or quality of life, which cannot be adequately represented by a single indicator.

Despite their advantages, composite indicators have several weaknesses. First, the quality and availability of the underlying data play a crucial role in determining the accuracy and reliability of the composite indicator. Inaccurate, unreliable, or incomplete data can lead to misleading or biased results, ultimately impacting the indicator's effectiveness. Another weakness of composite indicators is the subjectivity and potential bias involved in assigning weights to individual indicators. Different weighting schemes can yield different rankings or conclusions, making it challenging to determine the most appropriate weight for each component. Furthermore, composite indicators may oversimplify complex phenomena by reducing them to a single numerical value, potentially ignoring important nuances and interactions between

various factors. This oversimplification can also lead to misinterpretation and misuse of the indicators, especially when used for ranking or benchmarking purposes. The lack of transparency in the methodologies and data sources used to construct composite indicators can also be a significant drawback. Insufficient transparency may make it difficult for users to understand the construction process and evaluate the reliability of the composite indicator. Lastly, by aggregating multiple indicators, composite measures can mask the performance of individual components, hindering the identification of specific areas requiring improvement.

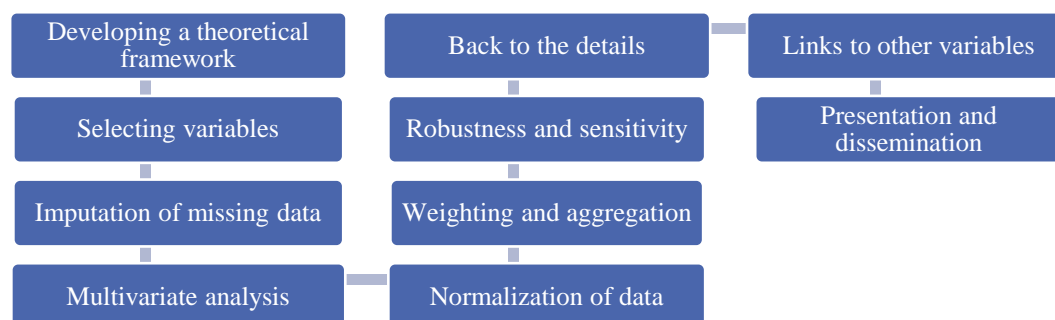
In conclusion, composite indicators offer valuable benefits, such as simplification, communication, comparability, and multidimensionality. However, they also have significant weaknesses, including data quality and availability concerns, subjectivity in weighting, oversimplification, and potential misinterpretation. To effectively use composite indicators, we must be aware of these limitations and ensure transparency in the construction. It is crucial to use composite indicators alongside other sources of information when making decisions or drawing conclusions, rather than relying solely on them. This is why it is only part of the used methodology and will mainly assist the comparison of Ukrainian economic results to Western-Balkan data.

As a first step, the variables were chosen based on the integration maturity literature, but data availability also played an important role. The timeframe was chosen based on data available to get a balanced dataset, so the analysed timeframe is between 2006 and 2019. On the other hand, beginning in 2020, the COVID situation had a massive impact on all the countries, which deteriorated the overall picture; therefore, the data from 2020 and 2021 will not be assessed. In these two years, only the executed economic reforms will be listed in Chapter 4.2. The Ukrainian data will be compared to all five Western Balkan countries' results: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. These are the countries that are in a similar economic situation to Ukraine. They are not post-Soviet, but post-Yugoslav post-Socialist countries with similar characteristics.

Furthermore, most of them already have candidate status; basically, the internal ongoing economic processes are very similar to those in Ukraine. It is the most crucial reason they are predestined to be compared to Ukraine.

The OECD (2008) manual highlights ten steps to be taken to make a statistically stable and reliable indicator. These are the following (see Figure 3):

Figure 3: The methodological framework of the composite indicator



Source: OECD, 2008

This composite indicator is appropriate to show these countries' overall economic integration maturity to join the EU based on five economic criteria and 16 indices. The chosen variables are arguable; however, they have been chosen based on the literature, from reliable sources, and proportionately for each primary criterion. The novelty of this methodology is that it measures the candidate countries' economic readiness and maturity to join the EU. Its drawback is that it only measures the economic aspects of accession in a quantitative way. The former drawback cannot be handled within the framework of this study; in the future, a similar composite indicator for the political and institutional aspects can also be established. Despite this, it is evident that economic aspects can be measured most objectively. This methodology can be most effective in assessing the economic aspects. The other reason is that the role of economic aspects has been appreciated in recent years as more than just political reasons are considered when a candidate country joins the EU.

In the following, each variable's contribution will be introduced in detail based on the steps of composite indicator creation.

3.2.1 Selection of the variables

The purpose of this step is to support the above-mentioned theoretical definition. Data availability and quality greatly influence this process, so it is worth discussing the strengths and weaknesses of the selected sub-indicators in this step. First, an aspect of a functioning market economy will be presented. The first variable is Bertelsmann Stiftung's Transformation Index. It will be applied as it analyses and evaluates how developing countries in transition are steering social change toward democracy and a market economy. The index uses 17 aspects for the evaluation of 129 countries. The BTI aggregates the results of transformation processes and

political management into the Status Index and the Governance Index. With its two analytic dimensions of political and economic transformation, the Status Index identifies where each of the 129 countries stands on its path toward democracy under the rule of law and a social market economy. In our calculations, the Status index has been used. The second variable was the corruption perception index created by Transparency International. CPI currently ranks 180 countries from 100 (very clean) to 0 (highly corrupt) and considers 16 different surveys and assessments from 12 different institutions. In our case, these results have been rescheduled to a 0–10 scale.

Regarding competitiveness, the EU provides no concrete or specific methodology but only different guidelines and patterns. For instance, a country seeking full membership needs to implement the competition law of the EU and fulfil all of its criteria. However, several economic research institutes publish case studies with detailed competitiveness reports. In this work, studies from the WEF (World Economic Forum, The Global Competitiveness Report) will be presented to examine the competitiveness of Ukraine and the Western Balkan countries in parallel with the labour force participation rate.

Macroeconomic stability is usually measured with three indicators: GDP growth, unemployment, and inflation. These indicators represent the main indexes of an economy, and if the analysed period is picked correctly, the chosen development path shall be bright and clear. Above these three, the balance of payments has also been analysed with the assistance of the current account balance, as the financial foundations could be more stable among the participating countries.

Convergence is another vital aspect of the research, as it is possible to measure an economy's development level with its assistance. As trade among different economies in the mid-and long-term can lead to asymmetric interdependencies, which often negatively impact underdeveloped countries, it is essential to analyse them in the case of the Western Balkan countries. According to László Práger (2004), a relatively objective view of the convergence of a country's economy can be measured by analysing the leading macro-economic indicators (GDP, GDP per capita), the level of integration of the society with information technologies (internet use), and the social indicators (life expectancy, number of hospitals). In our case, some of these indicators were exchanged due to a lack of data availability; therefore, the following variables were used in this part of the assessment: GDP per capita at PPP, percentage of the population with high-speed internet access (HDI), government debt to GDP, and general government net lending and borrowing. In case of GDP per capita at PPP an additional comparison has been added to the

EU27 average. Basically this number is going to show us more effectively how the countries are converging towards the already joined members (Siljak, 2015).

Lastly, financing ability is a specifically important aspect in the case of the Western Balkans. These countries have already been receiving funds from the EU for development goals, and the accountability of the governments has been questioned many times during the last 15 years. Therefore, the inward foreign direct investment level is a good measure for understanding the trust of external businesses in the region. On the other hand, the amount of non-performing loans alongside and using IMF credits has been used during the analyses, as most of these countries rely on EU funds and long-term loans from the IMF.

4 Economic analysis

4.1 Economic outlook

Ukraine, as one of the most successful member states of the former Soviet Union, has a vast potential to do much better economically (Sutela, 2012). Since its independence 30 years ago, no truly game-changing charismatic leader has emerged (Tulyakov, 2013). Economic reforms have been promised many times, but long-term macroeconomic stability has yet to be reached. The success periods needed to last longer and stay more sustainable. The timeframe of our macroeconomic analysis is from 2006 to 2019. The most critical reforms started in 2006 after the Orange Revolution ushered in a new government. 2019 is the endpoint; that was the last year without crisis management due to COVID. Nevertheless, in this only section (4.1.), 2020 and 2021 data will also be analysed to understand the latest reforms executed by Zelenskiy's government.

After many years of political and economic stretching, the Ukrainian economy had stabilised during the last 3–4 years, but the outbreak of COVID-19 stopped this positive trend. Based on world bank data, GDP growth fell to -4.02% in 2020 (from 3.2% in 2019), and different expectations are also harmful, as the post-pandemic global economic recovery might prolong. As a result of a successful reform program, the Ukrainian economy was in a relatively strong position before the pandemic hit the country in March 2020.

Since being elected, Volodymyr Zelensky, the current Ukrainian president, has made his first official visit to Brussels. It was a symbolic move that strengthened Ukraine's commitment to Western institutions (EU, NATO). He has also assured the western officials that there will not be any obstacles in the further implementation of the Association Agreement on the Deep and Comprehensive Free Trade Area (DCFTA). After gaining control over the legislation as a result of the 2019 fall parliamentary elections, he has appointed virtuous reformers in essential law enforcement and economic positions (Donaj, 2020). Relevant new laws came into force, such as the one on the land market or the anti-Kolomoisky law that forbids the return of nationalised banks to their former owners. In parallel, the fight against corruption has also intensified with establishment of the High Anti-Corruption Court (HACC) and the National Anti-Corruption Bureau (NABU) relaunch. In this part, the main focus will be on deoligarchisation and decentralisation. However, the law on land, national bank, and language reforms will also be assessed shortly.

4.1.1 Structure of the economy

Regarding how the Ukrainian economy is set up, agriculture plays a significant role. In 2019, it contributed to 9% of the GDP. During the previous 15 years, it was typically less than 10%, except for the worst two years (2014, 2015). It also employed 14% of the working population in 2020 (World Bank). As Ukraine is the world's fifth-largest exporter of grains, the EU's recent ease of customs duties on agricultural products can result in a massive boom for this sector (Rogach et al., 2019).

The industrial sector had a telling decline during the studied period. In 2005, it was responsible for 32% of the GDP; now it is only 21%, which can be considered a significant result. It employs a quarter of the active population (World Bank). As Ukraine is the sixth largest producer of iron, the sector is dominated by heavy industries. The steel and iron sectors account for around 30% of industrial production. Other relevant sectors are coal mining, chemicals, mechanical products, and shipbuilding (Saha and Kravchuk, 2015).

Last but not least, the service sector employed 61% of the workforce in average and account for 54.4% of the GDP in 2021. This number constantly grew, representing the country's successful modernisation process (World Bank). In the case of Ukraine, it is also important to highlight that energy transit plays an organic role in the service sector. Gas transit revenues are recorded in the balance of payments as a transport service (Pirani, 2007). The share of transport services slightly decreased from 9.3% to 8% during the last two years (World Bank). Russian and Caspian oil and gas have been transported through Ukraine to Western Europe and the Balkans.

Nevertheless, crucial changes are about to come in the life of this sector due to the construction of the Turkish and North Stream gas pipelines. Russia aims to decrease its dependency on Ukraine, meaning these transfer routes will avoid the country's territory shortly (Sziklai et al., 2020). Not even mention that, due to the war, every European nation is trying to obtain lower amounts of Russian gas. Even soon, this extra income will not be available for the Ukrainian government.

The events of 2013–2014 also had significant effects on the economy's structure. The eastern provinces played an essential role in heavy industry, engineering, and machine-building. These areas were net contributors to the central budget (Yakubovskiy et al., 2017). The share of manufactured exports accounted for 41.1% of current account receipts in 2013 and dropped to 31.4% in 2018. The share of agricultural products, mainly produced in the western part of the country, has increased from 18.9% to 25.1%. With the loss of Crimea, around 5% of the GDP has been lost, but as the territory was a net recipient of fiscal transfers, the expenses were also lower. The share of tourism has also dropped from 5.6% to 2% in 2018. The share of IT services

almost doubled as Ukraine developed its ICT industry. It has increased from 2.8% in 2014 to 4.7% in 2018 (World Bank).

Please note that trade relations will be discussed in section 5.

4.1.2 Current account balance

The fiscal balance of the country was in negative territory every year. However, 2008-2014 was much worse (4% on average) due to loosening fiscal policy, large pensions, wage increases, and generous energy subsidies. The previous government has reduced the "social benefits" expenditure by cutting subsidies and implementing tax and pension reforms (Schevchuk et al., 2019). The social contributions were around 35% of the GDP until 2015; since then, they have averaged around 21% (World Bank). Many state-owned enterprises (SOEs) are also causing a significant drain on public finances, and more progress has yet to be made in terms of privatisation throughout the years. The increasing amount of FDI inflows was sufficient to cover more than half of the current account deficit. Nevertheless, the total volume is still relatively low. Obviously, in 2014 and 2015, nobody wanted to invest in a country suffering from a raging war, but in 2016, the ratio of FDI started to rise again. Currently, it is 4% of the GDP, which is the pre-Maidan ratio (Getzner and Moroz, 2020). The highest FDI inflow was measured between 2005 and 2008 at 7% on average (World Bank).

As the current account deficit is expected to remain at the same level and in a negative state, Ukraine is highly reliant on the inflows of external sources, namely creditors such as the IMF, the World Bank, the USA, and the EU. It also means that the space for manoeuvring for the current government is minimal, and they must maintain good relations with their Western partners. It is not easy, as in exchange for the funds, they demand reforms against the interests of the oligarchs whose support is needed to rule the country. Nevertheless, Ukraine has a lousy track record in reforming implementation and IMF programs, and the current cabinet's policy direction needs to be clarified, which causes further uncertainty (Pleines, 2021).

4.1.3 Inflation rate and banking sector

The inflation rate was also showing very hectic and unstable results. At the beginning of the analysed period, it was 20% on average until 2010, which is very high. Then, for two years, it could already go below 20%; in 2012 and 2013, it was even lower than 10%, representing a sound development track. Then for another five years, the yearly average was 20% again, reaching a record high of 38% in 2015 (partly driven by a noteworthy exchange rate

depreciation). In the last two years, it was 8% and 9%, and it is expected to decrease further again to 7.9% in 2021 and 6.8% in 2022 (Yeoman, 2021). The National Bank of Ukraine (NBU) has played a vital role in restoring financial stability by restructuring the banking sector (Kirchner et al., 2020). They have closed weak banks and intervened in other big players, such as Privatbank. The aim was mainly recapitalisation and nationalisation.

The banking sector as a whole is now in much better shape. The net foreign asset position is favourable, there are enough deposits to finance lending, and the capitalisation of the sector, in general, is much higher. However, non-performing loans are still relatively high (World Bank); currently, it is around 41% of total gross loans. Even so, the trend is positive; it has decreased since 2017, when it was 54%. Typically, the banking sector is highly exposed to the central government, and access to credit is relatively complicated and expensive. The most accessible instrument is provided in local currency by the Ukrainian banks. These are predominantly short-term, have a high-interest rate, and often require hard collateral (OECD, 2020). The number of days for starting a business has also significantly decreased, from 35 (2005) to 7 (2016) (World Bank). In 2014, just after the Maidan Square Revolution, the NBU abandoned the fixed exchange rate and switched to a flexible exchange rate regime. This measure was critical in stabilising the current account imbalances, and at the same time, it eased the pressure on foreign exchange reserves. It has played an important role in the stabilisation of the economy.

4.1.4 Unemployment's rate

Ukraine's unemployment rate was mostly stagnating, and there were no major changes in the studied period. During economic prosperity (2006–2008; 2011–2013), it was 6-7%, but even after the global financial crisis or the Maidan Square Revolution, it was stable and stayed under 10% (World Bank). In the last three years, it decreased again and almost reached 7%, but as a result of the pandemic, it rose to 9%, and based on expectations, it will stay high in 2021 (8.6%) and 2022 (8.4%). The employment rate could not reach 50% during the last 15 years, in fact it was constantly decreasing. Nevertheless, it is essential to note that the total population has also decreased by around 10%, not even mentioning the case of Crimea (World Bank). The main reasons behind that are emigration, poor healthcare, and an ageing population, not considering the informal black economy, estimated to account for a third of the country's GDP (Shumska and Nezhyvenko, 2013). GNI per capita (at purchasing power parity) is around 13,000 dollars, only 30% of the EU average. It explains the high emigration ratio, mainly towards Poland, the Czech Republic, and Hungary (Cherevko, 2021).

4.1.5 Public debt

During the last fifteen years, public debt has constantly been rising. In 2005, it was 18%, and during the first government of Tymoshenko, it was even reduced to 12%, which was a record low. Then, due to the global financial crisis, it tripled in three years; by 2010, it had reached 40%. During the reign of Yanukovich, it started to decrease again by a couple of per cent, but eventually, it had doubled by 2014, when he lost his power. The highest rate was 79% in 2015 and 2016, but since then, due to successful economic reforms and stabilisation, it has decreased by 10% annually. During the recent years under Zelensky, it was further declining and has reached its lowest rate (51%) since the second Maidan revolution (Wisa and Dykas, 2021).

Notably, a large part of the debt is denominated in foreign currency, which results in high vulnerability to exchange rate shocks. The central bank has already liberalised foreign exchange regulations in the country. A new law came into force in July 2018 that has cancelled various foreign exchange market restrictions (including limits on repatriation of dividends) without putting any pressure on gross foreign exchange reserves (Data of the Ukrainian Parliament, 2018). Overall, the financial risk is higher and has continuously increased during the last 15 years.

4.2 Economic reforms

4.2.1 Privatisation

After the Orange Revolution, the regime change caused a political change and intensified the rivalry between the country's two most influential interest groups (Pleines, 2016). This rivalry was the main driving force behind the fractures that led to the constant political crises after the revolution. Eventually, this whole process led to the presidency of Yanukovich in 2010. Tymoshenko's removal meant that the last obstacles to the concentration of power and capital in the hands of the Donetsk interest group were removed. The "black holes" in Ukraine's economy used for oligarchic enrichment could be further expanded with the legislative and executive branches of power in control (Yurchenko, 2012).

In the case of Ukraine, the term "state capture" very much describes the situation. Oligarchs use their connections and corruption to achieve economic goals such as tax evasion or preferential positions in privatisation auctions (Puglisi, 2003). The system can be characterised as competitive authoritarianism, where political and administrative prosecution eliminates political and economic competition (Levitsky and Way, 2002). In other words, black holes are

being created in the economy through privatisation, FDI regulations, and the creation of special economic zones. Ukraine's three most important and profitable commodities are coal, metal, and gas (Lyakh, 2007).

During Tymoshenko's two terms as prime minister, two compelling cases showed not only her populist character but also the troubled oligarchic environment of Ukrainian politics. Immediately after her first appointment, she launched the "war on oligarchs" that had been promised during the elections. The first Tymoshenko government favoured the transparent and honest re-privatisation of 3,000 enterprises, as with the case of the Kyvoriizhstal steel mill. Tymoshenko has also abolished the special economic zones due to violations of legislation, double-entry bookkeeping, and tax evasion, resulting in many of the oligarchs paying massive fines (Yurchenko, 2012). Interestingly, both programs were selective and favoured many of her previous supporters who financed her electoral campaign (for example, Kolomoysky). In addition, it concerned most of the oligarchs from the Donetsk region, such as Pinchuk and Akhmetov. The main actions of the "war" were the re-privatisation and resale of recently privatised state-owned enterprises (SOEs) and investigations into tax evasion. During the first half of her first period as prime minister, 1700 investigations were registered, but effectively many of them were quickly dropped. Overall, the whole process can be characterised by inadequate legislation and corruption on every level (Kubicek, 2009).

Carrying out the re-privatisation program was much more complicated than expected. First, there needed to be more legal background, as no law in force could allow re-privatisation (Paskhaver and Verkhovodova, 2007). On the other hand, political support needed to be improved, even among government members. They could not define the number of enterprises that would be considered nor the selection criteria for the timeline of the investigations. As the process was delayed, the danger of political motivations was rising, as was the possibility that it would only cause further corruption and the redistribution of assets. In parallel, the oligarchs affected by the threat of losing their assets tried everything they could (Kesarchuk, 2008). They can be blamed for the above-mentioned political crisis and Tymoshenko's resignation after only being in power for seven months. However, they have also filed a complaint with the European Court of Human Rights against Ukraine on the case of Kryvoriizhstal, claiming that the Ukrainian government had violated the law and the state had breached its rights to property. (Kuzio, 2010).

Tymoshenko's "war" did not last long. Only after six months of investigations it was over. Eventually, Kryvoriizhstal became the only remarkable success story of re-privatisation. The enterprise has become state property and resold to an international steel consortium. Mittal Steel

purchased it for USD 4.8 billion, six times more than it initially sold to the Ukrainian oligarchs (Kovalenko, 2010). Unfortunately, the government has only lost its credibility in the eyes of the population due to a lack of adequate and dynamic legislation and since it failed to do anything about past violations under the previous leadership. The most exciting fact is that the whole process has been closed by highly questionable compensations from the state.

According to Haggard, capital votes twice: once through the pressure on the political process and again through investment decisions (Haggard et al., 2018). As a result of the unsuccessful re-privatisation campaign, the oligarchs have agreed to compensate the state for the discounted price they received for these enterprises. In exchange, their grey past will be forgotten. Even so, no bills regulating such settlements ever became laws, so even these "agreements" were highly questionable (Kononov, 2010). Another aspect that lowered the government's credibility and caused further scepticism. According to Asslund, the unpopularity of the oligarchs is the outcome of the fact that the population dislikes successful capitalists. But based on ICPS polls (2009), the Ukrainian population does not accept the way the oligarchs accumulated these assets at a time when they were struggling, and it seems that they have no issues with the capitalist ideology (Wilson, 2006). During the era of Yanukovich, privatisation auctions remained a burning issue due to a lack of transparency, underpricing, and preferential treatment for the Donetsk fraction of oligarchic capital.

After the Euromaidan reforms, the question of public corporations was a key element. The main goal was to remove corruption and become fully accountable and profitable. Establishing corporate governance was also crucial, but it is still to come in most cases. The biggest problem is that there needs to be a tradition of such companies in Ukraine, and only a tradition of political influence exists (Reisinger et al., 1994). However, if supervisory board selection and operation principles were reviewed and defined precisely, corruption could be eradicated in the midterm.

4.2.2 Energy sector

Another case worth mentioning is the attempt at restructuring the energy sector. A new law took effect on March 5, 2008, eliminating intermediaries in the domestic gas market (Yurchenko, 2012). The process that led to the 2009 gas dispute started in 2006 when Ukraine started importing Russian gas through an intermediary company, RosUkrEnergo. Gazprom owned 50% of the shares, and the other 50% by Dmytro Firtash, another representative of the Donetsk fraction. As mentioned above, Tymoshenko's main goal was to weaken the other

interest group in the country, and the gas trade business was the most profitable industry then (Stern et al., 2009).

On the other hand, direct trade with Russia was in the state's best interests. Later in 2008, a memorandum was signed by Tymoshenko and Vladimir Putin in which they agreed that intermediaries would no longer be used in gas deals between the two countries (Szeptycki, 2009). Eventually, the internal conflict of the oligarchs and the lack of political action (we shall remember the permanent political crisis from 2005 until 2010) led to the gas conflict that broke out in January 2009. The main reason was the need for an active gas contract, not even mentioning the \$2.4 billion debt Ukraine had to pay for the gas it received.

RosUkrEnergo, with the support of Yushchenko's administration, managed to disrupt the signing of the gas contract scheduled for December 31, 2008. Aleksey Miller, head of Gazprom, admitted that RosUkrEnergo was the actor who broke down talks between Gazprom and Naftogaz Ukrainy (the state-owned Ukrainian gas enterprise). The Russian and Ukrainian prime ministers reached an agreement. They were ready to seal the deal for \$235 per 1000 cubic meters of natural gas with the condition that all the export operations from Ukraine would be done bilaterally. The more complicated part was the bilateral trade, as RosUkrEnergo would lose its previously claimed positions. At the very last moment, President Viktor Yushchenko gave a direct order to stop the negotiations and recalled the delegation from Moscow (Stern et al., 2009). This decision has directly led to the situation in which Central and Eastern European countries received significantly less gas during the first three weeks of January 2009.

Tymoshenko has officially communicated that the negotiations were successful, and they were about to make a deal on a \$235 gas price. However, unfortunately, Ukrainian politicians decided instead to keep RosUkrEnergo in business as a shadow intermediary. She claimed that the discussions between Gazprom and Naftogaz Ukrainy were destroyed by those Ukrainian political groups directly receiving cuts from RosUkrEnergo. President of Russia Dmitriy Medvedev has also stated that some participants of the negotiations insisted on keeping the intermediary actor despite their questionable reputation (De Haas, 2010). As there was no active contract between the actors, on January 1, 2009, Gazprom completely stopped pumping gas to Ukraine. In the next negotiation round, gas was offered for \$450 per 1,000 cubic meters, the standard price for Eastern European countries. After two weeks, the entire housing and public utilities sectors were about to collapse in Ukraine. On January 14, the European Commission demanded the immediate renewal of gas deliveries. The international reputation of Russia and Ukraine has decreased due to this dispute. Eventually, Tymoshenko and Putin agreed to renew gas deliveries to Ukraine and EU countries. They have agreed to return to direct contract deals

between Gazprom and Naftogaz Ukraine and to remove non-transparent intermediaries. The final price was \$232.98 per 1000 cubic meters, while other European consumers paid above \$500 per 1000 cubic meters (Belyi, 2009).

The initially planned agreement was reached again, but the oligarchs' representatives did not show up this time. However, these circumstances could only last for a while. After Yanukovich came to power, his government started to prepare a new law on the trade of imported gas. It came to power in October 2012, and the Naftogaz monopoly was removed. As a result, intermediary companies were allowed to participate in the gas trade again (Matuszak and Sarna, 2013). The previously introduced limitations by Tymoshenko have been abolished. It is also worth mentioning that companies led by Firtash took control of the sector in a couple of months.

After Yanukovich came to power, Tymoshenko's trial for abuse of power almost immediately started. It was another example of the administration's incompetence, as the best way to deal with her at that time was to leave her alone, as she lost many of her supporters. The trial itself is widely seen as politically motivated. The most crucial goal behind it was to prevent her from running for president in the 2015 election. Placing Tymoshenko on trial resulted in precisely the opposite of what Yanukovich wanted. Her popularity increased significantly, and she became one of the key figures on the opposition side. On the other hand, Yanukovich has been widely criticised, even from Russia, as their interest was to stay with the gas agreement reached at the beginning of 2009.

During the trial, Tymoshenko was accused of blackmail. The report says that Russian officials forced her into accepting gas prices that were disadvantageous to Ukraine, and she received compensation in exchange. What is the most absurd that Yushchenko has testified against her. On October 11, 2011, the court found Tymoshenko guilty of abuse of power, sentenced her to seven years in jail, and ordered her to pay the state \$188 million. She was convicted of exceeding her powers as Prime Minister by ordering Naftogaz to sign the gas deal with Russia in 2009 (Kudelia, 2013). The removal of Tymoshenko led to the consolidation of a corrupt and authoritarian political system in Ukraine.

Ukraine has increased gas imports from EU markets in recent years and hopes that more competition and closer energy ties with Brussels will help the country's further diversification (Shulga et al., 2019). The current natural gas market law that is in force boosts competition and transparency and brings the gas market in line with the EU's Third Energy Package. The new law breaks the longstanding participation of oligarchs in the industry (Oxford Analytica, 2021). It also separates the state gas conglomerate Naftogaz into production, transit, storage, and supply businesses. Due to past rent-seeking arrangements, the company was a considerable

drain on the central budget. The government hopes to attract European investors with the new legislation as it also allows open market access for traders. After long-lasting kleptocracy in the sector, the central government seems committed to a sustainable energy market.

By the beginning of 2021, even the household market had been liberalised, and market forces had established gas prices. Unfortunately, the liberalisation was not long-lasting, as it has caused massive protests nationwide. Zelensky's administration decided to take back control of gas prices until the end of the winter (Interfax, 2021). The legislation took effect in August 2020 and let independent companies supply the gas market for individual households, as it has been done for industrial consumers in recent years. It was an important milestone, as Ukraine finally had a fully liberalised gas market. An efficient energy sector was considered an essential aspect by both the IMF and Western governments as it would lead to economic independence from Russia (Prokip, 2021). On the other hand, since the beginning of the case study, the sector has been dominated by oligarchs and is mainly used for self-enrichment through massive corruption.

The Ukrainian government's lack of consistency regarding the gas market regulations undermined its Western supporters' trust. The IMF has clearly expressed concerns over the new price maximisation (2021). The leadership was simply unlucky, as in parallel with the free gas prices, the cost of electricity has also increased due to the unprofitable state-owned nuclear power operator. Zelensky initially promised lower utilities but needed help to achieve it. It could have been expected that protests would come as Ukrainians already have the tradition of holding rallies, and in fact, they are also used to cheap energy prices (Prokip, 2021).

Nevertheless, price capping has been introduced temporarily, but in Eastern Europe, no one can know how long the temporary can last. The current regulation can work well for the state-owned Naftogaz. The SOE will likely become the biggest supplier to households. Currently, they control 75% of domestic production, which allows them to offer lower prices than imported gas (Statements, 2019). In the mid-term, other companies that sell foreign gas to households will be unable to compete, and millions of customers will end up with Naftogaz. However, it can be in the government's interest, but in the long run, it would lead to a monopolistic situation in the gas market.

In parallel, oligarchs such as Kolomoisky have suggested restoring cooperation with Russia in the energy sector and turning away from the IMF (Nahaylo, 2019). The other leading actor in the market is Firtash, who still owns 75% of regional gas distribution. His gas-supplying companies are the main competitors of Naftogaz. He supports the idea of re-nationalising the sector as it was when he was dominating it (Konoczuk, 2018). It would clear out all the

previously achieved results during many years of reforms. Many of Ukraine's political leaders are driven by a paternalistic and populist approach and are against reforms.

Even so, it would also mean total dependence on oligarchs or Russia. The gas market reform intended to adhere to the previous traditions. The most critical task is to increase domestic gas production and interconnectivity with neighbouring countries. The average consumption of the country is 30-34 bcm, and the local production is around 20 bcm (Goncharuk and Cirella, 2020). Higher production and a competitive purchasing environment from the neighbours could put the Ukrainian energy sector on a sustainable development track.

4.2.3 Deoligarchisation

Before Zelensky, no government could fight oligarchs in a way that worked. All of the other attempts had failed. With the 2019 parliamentary elections, a new wave and generation of politicians came to power, and most of them were not involved in any corruption-related deals previously. In 2020, international groups like the IMF mainly criticised Zelensky for not doing as well as promised with the reforms (Kochnev, 2020). The deoligarchisation bill is another attempt to regain his anti-corruption attitude. It took two years to prepare the new law draft, but in June 2021, the president submitted it to parliament. It has aimed those Ukrainian oligarchs who own political, economic and media influence. The president claims they are building a country without oligarchs (2021). "A country for forty million citizens, not for a hundred of Forbes. A country where the state helps business, and big business does not live at the expense of the state budget."

The draft was expected not be accepted in its original form. However, surprisingly, it passed the legislation in September and was signed by Zelensky in November. The law has created a precise definition for nominating citizens as oligarchs (Data of the Ukrainian Parliament, 2021). Three of the following four criteria must be met:

- Political participation: A citizen takes part in politics if he or she holds a government job or is connected to someone who does, such as by giving money to a political party.
- Monopolistic position: The citizen has a natural monopoly or controls any part of the economy.
- Media coverage: the citizen owns a media outlet or influences editorial policies.
- Fortune: The citizen holds assets worth more than the subsistence minimum of 1 million times (currently around \$80 million).

The other important part of the law was the role of the decision-maker. According to the draft version, it would have been the National Security and Defense Council (NSDC), but there were significant concerns about this suggestion as this option is unconstitutional. Nevertheless, the law has been passed in its original form, so the NSDC is the committee that recognises a person as an oligarch. The responsibility of nomination belongs to any member of the NSDC, the National Bank, the Security Service, and the Antimonopoly Committee. After a citizen is recognised as an oligarch, public officials may not meet or converse with such a person. Even if such an event were to happen, the official could be dismissed from his or her position without an appropriate reason. Furthermore, oligarchs cannot financially support political parties, participate in privatisation tenders, or hold positions in government.

There were three interpretations of the law. One side claims that the president went too far with the law and did not respect the constitution. In the second view, it is only a PR campaign for foreign investors, and nothing will change. Lastly, there is the threat that, based on Zelensky's populist rhetoric, the law will be used against his political rivals, such as Poroshenko. Based on the criteria, hundreds of people can fit in, and the president might accuse only some of the oligarchs and not all of them (Prokip, 2022).

The new law is indeed an essential breakthrough in the political life of Ukraine. Even so, it also has its drawbacks. First, it is directed at individuals instead of interest groups. With this legislation, oligarchs can easily continue doing business, as their unofficial structures and connections would be hard to prove. Moreover, even in the worst case, they can transfer their assets to big business groups with the help of stooges. Then there is the above-mentioned constitutional concern, which violates the division of powers. Only a court has the right to make such decisions, not a consultative committee, which provides extraordinary power to the government and violates the constitution. Finally, the sword of Damocles would hang above every civil servant, as they can quickly lose their jobs if they are associated with an oligarch, which can significantly decrease the effectiveness of their work.

Some of the first people called oligarchs were Medvedchuk, who was in charge of the pro-Russian party, and Poroshenko, the previous president and leader of another party in opposition. They both are very influential and powerful men in Ukraine; they have huge fortunes and hold important political positions. Medvedchuk's team said that the president was using populist language, and they said that making lists like this will always be hard because some names will be on the list, but others will not (Wilson, 2021). They were most afraid of using this new tool against political opponents and protecting the people from their interest groups. Poroshenko brought up the criticism that the bill would weaken the rule of law and said it was against the

constitution. He also argued that the president was abusing his power. At the same time, he also warned Zelensky not to fight against individuals or aim at political opponents, as this is the same path that Russia and Belarus took (Panchenko, 2021).

Zelensky's voters expected him to start his fight against oligarchs much earlier. Instead, during the first two years of his presidency, he undermined many constitutional authorities (Zhernakov and Barchuk, 2020). The independence of the National Bank and Naftogaz (a state-owned enterprise in the gas sector) has been limited, and he has removed two judges from the Constitutional Court of Ukraine (however, Ukraine's constitution says that Constitutional Court judges are appointed by the sitting president but can only be removed by the Constitutional Court itself). In parallel, the country's tax code changes have targeted small businesses and households, while oligarch interests have been relatively untouched. The required measures to limit the power of oligarchs could be the following: the creation of an independent judiciary; strengthening of antitrust laws and antitrust authorities; corporate governance reform in the public sector; elimination of tax benefits for big business; and greater transparency in media funding (Rudik, 2021).

On the one hand, the current legislation seems like an attempt to strengthen the presidential powers, but it is hidden behind the populist rhetoric of deoligarchisation. Nevertheless, on the other hand, Zelensky might want to control the whole system to keep his reforms going well. He must act quickly and not wait for ten years for new Constitutional Court judges; his voters would not support him then. He is looking for ways to get quick results and make operative changes with the reforms. Zelensky's team has built a new power structure in which the President's Office plays the most crucial role (Skorkin, 2021). In parallel, the Parliament and the Cabinet of Ministers have lost their authority. As the security services and the general prosecutor's office could not fight against corruption effectively, the NSDC became the most critical decision-making organ. The style of vertical leadership has created the image of a strong leader defending Ukrainians against corrupt judges or oligarchs. The president's popularity is way higher (46%) than it was in the second year of Poroshenko (20%) or Yanukovich (22) (Minakov, 2021).

After the president introduced the law draft, massive attacks started against him in the oligarch-controlled media (Bykvu, 2021). The law has been criticised because it created a tool for Zelensky to tackle political opponents. It enables the NSDC, which the president appoints, to define oligarchs. The new law will likely be used selectively instead of reducing oligarchs' political influence. The following two years will show us whether this approach was correct. Without the creation of the alternative power vertical, no fundamental reforms could have been

reached, or Zelensky will use all his current power against his opponents and in favour of his supporters.

4.2.4 Decentralisation

The decentralisation process has started during the administration of Poroshenko, but Zelensky has taken the actual consequences of it. It emphasized cooperation rather than competition between local powers and the central government was also an essential element for the future prosperity of Ukraine. These reforms started after the Euromaidan (Data of the Ukrainian Parliament, 2015), but the new law was passed only after the local elections in 2015. Therefore, only the 2020 fall local elections brought practical changes to the rural level. The current regulations allow local leaders to handle budgets, investments, and taxes more freely. This change has been viewed as one of the most successful democratic outcomes of the Euromaidan revolution (Minakov et al., 2021). The constitutional solution of balancing power between the national government and local communities has also contributed to security challenges in the country. It was an important step to understand the right and appropriate size of the state.

One of the significant contributions of the change was fiscal decentralisation. The share of local governments in public revenue is constantly rising. It was 23% in 2013, but in 2016, it was already 38% (World Bank). Currently, it is around 41%. This amount of power-sharing makes Ukraine one of the most decentralised countries in Europe (Rabinovych et al., 2018). Despite considerable pressure to centralise public finances, the national government is still committed to decentralisation (IMF). The country's success in local governance reform is substantial for creating accountable and transparent public administration. It is also playing a big role in strengthening national security. The Russian threat is constantly decreasing Kyiv's authority on the regional level, especially in south-eastern Ukraine. Therefore, decentralisation is so vital to the country that it is an asymmetric response to Russia (Dudley, 2019).

From a technical perspective, based on the new regulation, united territorial communities (UTCs) have been formed by combining smaller towns and villages. The previously smaller settlements, with an average population of 1,500, needed help to organise, finance, and provide public services to the residents. The main logic was to combine a sufficient population into these self-governing UTCs. The unification was voluntary, which was also a key element as many rival settlements could avoid each other (Data of the Ukrainian Parliament, 2015). For example, in many bordering areas of Ukraine, many minorities live. The voluntary way of unification made the lives of many minority communities easier (like organising education in

Hungarian, Bulgarian, or Romanian). Nevertheless, in some cases, villages worried about political dominance if they merged with a nearby small town, so they only agreed to combine with other rural units. In other cases, small towns wanted to avoid diverting their share of national taxes to their poorer neighbours.

Kyiv has also strengthened the areas with a major share of national tax revenue by delegating control over land use planning and permitting local fees and local school administration. The UTCs also have access to significant new investment grants. As a result of the policy, until 2017, several UTCs (716), which represent 6.4 million people, or around 18% of the whole population (Dudley, 2019), were formed. By 2020, before the local elections, this number have doubled; currently, the UTCs are more than 1,500. For the first time since the independence of Ukraine, local communities have the legal authority, human capital, and funds to run, build, or design their projects. Many communities have started broad cooperation with each other, combining resources to finance infrastructure or organise legal fire protection and communal services.

The education and healthcare systems are two of the most critical consequences regarding public services. As of May 2021, local governments managed 37.3% of all Ukrainian schools. The biggest challenge is improving education quality as there needs to be more human capital. In the future, local authorities will be responsible for effectively organising schools. Unfortunately, until this day, fewer than half of the newly unified communities have taken full responsibility for their education system (Davydova et al., 2021). Improvement can come in this area with other legislative power and funds transfer to the local level. The transfer of healthcare responsibilities could have been more efficient. The legislative background came into effect only in October 2017. However, the national government has transferred control over medical services to UTC and private healthcare facilities since then. The effectiveness of this agenda also depends on the decentralisation of funds currently given to large cities and counties to run hospitals. Nevertheless, this new direction provides the opportunity to consolidate the existing hospital networks and rework the healthcare system. The creation of new healthcare districts will lead to higher efficiency and quality.

Based on the new regulation, the funds go directly to the cities with regional significance and UTC instead of going through the counties or districts. Previously, these "middleman" measures caused a high level of corruption, and when the funds arrived at the local level, almost nothing was left (Bazaluk, 2016). It is a fundamental change that also shows Kyiv's intention to make the regional cities and UTC the most critical actors in the system. The backlash of the whole system is the lack of legislative power towards the local authorities and their lack of

human capital. Even so, on the other hand, efficacy has dramatically increased, and the living standards of the communities have also improved. Anatoliy Tkachuk, a decentralisation expert from Ukraine's Civil Society Institute, provided an excellent summary (2017): "If power is decentralised from Kyiv to the regions, Ukraine will disintegrate. Decentralisation to local, territorial communities will do the opposite, glueing Ukraine together." Based on recent years' experience, decentralisation prevents further fracturing along regional lines and provides social cohesion and unity, creating comprehensive stability for the country.

The decentralisation process started six years ago, but changes to the constitution are still to come, in parallel with further legal regulations. However, the human capital needed to run public services effectively will not be there from one day to the next. The overall assessment shows us a mixed picture. Many small settlements could not form a UTC but still belonged to districts. Citizens often must travel farther away to access their district administration offices. While local authorities' responsibilities have grown, local councils' competencies still need to be. A major initiative needs to be started to qualify the local actors so they can do their jobs effectively. The most successful part of the new system is that communities have become more self-sufficient financially and have more resources for further development. Self-nominated individuals elected the most significant proportion of mayors and village leaders without a party affiliation (47%); the second highest proportion belongs to Zelensky's party, the servant of the People party, with 16%. It also shows the pastoral support for Zelensky, who has made the decentralising process possible with his support in the final stages. Another interesting fact is that the third power was the Pro-Russian Party, which represents the fragmented political landscape of the country (Zhiltsov, 2021). Therefore, it can be stated that the key elements have already been established for a more democratic and efficient rural Ukraine, but many changes and support are still to come. The results of the latest municipal elections showed the success of the restructuring.

4.2.5 National bank

The oligarchs in Ukraine corrupted the country's government and sabotaged efforts at meaningful reform and development, keeping it stuck in a post-Soviet status quo. Their vast wealth, which came from the shady privatisation of Soviet industry at the end of the 1990s and the beginning of the 2000s, had a massive effect on the country's political life and media coverage. The banking system reform, which started before the war, was an essential step in the wealth redistribution process. Ukraine's largest commercial bank was nationalised in 2016

after it turned out it had been involved in corruption worth USD 5.5 billion (World Bank, 2016). Its former owner was Igor Kolomoisky, who supported and had close ties with Zelensky when he was an actor. The previous owners expect a court decision to regain control of the bank. In parallel, the IMF has also played an important role in the birth of this legislation. They have pointed out that preventing nationalised banks from being returned to former owners is crucial for providing other government loans (IMF). With the hit of the pandemic, Zelensky's manoeuvring space shrank quickly, which led to the law's introduction in late October 2020. The IMF already requested that this law be passed in 2018 when the previous credit program was provided to Ukraine. Nevertheless, the parliament did not support this law at that time.

The new legislation guarantees the irreversibility of bank resolution. If a court rules that the National Bank's decision was illegal and nationalisation was performed incorrectly, the previous owner cannot be reintroduced. The law removes the legislative gaps that courts used to utilise as grounds to reanimate resolved insolvent banks (Data of the Ukrainian Parliament, 2020). Similarly, in EU member states, courts' authority is limited to bringing banks back to life. The law also describes the preconditions and procedures for compensating former owners. It states that only internationally acclaimed audit firms can do the calculations of the compensation in order to ensure transparency. The nationalised banks' internal procedures were also simplified so that they could start operations immediately after the nationalisation process. Lastly, the law also creates a procedure for the National Bank to identify bank problems in their early stages to preserve assets and minimise losses.

The law's introduction made the IMF restart cooperation with Ukraine (Minakov, 2020). By the end of 2020, the government have received nearly USD 3,5 billion, which could partially cover the USD 11,1 billion budget deficit. Restarting the cooperation with the International Monetary Fund was essential, resulting in additional assistance from the World Bank and the European Commission. The timing of the funds was also critical, as the unexpected expenditures on the coronavirus-related emergency hit hard the central budget.

What was Kolomoisky's opinion about the "anti-Kolomoisky" law? "Yes, PrivatBank is a child that grew up and became independent; I just want a verdict that it was taken away from me incorrectly" (Ukraine Crisis Media Center, 2020). One thing is sure: Zelensky has silenced his critics with this law, who were suggesting that he is Kolomoisky's puppet, similar to Tymoshenko, who is representing the interest group that originated from Dnipropetrovsk.

It was the first big hit against oligarchs. Kolomoisky's political star is waning quickly. Earlier in his term as president, Zelensky had to demonstrate that he was not his puppet. Now that Kolomoisky has allegedly lost his Ukrainian citizenship, he solely depends on the president's

goodwill. Kolomoisky technically lost his citizenship due to his dual citizenship. However, it is more likely that the Ukrainian government just chose him to take advantage of the situation to deprive Kolomoisky of his power and issue a warning to other oligarchs in the country.

4.2.6 Land reform

In the first part of 2020, not only the national bank law but another historical one, the long-anticipated land reform, was also accepted. The previously mentioned IMF support was crucial for the government, and the "anti-Kolomoisky" law did not fulfil their exception. Nevertheless, land reform also had to be passed. From a historical perspective, this reform was even more significant. Since the fall of the Soviet Union, land has been acquired for self-serving political and business purposes by the most influential actors (Csaki and Lerman, 1997). The original moratorium on the land market was introduced in 2001 and has been regularly extended. It was a very conservative approach, causing billions of dollars in losses in taxes and investments (Fedchyshyn et al., 2020).

The first sign of change was in 2018, when 39 companies and 1,500 agricultural producers signed a petition to abolish the land moratorium. During Poroshenko's administration, the short-term extension of the moratorium was the primary approach (Fedchyshyn et al., 2020). The European Court of Human Rights could not change the government's opinion about the case. In May 2018, the Strasbourg-based court declared that the moratorium on farmland sales violated the human rights of Ukrainian farmers as they were not allowed to manage their property freely (Blazhivska, 2018). Zelensky has confirmed his intention to lift the moratorium since the beginning of his presidential campaign.

Nevertheless, more than his faction in the parliament was needed to pass the bill. Unfortunately, his primary opponents, Poroshenko and Tymoshenko, did not favour the new legislation (Raransky, 2021). In this question, the opposition was more populist and emotional. They claimed that the Ukrainian land belonged to its inhabitants, and this law would enable oligarchs and foreigners to gain it. After several months of discussion and a high level of compromise, the bill was accepted by the parliament and came into effect by July 2021.

Based on the original version, the new law would have lifted the longstanding moratorium on selling privately owned agricultural land. It would have boosted the agriculture sector by letting farmers gain capital and acquire better supplies and equipment. In the final version, only 100 hectares were allowed for sale by a single-person entity instead of the 200,000 hectares initially

suggested. However, by 2024, it will increase to 10,000. The purchase of goods by foreigners and foreign corporations is currently banned, and a nationwide referendum has been proposed to solve the question (Data of the Ukrainian Parliament, 2020).

The adoption of this law was a historical breakthrough and only the beginning. The government still needs to build a transparent land market and create systematic support for the farmers to reach high levels of efficiency and competitiveness. President Zelensky's spokesperson, Yulia Mendel, stated that "by approving this bill, Ukraine took the first and most important step towards creating a land market by lifting its 'eternal' moratorium (Leshchenko, 2021). Optional, state-guaranteed loans to farmers are foreseen so they can expand their businesses. Western partners have also praised the introduction of the new law and stated that the situation is an excellent base to move forward (World Bank, 2021).

4.2.7 Wealth redistribution

As it seems, the outbreak of the war reduced the oligarchs' power since their resources were depleted, whereas the state could rely on assistance from other nations to recover its resources. As mentioned above, the oligarchs' connections to the central government and influence on Ukrainian politics were formerly significant factors. As a result of the war, all that changed. The influence of oligarchs is decreasing daily as their capital also outflows from the country. Nevertheless, without them, Ukraine is becoming another country. With the combination of the deoligarchisation legislation and the armed conflict, their economic dominance is indeed ending. Many of their assets have been destroyed by Russian missiles, and even their lives are in danger. For example, grain magnate Oleksiy Vadatursky, ranked number 24 on Ukraine's Forbes list, was killed in July 2022 during the heavy shelling of Mykolaiv. Many of the most profitable assets, such as the metallurgy giants and mines of Donbas and Krivbas, the Black Sea and Azov Sea ports, and the most fertile agricultural land, are all located in the southeast of the country, where most of the fighting is taking place (Yakovlev et al, 2022).

The Azovstal facility in Mariupol and the Ilyich Iron and Steel Works were destroyed. These were the wealthiest man in Ukraine and Rinat Akhmetov's two most considerable metallurgy assets. Severodonetsk's Azot chemical plant, owned by Dmytro Firtash, has also sustained fundamental damage, and the shelling has forced Ihor Kolomoisky to halt operations at his Kremenchuk oil refinery. Industrial properties owned by Akhmetov, Kolomoisky, and Viktor Pinchuk are in massive danger of being demolished in the cities of Kryvyi Rih, Zaporizhzhia, and Dnipro. Many of the most valuable agricultural lands are also under occupation. Whatever

the war's outcome, it is clear that the oligarchs' fortunes will never be what they were. A loss of political influence will accompany these economic losses. The pro-Russian oligarchs have also lost all their assets in the Donbas, and most fled abroad. As a result of the information monopoly put in place by presidential decree at the start of the war, the media assets have also lost their value to the oligarchs. Some of them, such as Akhmetov and Stolar, have already sold their media assets, and Pinchuk is also preparing for it (Shnyrkov and Chugaiev, 2023). Former president Petro Poroshenko is the only member of the Forbes list of the ten wealthiest Ukrainians who can claim some assurance, as he has no significant holdings in the country's southeast region.

Ukraine's deoligarchisation will likely be an unstoppable process. The Ukrainian economy has been too severely damaged by the war for any new oligarchs to emerge, and the ambitions of those who once had it all have been seriously curtailed, so there are no conditions necessary for the formation of a new class of superrich, regardless of how the war is resolved. New fortunes can be made, but European and American capital will play the most critical role in the country's reconstruction. Even before the war, the West supported Zelensky in his battle with the oligarchs (Wilson, 2021). However, with the Russian invasion, the president has new and more effective tools to eliminate the wealthy interest groups and establish new redistribution finally.

4.3 Results based on the composite indicator calculations

The specific method and data selection criteria has already been discussed in the chapter 3. In this section each specific stage of indicator creation will be presented.

4.3.1 Results of the multivariate analysis

After selecting variables and creating the database, it is also necessary to examine the co-movement of indicators, as this is how we can interpret their suitability and manage future methodological possibilities. After the correlation analysis, three different factors were created based on factor analysis in order to reach the most sustainable result (see Table 3).

Table 3: Factor loadings

	F1	F2	F3	F4	F5	F6	F7	F8
BTI	0.746	0.095	0.207	-0.384	-0.281	0.212	0.151	0.146
CPI	0.913	0.039	-0.128	0.095	0.047	0.001	0.178	0.171
WEF	0.477	0.481	0.467	0.003	0.072	-0.384	-0.137	0.315
LFP rate	-0.440	0.652	0.198	0.069	-0.102	0.056	-0.420	0.162
Gov debt to GPD	0.412	0.609	-0.193	0.151	0.409	0.124	0.107	-0.345
Internet using	0.665	0.290	-0.256	0.488	0.177	-0.210	-0.047	0.040
GDP per capita at PPP	0.770	0.436	0.139	-0.025	-0.340	0.028	0.064	-0.083
Gov net lend/ borrow	-0.108	0.333	0.469	0.612	-0.242	-0.287	0.245	-0.171
GDP growth	0.075	0.450	0.562	0.410	0.027	0.427	-0.127	0.043
Inflation	-0.594	0.398	0.116	-0.188	-0.224	-0.207	0.425	-0.043
Unemployment rate	0.069	0.765	-0.366	0.045	0.096	-0.176	0.101	0.390
FDI	0.060	0.253	0.605	-0.406	0.554	-0.239	0.031	-0.102
Nonperf loans	-0.437	0.446	0.163	0.172	0.297	0.381	0.399	0.329
IMF credit	-0.691	0.479	-0.156	0.171	0.012	-0.178	0.004	0.128

Source: Based on authors' research to results

The problem with a complex indicator is that we usually only see the big picture, while minor problems can happen at a more detailed level. Therefore, those metrics and fundamental aspects will be highlighted that show extreme results or high significance for our research.

4.3.2 Normalisation of data

This step should be taken to make the data comparable and eliminate the problem of different measurement units. Their aggregation is only possible if we bring them to a standard unit of measurement. Therefore, the next step was to standardise the values of the variables. This process converts the values of indicators into simple numbers, where the standardised value shows the standard deviation of the variable's value from the sample average. The formula for calculating the standardised value:

$$z = (x - \mu) / \sigma, 1)$$

where z is the standardised value, x is the normal value of the variable, μ is the average of the variable, and σ is the standard deviation of the variable.

If the standardised value is negative, the variable's value is smaller than the average. If it is positive, it is more prominent. As a result of this step, the composite indicator becomes unitless and thus can be freely aggregated (OECD, 2008, p. 27).

4.3.3 Weighting and aggregation

This step also significantly contributes to the reliability of the composite indicator. It should also be noted that, due to the weighting technique, the aggregate weights of groups are different. In this case, a linear or geometric technique can be used. (OECD, 2008, p. 31). As a result of principal component analysis, the weight of each new group was determined by factor selection (OECD, 2008, p. 32), which was determined by the sum of the squares of the variance of variables within the group. In the third table, the squared cosines of the variables can be seen. The finalised weighting could be defined based on these results, as seen in the fifth table. During composite indicator creation it worth naming each factor (Gitelman, Doveh, Hakkert, 2010, p. 1216).

Also, an important step is analysing the correlation among all the variables. If it reaches a value higher than 0.8, then one of the indicators would be excluded from the factors as it would decrease the precision of the composite indicator. As seen in Table 4, only one significantly high correlation resulted in the exclusion of HDI (highlighted in yellow). It is imperative to run the correlation analysis before creating the composite indicator, as it can lead to unreliable results.

Table 4: Correlation among the variables

Variables	BTI	CPI	WEF	LFP rate	Gov. debt to GPD	Internet using	GDP per capita at PPP	Gov. net lend/ borrow	GDP growth	Inflation	Unemp rate	FDI	Nonperf loans	IMF credit
BTI	1	0.640	0.391	-0.212	0.178	0.205	0.721	-0.201	0.037	-0.237	-0.077	0.101	-0.225	-0.564
CPI	0.640	1	0.415	-0.427	0.422	0.678	0.667	-0.119	0.027	-0.477	0.167	-0.051	-0.271	-0.534
WEF	0.391	0.415	1	0.233	0.271	0.415	0.570	0.001	-0.041	-0.051	-0.331	0.250	0.008	-0.072
LFP rate	-0.212	-0.427	0.233	1	0.103	-0.103	-0.081	-0.123	-0.115	0.417	-0.538	-0.186	0.387	0.525
Gov. debt to GPD	0.178	0.422	0.271	0.103	1	0.567	0.419	-0.284	-0.219	-0.062	-0.398	-0.087	0.141	-0.005
Internet using	0.205	0.678	0.415	-0.103	0.567	1	0.506	-0.012	-0.089	-0.370	-0.001	-0.223	-0.150	-0.191
GDP per capita at PPP	0.721	0.667	0.570	-0.081	0.419	0.506	1	-0.088	-0.082	-0.207	-0.410	-0.140	-0.197	-0.317
Gov net lend/ borrow	-0.201	-0.119	0.001	-0.123	-0.284	-0.012	-0.088	1	0.427	0.039	0.093	0.076	-0.033	-0.043
GDP growth	0.037	0.027	-0.041	-0.115	-0.219	-0.089	-0.082	0.427	1	-0.284	0.126	0.196	-0.005	-0.311
Inflation	-0.237	-0.477	-0.051	0.417	-0.062	-0.370	-0.207	0.039	-0.284	1	-0.299	-0.053	0.364	0.523
Unemp. rate	-0.077	0.167	-0.331	-0.538	-0.398	-0.001	-0.410	0.093	0.126	-0.299	1	0.016	-0.328	-0.283
FDI	0.101	-0.051	0.250	-0.186	-0.087	-0.223	-0.140	0.076	0.196	-0.053	0.016	1	-0.059	-0.262
Nonperf. loans	-0.225	-0.271	0.008	0.387	0.141	-0.150	-0.197	-0.033	-0.005	0.364	-0.328	-0.059	1	0.469
IMF credit	-0.564	-0.534	-0.072	0.525	-0.005	-0.191	-0.317	-0.043	-0.311	0.523	-0.283	-0.262	0.469	1

Source: Based on the author's research

The factor analysis has been calculated for eight factors, but the table shows only the final results for the three most valuable factors. Each variable had the highest contribution to one of the first three factors. We had three factors, and in Palánkai's analysis matrix, there are five of them, therefore some aspects have been combined. As shown in Table 5, BTI, CPI, Internet use, GDP per capita at PPP, inflation, and IMF credit have the most decisive contributions in the first group. Based on these findings, the first group can be named as the combination of a functioning market economy and macroeconomic stability, and this is going to represent the most noteworthy part of our composite indicator (64.7%). There was no major deviation from the results; each variable belongs to its most potent factor. The second group includes WEF reports, the LFP rate, government debt to GDP, the unemployment rate, and non-performing loans. It can be considered that this group represents competitiveness and convergence. It is going to account for 25.6% of the final indicator. Next to GDP growth, government net lending and borrowing and the IFDI rate have been selected for the third group, representing the financing ability. Its contribution to the composite indicator is 9.6%. The exact number of weights has been calculated by summing the squared cosines in each factor group (see details in the attached calculations).

Table 5: Squared cosines of the variables (values in bold correspond for each variable to the factor for which the squared cosine is the largest)

		F1	F2	F3	Weights
Functioning Market Economy - Macroeconomic Stability	BTI	0.556	0.009	0.043	0.647316
	CPI	0.833	0.002	0.016	
	Internet using	0.442	0.084	0.065	
	GDP per capita at PPP	0.593	0.190	0.019	
	Inflation	0.353	0.159	0.014	
	IMF credit	0.478	0.229	0.024	
Competitiveness - Convergence	WEF	0.227	0.232	0.218	0.256536
	LFP rate	0.194	0.426	0.039	
	Gov. debt to GPD	0.170	0.371	0.037	
	Unemp. rate	0.005	0.585	0.134	
	Nonperf. loans	0.191	0.199	0.026	
Financing Ability	Gov. net lend/ borrow	0.012	0.111	0.220	0.096148
	GDP growth	0.006	0.202	0.316	
	FDI	0.004	0.064	0.367	

Source: Based on authors' research

4.3.4 Robustness and sensitivity analysis

Monte Carlo simulation is a widely used technique in a sensitivity analysis that quantifies the impact of uncertainties and variability on the outcomes of a model or system. It is advantageous

when dealing with complex models involving many variables, where it is difficult to determine the exact relationship between inputs and outputs.

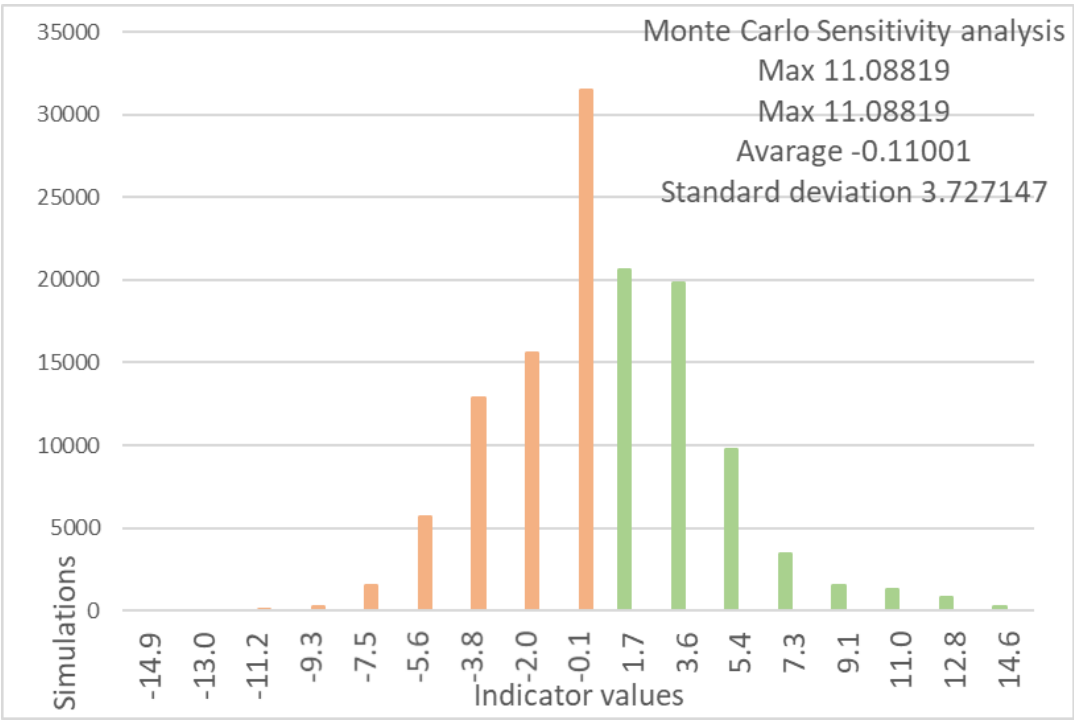
Monte Carlo simulation is a stochastic approach that involves the repeated generation of input scenarios in which the values of each variable are randomly sampled from a specified probability distribution. These scenarios are then run through the model or system, and the outputs are recorded for each scenario. By repeating this process many times, a statistical distribution of the possible outcomes can be built up, which can be used to estimate the probability of different results.

The advantage of Monte Carlo simulation over traditional sensitivity analysis techniques like one-factor-at-a-time (OFAT) or variance-based sensitivity analysis (VBSA) is that it lets you explore the full range of possible inputs and interactions between variables instead of just looking at the effect of each variable on its own. It makes it particularly useful when there is a high degree of uncertainty or variability in the inputs or assumptions of a model (Arend and Schäfer, 2019).

Despite its usefulness, Monte Carlo simulation does have some limitations. It can be computationally intensive, mainly when dealing with large and complex models, making it challenging to obtain results promptly. It also requires a good understanding of the model and the underlying assumptions and a robust set of probability distributions for the input variables. Nevertheless, Monte Carlo simulation remains a powerful tool for sensitivity analysis and is widely used in various applications where uncertainty and variability are vital considerations.

Robustness analysis must precede the validation of the data. To prove this, we created alternative economic conditions in which every indicator's value would be multiplied by 0.7 and 1.3 (-30% and +30%). We executed 5000 alternative scenarios for each participating country and each analysed date (2004, 2013, and 2019), so 125 thousand random indicator values were simulated. The results were consistent, and the standard deviation was stable and stayed within the -1 and 1 thresholds (although it was very close to the one-bin border).

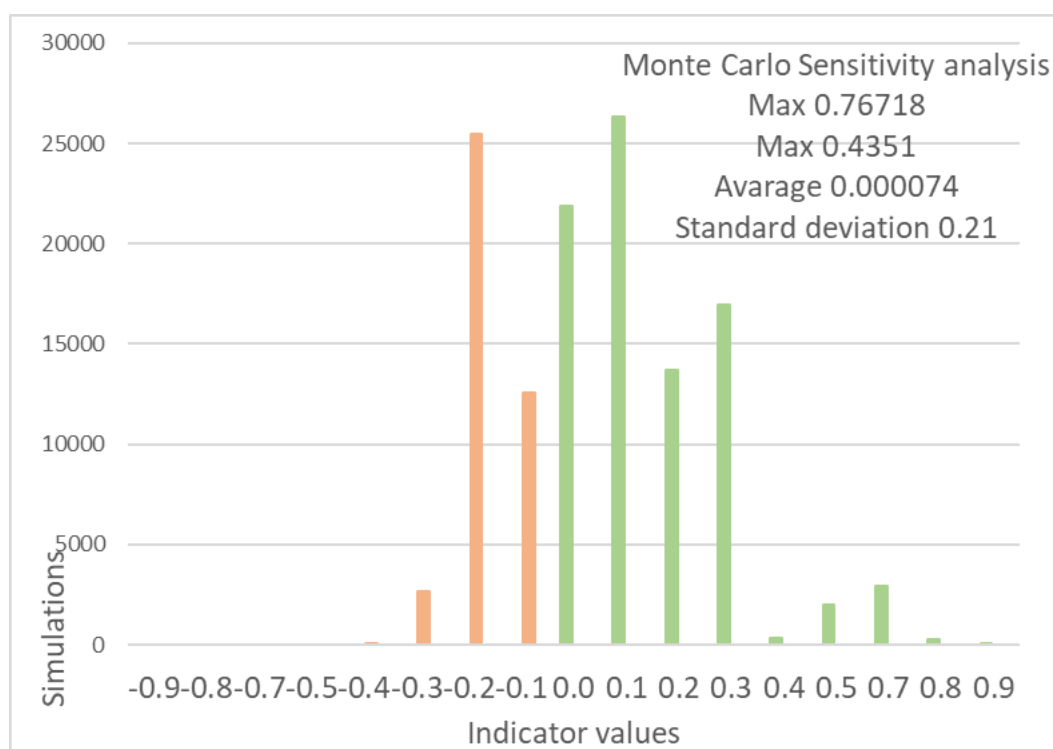
Figure 4: Visualisation of simulation results when changing economic conditions



Source: Constructed by the authors, based on results of composite indicator analysis

The distribution slightly differs from the standard 68-95-99 rule; it is 79-96-99% but still falls within the specific measures (not the triangle or equal distribution). Figure 4 shows the results of the simulations. The mean indicator value was 0.1, and more than 30,000 calculations led to this result. To further increase the robustness of our model, we also performed simulations related to the weights of the indicators. We executed two more sensitivity analyses with two different approaches. First, we calculated the contribution of the indicators based on their variances to the total eigenvalues, calculating individual weights for each indicator. These individual values were simulated with the same Monte Carlo approach with +/-30% ratios. In the case of the second analysis, the same method was used, but we used weights based on the grouping of our indicators (see Table 5). The difference between the results is statistically significant (see Figures 5 and 6). In the case of the individual indicator weighting simulations, a considerable number of the indicator values could not stay within the average threshold (standard deviation 0.2, the limits were +/-0.2).

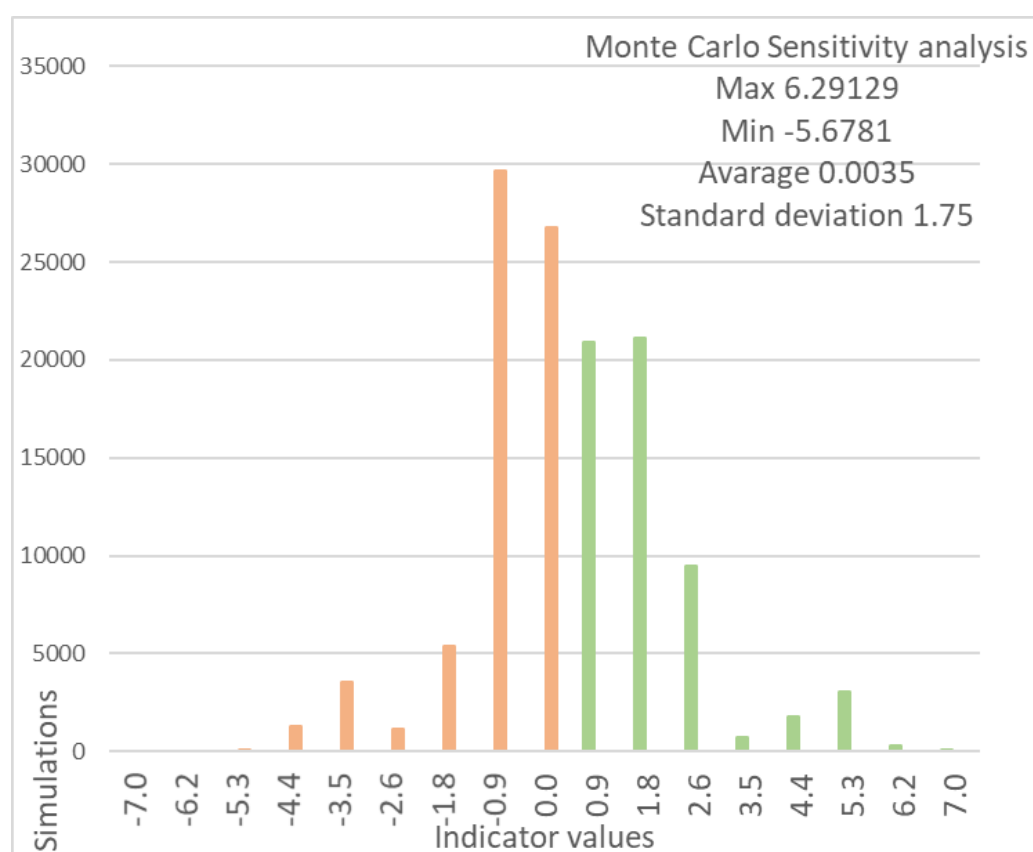
Figure 5: Visualisation of simulation results based on subgroup weights



Source: Constructed by the authors, based on results of composite indicator analysis

When using the group weightings, the higher number of simulation results stayed within the normal -1 and 1 range (standard deviation 1.75; the limits were ± 1.8). It shows that our complex indicator becomes uncertain with individual weights for each variable. It also confirms previous research findings: when creating a composite indicator based on PCA factor analysis, it is always worth using subgroups for the variables to provide further robustness to the model (OECD, 2008; Freudenberg, 2003).

Figure 6: Visualisation of simulation results based on individual weights



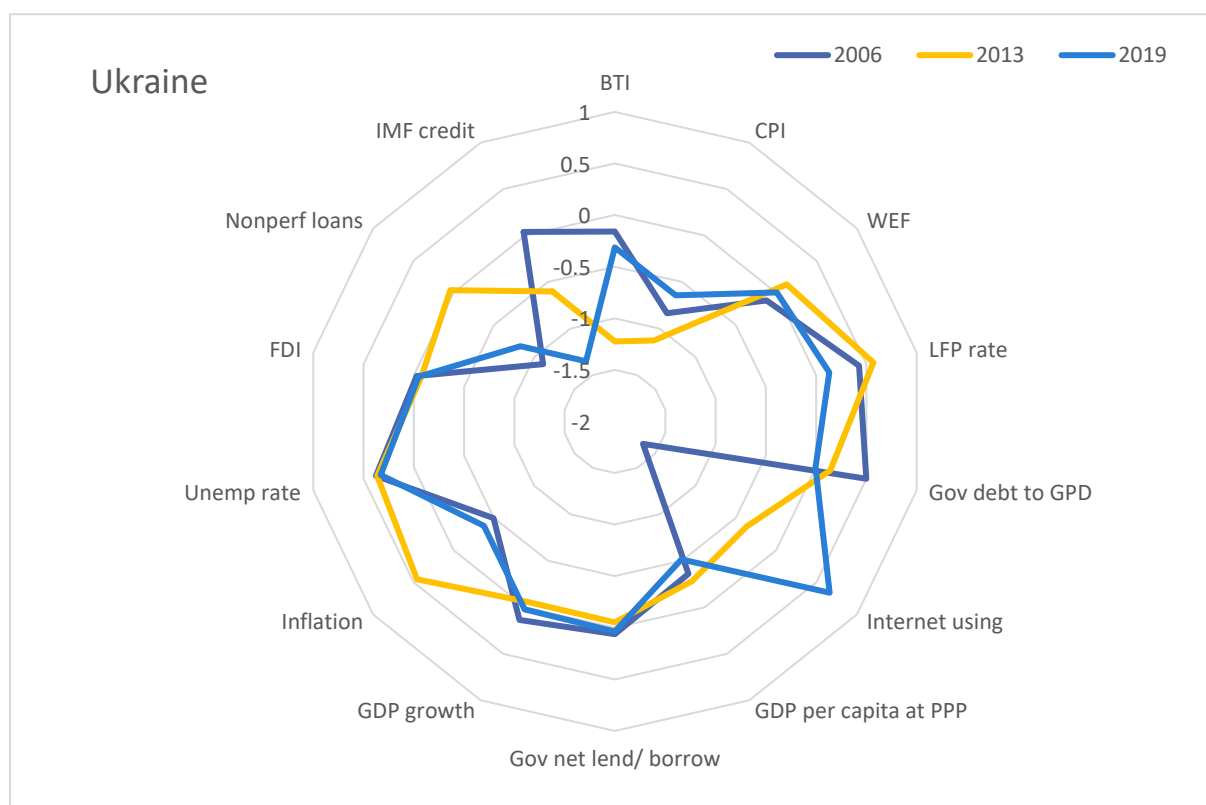
Source: Constructed by the authors, based on the results of composite indicator analysis

The simulations showed that measures could be considered robust as the standard deviation for the indicator value remained constant at 3.5, which means that the model is not too sensitive to the changing factors. Even in extreme measures, when indicators' values were multiplied by 0.1 and 1.9 (-90% and +90%), the standard indicator value deviation stayed between 3.68 and 3.73, and the distribution was also mostly normal (80–97–99).

4.3.5 Back to the details

A composite indicator is a great starting point for analysis, as it can be used as a summary indicator. Nevertheless, on the other hand, these can also be decomposed such that the contribution of sub-components and individual indicators can be identified. As a result of that, countries can be characterised based on one dimension, and weak points can also be highlighted. In our case, we have visualised the performance of Ukraine on a spider chart. In order to have stable results, the time dimension was defined based on the first and last available data sets, but 2013 has also been added as the last year before starting the war in the eastern part of the country.

Figure 7: Visualisation of country performances – the case of Ukraine



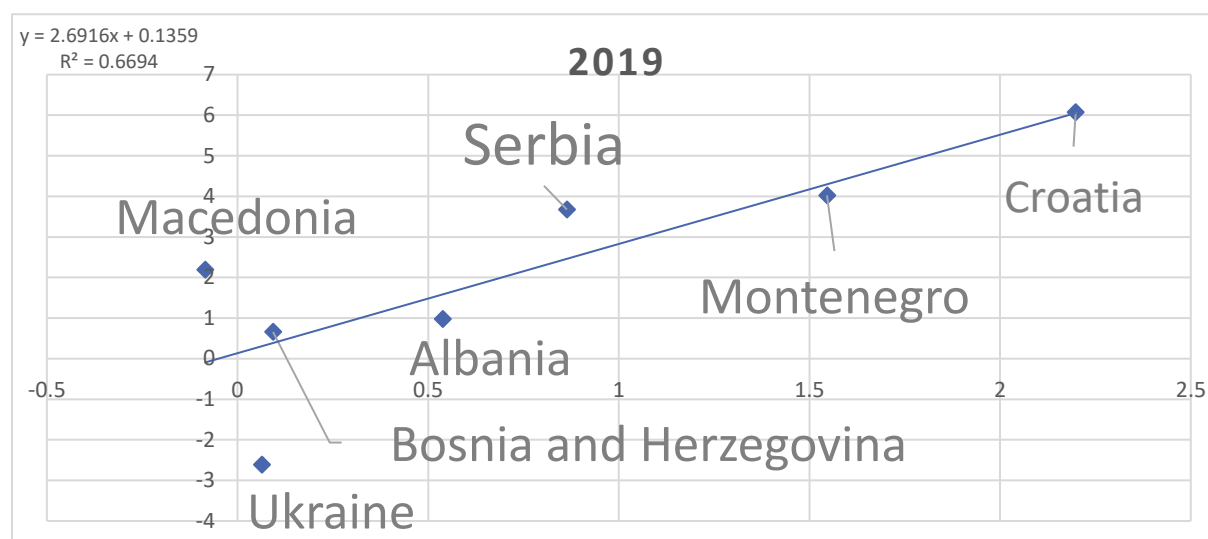
Source: Based on authors' research

In Figure 7 we can see that during the analysed period, the amount of IFDI was not growing, which is the constant aim of each government. The unemployment rate was also stagnating at a moderate level. The national currency went through massive inflation, especially after the Maidan revolution. GDP growth and GDP per capita at PPP increased but not to a notable level. The government's debt decreased, but more importantly, the usage of IMF credits significantly increased. In parallel, the number of non-performing loans went up.

4.3.6 Links to other variables

The composite indicator should also be tested in comparison with other indicators. HDI can quickly characterise the development of a country, so we decided to analyse the correlation between this indicator and our composite indicator. The examination of the relationship between the composite indicator and HDI based on 2019 data can be seen in Figure 8.

Figure 8: Visualisation of country performances



Source: Based on authors' research

The correlation between the composite indicator and HDI is strong ($R^2 = 0.669$), which means there is a relationship between the two indicators. Looking at the 2006 data, co-movement was also observed regarding the closeness of the relationship and showed a moderate result, $R^2 = 0.470$. It should be noted that composite indicators often include some of the indicators with which they are correlated, leading to double counting (OECD, 2008, p. 42). Therefore, the HDI dataset has been excluded from the regression analysis. There is a strong correlation between the composite indicator and the HDI data, even when analysing different periods. It confirms that the weighting of the sub-indicators is balanced and has been defined precisely.

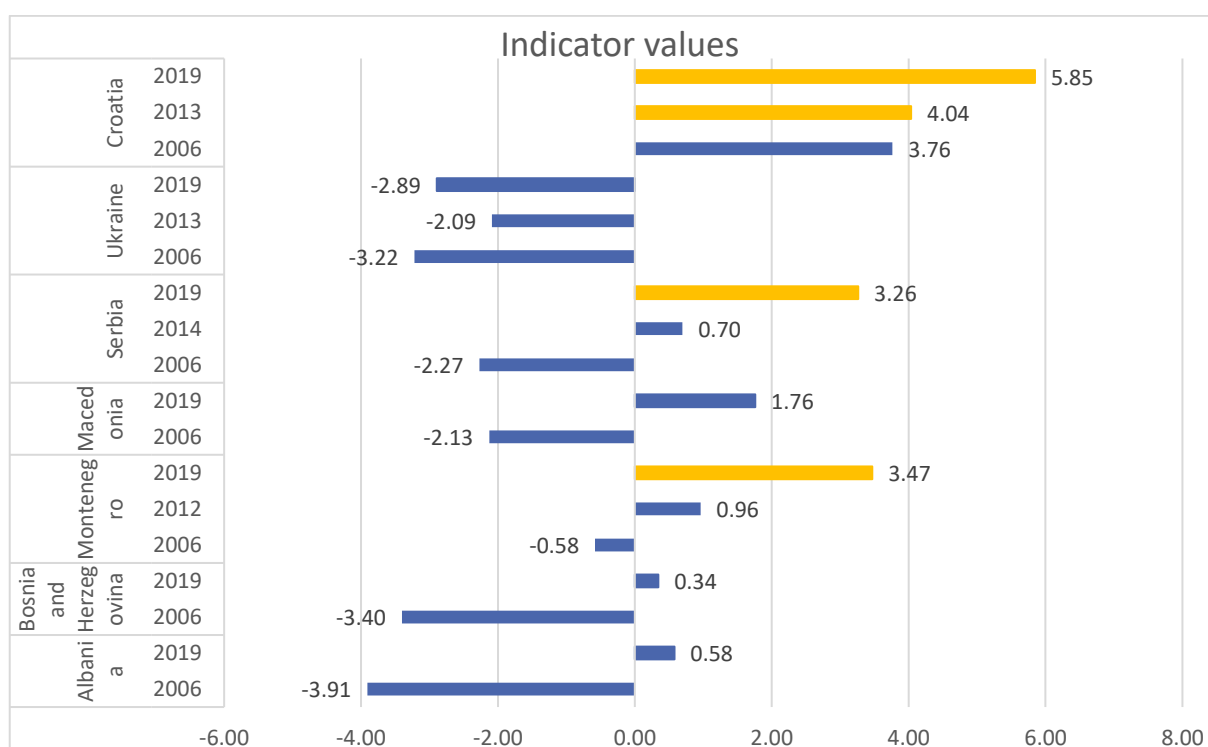
4.3.7 Presentation and dissemination

Visualising the composite indicator values shows that Western Balkan countries' economic integration maturity has changed. It is clear which countries have significantly increased their results, namely Serbia and Montenegro. It is also clear which country of the six was performing at the lowest level (Bosnia and Herzegovina, Albania, and Ukraine). The composite indicator reflects how EU accession for these countries has become increasingly important. In the case of Serbia and Montenegro, we can also see the positive impact of the EU accession negotiations.

Based on the results, we can state that economic measures support our central hypothesis and that neither Ukraine nor the Western Balkan countries can be considered ready for EU accession. In the case of Albania, Bosnia and Herzegovina, and North Macedonia, several aspects, such as market transformation and competitiveness, must be improved to consider their

accession (Endrődi-Kovács, 2013). Serbia and Montenegro were showing improvement, but the level of corruption, the government debt to GDP, the low level of inward FDI, and the dependency on IMF credits represent the weak economic performance of these countries. The presented results do correlate with the EU Commission's reports. In the case of Ukraine, the military conflict that started in 2014 harmed economic development. The country is still struggling with the highest level of corruption in Europe, the status of small and middle enterprises needs to be stronger, and overall financing seems to be worrying (high level of non-performing loans, low IFDI). As a result of the statistical analysis, the results are consistent with the relevant literature. The presented results (see Figure 9) show that Serbia and Montenegro are very close to gaining accession to the EU. However, in the case of other countries, meaningful development will be necessary. Based on evidence from economic data a fast-track accession to Ukraine instead of Serbia or Montenegro must not be provided. It took a long time for them to reach even this level of maturity. As Ukraine also received its official candidate status in 2022, it shall help them continue with the reforms to get full membership at a later point.

Figure 9: Values of the composite indicator in 2006, 2012, 2013, 2014 and 2019



Source: Based on authors' research

4.4 Assessment based on Palánkai's theory

Based on the previous sections, an overall outlook has been provided on the macroeconomic status of Ukraine. The most important reforms that influence the country's output have also been presented. These were crucial points to understand from where we started. In Section 4.2, the statistical analysis has been carried out, resulting in a comparison among the EU candidate countries. Based on these data and findings in the upcoming section, Ukraine's overall economic status will be discussed using the adapted version of Palánkai's assessment matrix.

4.4.1 Functioning market economy

In the case of Ukraine, I will look at data from 2006 to 2019 from the Bertelsmann Stiftung Transformation Indicators to see if the country has a market economy that works. In the first year under review, we experienced a score of 6.96, which eventually turned out to be the highest for the last 15 years. The lowest score was for infrastructure, as the condition of the railways and roads could have been better. The area with the highest score was price liberalization. Until 2008, the country was quite successful in economic terms. The BTI score stagnated; infrastructure has also improved (BTI, 2008). By 2013, the situation had become worrying due to unstable governance and populist economic policies. The overall score has decreased to 5.96 (BTI, 2012). During the reign of Yanukovich, the oligarchic system got much more substantial, which did not help the development of market economic conditions.

Compared to the Western Balkan countries, only Bosnia and Herzegovina could produce similarly low numbers as a result of their highly fractured situation (Kemenszky, 2017), but even their lowest was 6.3 during the analysed period (see Table 6.). In sum, a functioning market economy has been established over the last 25 years in Ukraine, but there is still much to do to reach a high level of transformation. Good results have been achieved, particularly in limited privatisation and price liberalisation. However, there are still significant issues with the infrastructure, competition policies, and corporate structures. In principle, the current state of the Ukrainian economy is just as far behind that of Romania or Bulgaria in 2007. Even so, let us look at the Croatian data for the year before they formally joined the European Union (2012). We can see that Ukraine is currently below the expected level of development in a functioning market economy.

Table 6: BTI data from the analysed countries

Year	Albania	Croatia	Ukraine	Bosnia and Herzegovina	Montenegro	Macedonia	Serbia
2006	6.61	8.71	6.96	6.61	6.95	7.08	6.95
2007	6.84	8.64	6.94	6.56	7.115	7.3	7.075
2008	7.07	8.57	6.93	6.51	7.28	7.52	7.2
2009	7.12	8.42	6.73	6.47	7.315	7.525	7.295
2010	7.17	8.3	6.55	6.43	7.35	7.53	7.39
2011	7.095	8.28	6.28	6.42	7.315	7.44	7.45
2012	7.02	8.25	5.96	6.41	7.28	7.35	7.51
2013	6.785	8.21	5.92	6.39	7.39	7.26	7.51
2014	6.55	8.17	5.89	6.37	7.5	7.17	7.51
2015	6.63	8.05	5.99	6.375	7.49	7.015	7.47
2016	6.71	7.93	6.05	6.38	7.48	6.86	7.43
2017	6.77	7.99	6.29	6.33	7.415	6.81	7.415
2018	6.83	8.07	6.54	6.28	7.35	6.76	7.4
2019	6.83	7.91	6.81	6.28	7.35	6.76	7.4

Source: BTI reports, 2006-2020

4.4.2 Competitiveness

Competitiveness is an area of particular importance for a candidate country because if its products are not competitive in the single market, it may suffer a trade disadvantage, which could hurt the development of its economy in the long term as foreign products could eventually squeeze domestic products out of the internal market. Global Competitiveness Index data will be used to present Ukraine's overall competitiveness. The indicator, created by the World Economic Forum, consists of 12 fundamental pillars and is broken down into three sub-indices. The list of fundamental pillars includes institutions, infrastructure, macroeconomic stability, health, and primary education. The next group is a list of efficiency-enhancing indices: higher education and training; product market efficiency; labour market efficiency; financial market sophistication; technological readiness; market size; and the third group includes innovation and business structures.

The latest Global Competitiveness Report shows that Ukraine has worsened its previous performance. Overall, its current rank is 85th, while in 2014, it was 79th. The report clearly shows that the processes and reforms that started in the last 2-3 years have not necessarily improved the country's economic strength and competitiveness. Overall, a significant decline can be stated, as from the 73rd position in 2005 they lost more than ten positions during the last 15 years (WEF, 2019).

The weakest results were achieved in the first pillar of indicators. In terms of essential requirements, health and education improved compared to the previous period, ranking them 54th in this section. Macroeconomic indicators have been erratic in recent years, with the country ranking only 128th in this respect. From a potential membership point of view, the institutional set-up, its state, and its role are substantial aspects when someone aims to join an integration. Ukraine has a 3.0 rating in this respect, with no change in the last ten years. In the 2006 Competitiveness Report, the Ukrainian institutions were rated 3.1, so there has been no improvement in the institutional framework and even a minimal deterioration. In terms of efficiency indices, Ukraine ranks 74th in the global ranking. The index for higher education is the strongest, ranking 33rd (WEF, 2019), while the financial market development sub-index was the weakest, only ranking 130th.

According to the World Economic Forum report, corruption is the biggest problem for competitiveness growth. Other competitiveness problems are political instability and inefficient government bureaucracies. In addition, rising inflation and increasing difficulties in accessing finance are posing severe challenges to the competitiveness of the Ukrainian economy. It has followed a volatile development path, which has yet to strengthen its integration ranking. The slowdown of the domestic economy and high unemployment are the main reasons behind the lower score, while high international trade has strengthened the country's position. The government's efficiency rate has remained roughly at the same level, with a decline in 2014 and currently ranking 57th on this indicator. The most negative impact is caused by a deficient institutional framework, which is a major obstacle to integration maturity. Business efficiency also declined, similar to economic performance, from the 51st to the 60th (WEF, 2019). In infrastructure, however, we have seen progress, although only one place has been improved. Nevertheless, there was progress in critical areas such as education and scientific research infrastructures.

Overall, political uncertainty and the deterioration in the economy's performance have led to a further lag in competitiveness. Even though the Ukrainians have made significant progress in some areas, like innovation and higher education, there has remained the same in how they deal with corruption and bureaucracy. They still need to build suitable institutional structures. It has caused them to lose ground in global markets. Since the middle of the 2000s, Ukraine has been making good progress, and even the global financial crisis did not do much damage. Even so, the harmful effects of the last 6–7 years, the unpredictable development path, and the evident

deterioration in economic performance have led to a serious decline in Ukraine's competitiveness.

4.4.3 Macro stability

Macro-stability will be presented by GDP growth, inflation, unemployment rate, IMF credit to GDP, and CPI indices. The evolution of the gross domestic product sum shows an exciting curve for Ukraine. From USD 71.8 billion in 1992, it has grown to USD 90.6 billion in 25 years, reaching a peak of USD 183.3 billion in 2013 (World Bank, 2022). Looking only at the values, we can observe fundamental variations over a short period. In terms of real annual growth, a strong trajectory emerged for 2000–2008, with the highest annual growth rate of 12.1% in 2004. As a result of the political crisis and war in 2014 and 2015, the GDP dropped by 10% in both years, which is a massive decrease in a short time. It had been growing steadily at an annual rate of 3–4% since then, but the new outbreak of the war will result in another huge drop. Overall, we can conclude that annual real GDP growth does not show stability, and it lags behind the stability of the European Union. Nevertheless, we have to conclude that positive developments were witnessed until 2013, as the financial crisis was put behind relatively soon. However, the unexpected economic and political crisis had a very negative impact on the country's stability.

Unemployment has been much more predictable in Ukraine over the last 25 years, with stable rates between 5 and 11%. Between 2000 and 2009, the Ukrainian leadership made an important achievement, bringing the unemployment rate down to 6% from 11.6%. The rate has increased in the last three years, but a positive trend started last year, with the unemployment rate now standing at 9.2% of the total population (World Bank, 2022). In terms of unemployment, Ukraine is catching up with some European countries. Although the trends of recent years cast doubt on the country's economic maturity, more and more people started to work abroad due to the higher salaries and, most specifically, to flee the mandatory military service.

In terms of stability, the next indicator to be examined is inflation. It is the area of most noteworthy concern for Ukraine, where inflation is persistent and not insignificant. The lowest level was recorded in 2013 at 4.3%. For most of the period under review, annual inflation has been around 10% to 20%, which is an abysmal result, and in 2015 it reached 38%, which was not a sign of stability (World Bank, 2022). In comparison with the EU, since 2009, inflation has been stable at below 2% on average across the Eurozone, despite the financial austerity that

the Germans have been pushing. There is no doubt that Ukraine is not meeting the inflation target of below 5%, and in fact, they could reach this level only once during the last 15 years.

If we look at the evolution of the CPI (Corruption Perceptions Index) over the last 20 years, we can see that the corruption rate in Ukraine is indeed outstanding (Transparency International, 2016). On average, the Ukrainian economy has scored 2.5 points over the last 20 years, which puts it in the group of the most corrupt countries in the world, with only Moldova and Russia on the same list of European countries. Nevertheless, there has been a positive change in the last five years, with the score improving from 2.3 to 3.0.

The usage of IMF credits has also increased during the analysed period. In the mid-2000s, it was only around 2–3% of the GDP. Then, due to the global financial crisis, it had reached 15% by 2011. After the fall of the Yanukovich government, this trend stayed, and on average, the Ukrainian governments are using 10% of their annual IMF credits. Compared with the Western Balkan countries, it is relatively high, as none use more than 3–5% annually (World Bank, 2022).

To sum up, Ukraine's macroeconomic stability data suggest that it is not a steadily developing country, as it has yet to be able to meet most of the expectations. Only in the unemployment trends were showing a relatively similar result to the Western Balkan countries. However, real GDP growth and especially inflation are far below expectations. The political and economic crisis that unfolded in 2014 has set back the country's development. Based on macroeconomic stability indicators alone, Ukraine cannot be considered ready for integration.

4.4.4 Financing ability

First, I would like to discuss the financial support available from the EU-Ukraine relationship. Between 2000 and 2006, Ukraine received a significant amount of EU assistance under the TACIS initiative. It was set up in 1991 to facilitate and accelerate the transition of newly independent countries to market economies, with a total budget of € 3.1 billion. The Eastern Partnership made additional funding available in the following financial period. To support this, the European Neighbourhood and Partnership Instrument (ENPI) was created within the new budget (Ludvig, 2011). Even so, the EU budget for 2014–2020 has been changed again, now called the Neighbourhood Investment Facility (NIF). This money is intended to improve the standard energy network and roads, protect the environment, and combat climate change. Ukraine has received operative support from these funds as well. More substantial

support is coming in the form of IMF credits to promote macroeconomic stability, as was mentioned in the previous section. It is mainly used to fill the budget deficit and replenish the national bank's gold and foreign exchange reserves. In addition, humanitarian aid is also coming from the EU, mainly to alleviate the damage caused by the war. By 2017, funding from the World Bank had decreased as the new government could not account for using the funds as frequently as was required. Adverse developments in credit rating agencies' ratings also suggest that foreign investors' and creditors' confidence in the current leadership has been broken, resulting in severe financial challenges for the government.

It is also necessary to look at the trends in FDI investment to figure out how well Ukraine can attract capital. Undoubtedly, the accession to the WTO in 2008 has had a major impact, and the political crisis that started in the fall of 2013 caused a serious setback later on. Investment volumes were minimal in the 1990s, and even during the 2000s, the country could only attract a billion dollars annually, below the regional trends (Mankovska, 2001). Russia has been the most relevant investment partner for a long time, although its role has steadily declined. The European Union has been the most crucial investment partner over the last ten years, with Germany and the Netherlands being the primary sources. The role of Cyprus is also worth mentioning, as it accounted for 25–30% of capital investment on average over the period. However, these amounts usually represent off-shore movements by Ukrainian or Russian investors, so the actual source regarding investments from Cyprus is questionable.

It is important to note that American and Chinese investments were decreasing significantly, despite that they are essential economic global players. It also shows the low level of investor trust in the country. The annual budget deficit was constantly negative during the analysed period that shows financial instability and lack of fiscal balance (Benczes and Kutasi, 2012). On average, it was around 2%, and in the most challenging years (2013, 2014), it was 4%.

Overall, there has been a noteworthy change in foreign direct investment and the financial section. The most critical investors have changed; they come from the West nowadays. The risk level has increased for these investments, which also shows the financial instability in the country. The level of non-performing loans increased by 30%, and the budget deficit is constantly negative. With financial aid and credits from the World Bank and the IMF, it would be easier to fund the expenditures of the state. With the loss of confidence of international financial institutions and international investors over the last five years, Ukraine cannot be considered ready for integration in terms of financing. Since 2022, as a result of the war the

situation just worsened. Currently the Ukrainian central budget wouldn't survive more than a quarter year without external support.

4.4.5 Convergence

In terms of how GDP per capita at PPP has changed, it has almost doubled in 25 years, which is a big deal. However, it has remained intact; there was a downward trend in the first eight years of independence. By 2007, it had already crossed the \$13,000 threshold, which was the best result for Ukraine in 25 years. It is 95th globally; only Moldova is ranked lower from Europe, and only Uzbekistan, Kyrgyzstan, and Tajikistan are lower from the former Soviet Union. It is not a bad result, and severe social inequalities can be detected behind the results. Ukraine has made considerable progress compared to the Soviet period, particularly in restructuring the services market. The level of GDP per capita at PPP significantly decreased after the fall of the Soviet Union, and since then, it has increased unpredictably. During the last 7-8 years, the high inflation has caused further problems, but Ukrainian purchasing power is still one of the lowest among the non-EU member European states (World Bank, 2022).

When examining convergence, looking at social development indicators is necessary. The number of internet users in Ukraine in 2016 was 19.6 million, or 44.1% of the total population. This area has undergone rapid changes. Ten years ago, only 2 million people in the country had a permanent internet connection, or 4.5% of the population (Kuzio, 2006). With the number of internet users has increased tenfold in ten years, this upward trend will continue. Although it is below the EU average of 75%, it is close to 56% in Romania and Bulgaria. Even so, there are also notable differences in life expectancy trends. In Ukraine, life expectancy at birth is 71.8 years, slightly higher than the world average of 71.5 years. Life expectancy is lowest for the male population, at 66.2 years. In particular, there is a fundamental difference for men (66 years) and women (78 years), and this was the case even before the war started. The Human Development Index was moving around 0.74 and 0.77 during the last 15 years, the same result as in North-Macedonia or Bosnia and Herzegovina. As we have seen previously, Serbia and Montenegro have a better integration maturity level, which also comes out in the HDI results; they have had a higher score than 0.8 for many years. In sum, Ukraine's convergence is also highly questionable throughout the recent period, and as a result of the full-scale war each indicator result suffered fundamental decrease.

4.4.6 Overall Assessment

Ukraine is slightly converging towards the level of development of the EU Member States, but the analysis has shown that they still massively need to catch up. Although the start of positive trends was unquestionable until 2013, but then due to the political and economic crisis, the Ukrainians' living standards decreased and only recently could reach the previous levels. The country's convergence slowed, even stagnating for the last few years.

Table 7: Ukrainian economic data from 2006 to 2019, part 1

Year	BTI	CPI	WEF	LFP rate	Gov debt to GDP	Internet using	GDP per capita at PPP
2006	6.96	2.8	3.9	62.16	14.8	4.506125	12259.16
2007	6.94	2.7	4.1	62.64	12.3	6.55	13345.77
2008	6.93	2.5	4.1	63.33	20.5	11	13719.27
2009	6.73	2.2	4	63.33	34.7	17.9	11694.45
2010	6.55	2.4	3.9	63.7	39.9	23.3	12221.44
2011	6.28	2.3	4	64.3	35.9	28.70826	12933.36
2012	5.96	2.6	4.1	64.6	36.6	35.27	12985.09
2013	5.92	2.5	4.1	64.96	40.1	40.95413	13020.61
2014	5.89	2.6	4.1	62.36	70.2	46.23598	12385.81
2015	5.99	2.7	4	62.36	79.1	48.88464	11216.12
2016	6.05	2.9	4	62.15	80.9	53.00097	11536.32
2017	6.29	3	4.1	62	71.8	58.88948	11860.56
2018	6.54	3.2	4	62.58	60.9	62.55316	12336.93
2019	6.81	3	4	56.32	50.3	70.12484	12804.96

Source: World Bank, BTI, WEF

The Ukrainian economy has made good progress in the functioning market economy. As a former member republic of the Soviet Union, it was already a very advanced industrial country, but the crisis of the 1990s resulted in a decade of economic failure. From the 2000s onwards, the economy took off, and by 2008 the country had undergone a significant transformation. The existence of a functioning market economy is not a question, and serious progress has been made in price liberalisation and privatisation. Today, the main areas for improvement are the low-quality infrastructure, weak governance and stiff corporate structures.

The following criterion was competitiveness. It could not be increased. In fact, due to the revolution, it lost ten positions that have never been regained since. The biggest problems are with the institutional structures, high bureaucracy and corruption. The adverse developments during the last three years have further deteriorated the country's competitiveness.

Table 8: Ukrainian economic data from 2006 to 2019, part 2

Year	Gov net lend/ borrow	GDP growth	Inflation consumer prices	Unemp rate (ILO Estimate)	FDI (net inflows)	Nonperf loans	IMF credit
2006	-0.99528	7.571421	9.052525	6.81	5.008725	59.75663	2.703307
2007	-0.85409	8.215844	12.83878	6.35	6.853181	48.11837	2.220224
2008	-1.40363	2.243492	25.22646	6.36	5.688127	3.883848	5.890701
2009	-5.40594	-15.1365	15.88119	8.84	3.923399	13.69777	13.43821
2010	-6.30114	4.092004	9.372931	8.1	4.568378	15.26651	15.84851
2011	-2.23727	5.445281	7.955725	7.85	4.25611	14.73229	15.18105
2012	-3.91497	0.152315	0.568728	7.53	4.477185	16.54233	11.52549
2013	-4.1676	0.045439	-0.23895	7.17	2.366944	12.88614	6.498786
2014	-4.83362	-10.0789	12.07186	9.27	0.634441	18.98442	7.623272
2015	-1.49336	-9.77299	48.69986	9.14	-0.21751	28.03477	13.16597
2016	-2.57648	2.440982	13.91271	9.35	4.421784	30.46827	13.8697
2017	-1.39252	2.359972	14.43832	9.5	3.283061	54.5413	14.44221
2018	-1.7086	3.488362	10.95186	8.8	3.800871	52.84758	13.01728
2019	-1.71932	3.199504	7.886717	8.19	3.766498	48.35851	10.96338

Source: World bank

In convergence, the Ukrainians have performed better than in the other criteria. Ukraine's convergence needs to be improved and match the results of the least-developed EU Member States. The economy's structural transformation is mainly complete, and some progress has been observed in GDP per capita at PPP (see Table 7). However, it remains well below the European level. Life expectancy has increased over the past 15 years but is still below the EU level by almost ten years, which is a considerable gap.

The data from the macro stability perspective led to the same conclusion. Ukraine's economy is by no means a stable economy. The real GDP growth has been volatile, and inflation has been constantly high. The country is highly exposed to external influences. The only positive aspect from the last 15 years that the global financial crisis caused a major setback, but it could recover relatively quickly.

In contrast, recent political and economic crises have reduced the state's annual revenues. The situation is even worse regarding inflation, with a booming increase of 38% in 2015 (see Table 8). Unemployment figures show relative stability, with a current result of 10%, similar to the EU's average. Nevertheless, GDP and inflation trends negatively affect the Ukrainian economy, revealing a lack of macro stability.

There is also space for improvement in the area of financing. In particular, there are problems with the accountability of foreign development funds, an area where the Ukrainians certainly need to advance. The ratings of foreign credit rating agencies also indicate that risks are currently associated with investing in the Ukrainian economy. The evidential drop in FDI volumes in recent years also shows that Ukraine needs to improve in financing.

In sum, Ukraine has made some progress regarding integration maturity, but all its current achievements are below expectations. Despite the political will for a complete reform of the country, the reality is that serious progress has yet to be made. At the moment, it does not meet any of the five criteria from the adopted Palánkai's assessment matrix. Some notable reforms have been executed, such as the decentralisation or deoligarchising programs, but their results are still to be expected. The composite indicator results also showed that Ukraine is still behind the least developed EU members and the Western-Balkan countries, which are in better shape and can be considered more economically mature. *Based on these findings, the first and second sub-hypothesis of the research can be accepted. Ukraine cannot be considered an economically mature country for integration, and fast-track membership shall not be provided to them.* It would cause significant challenges not only to the EU but also to Ukraine. Furthermore, the political aspects (ongoing war) were neither mentioned nor assessed, which could cause an additional and fundamental threat to every EU member.

5 Foreign policy analysis

5.1 EU or EEU

5.1.1 Evaluation of foreign relations with the EU

The relations between Ukraine and the European Union have evolved (see Table 9), with both parties seeking to deepen their political and economic ties. While the EU's opinion of Ukraine has shifted, the EU has remained committed to supporting Ukraine's political and economic development, despite the challenges posed by the ongoing conflict in eastern Ukraine and Russia's annexation of Crimea (Yatsenko et al, 2017).

One of the first steps took place in 1994 when Ukraine and the EU signed a Partnership and Cooperation Agreement (PCA), which established a framework for political and economic cooperation between the two parties. The PCA provided for regular political dialogue, trade cooperation, and technical assistance to support Ukraine's economic and social development.

In 2004, the EU expanded with ten new member states, many of which had previously been part of the Soviet bloc. It led to reevaluating the EU's relationship with its eastern neighbours, including Ukraine. The EU began to develop a new policy of engagement with its eastern neighbours, known as the European Neighborhood Policy (ENP), which aimed to promote political and economic reform in the region (Gawrich et al, 2010).

Before the Euromaidan protests in 2013, the EU's relationship with Ukraine was primarily focused on trade and economic cooperation. The EU expressed interest in developing closer ties with Ukraine, but there was little political will to deepen the relationship. However, the protests in Ukraine in late 2013 and early 2014, followed by the change of government, presented a new opportunity for the EU to renew its engagement with Ukraine.

In March 2014, Ukraine and the EU signed the Association Agreement, which included provisions for the political association, economic integration, and closer cooperation in various policy areas. The agreement also established the Deep and Comprehensive Free Trade Area (DCFTA), which aimed to reduce trade barriers, promote regulatory convergence between Ukraine and the EU and provide for closer political dialogue, trade cooperation, and support for Ukraine's reforms in areas such as governance, the rule of law, and human rights. The EU Commission expressed strong support for Ukraine's efforts to build a democratic, transparent, and accountable government and to implement reforms (European Commission, 2014). The EU also provided significant financial and technical assistance to support Ukraine's reforms and to help stabilise its economy.

Nevertheless, the conflict in eastern Ukraine and the annexation of Crimea by Russia in 2014 presented remarkable challenges to the EU's relationship with Ukraine. The EU Commission condemned Russia's actions and imposed economic sanctions against Russia (Veebel and Markus, 2015) but also increased its support for Ukraine, including financial assistance and technical assistance for reforms. In 2017, the EU introduced visa-free travel for Ukrainian citizens, which was seen as an essential milestone in the EU-Ukraine relationship (Poshedin and Chulaievskaya, 2017). The EU Commission praised Ukraine's progress in meeting the requirements for visa liberalisation but also emphasised the need for continued reform efforts in areas such as judiciary and anti-corruption, human rights, and the fight against organised crime.

Overall, while the EU's opinion of Ukraine has evolved, the EU Commission's support for Ukraine's political and economic development has remained steadfast, despite the challenges presented by the ongoing conflict. The EU has provided noteworthy financial and technical assistance and continues to work closely with Ukraine to promote democratic values, support economic development, and strengthen the rule of law in the country. In conclusion, while there have been some positive developments in Ukraine's economic relationship with the EU, ongoing challenges such as corruption and investment climate continue to weigh the country's economic prospects. The EU remains committed to supporting Ukraine's reform efforts, but sustained progress will require continued political will and robust implementation, which eventually came from the war. Also important to note, that after four months of fighting a full-scale war against Russia, the EU commission officially granted Ukraine an EU candidate status.

Table 9: Most important milestones in the history of Ukraine and the EU

Date	Milestone
Oct-93	Kyiv opening of the European Commission Representation in Ukraine.
14-Jun-94	A Partnership and Cooperation Agreement between Ukraine and the EU is signed.
Jul-95	The Mission of Ukraine to the European Union is established.
Jun-96	The European Union recognised the status of Ukraine as a country with a transitional economy.
1-Mar-98	Partnership and Cooperation Agreement between Ukraine and the EU came into force.
11-Jun-98	The Decree of the President of Ukraine approved the Strategy of Ukraine's integration to the EU.
11-Oct-00	The resolution of EU Council removing Ukraine from the list of non-market economies became effective.
Feb-05	A Joint EU-Ukraine Action Plan (a framework for critical reforms in Ukraine) was endorsed by the European Council.
2009	Eastern Partnership cooperation mechanism established for Ukraine and five other post-Soviet countries.
29-Nov-13	Yanukovych refuses to sign the AA at the Vilnius summit at the insistence of Russia. Euromaidan protests begin.
21-Mar-14	Political part of the Association Agreement signed by Prime Minister Yatseniuk.
27-Jun-14	President Poroshenko signed the economic part of the AA.
16-Sep-14	AA ratified by Ukraine.
1-Jan-16	The Deep and Comprehensive Free Trade Area between Ukraine and the EU entered force.
Apr-16	A referendum in the Netherlands on AA ratification (the result is a "no"). Other EU states have ratified the AA by that time.
11-May-17	Ukraine was granted visa-free travel with the EU.
1-Sep-17	AA fully enters into force.
12-Oct-21	Ukraine and the EU sign the Common Aviation Area Agreement and agreements on Ukraine's participation in the EU Horizon Europe and Creative Europe programmes.
28-Feb-22	Ukraine submitted an application to join the EU.
Jun-22	Ukraine is granted EU candidate status.

Source: Ministry of Foreign Affairs of Ukraine (2022)

5.1.2 EU's Eastern Partnership and energy transfer as a Russian foreign policy tool

The Eastern Partnership is a specific eastern dimension of the European Neighborhood Policy (ENP). The European Union cooperates with its southern and eastern neighbours in the European Neighborhood Policy (ENP) framework to achieve the closest possible political association and the highest degree of economic integration (Park, 2014). The Eastern Partnership aims to strengthen the political association and economic integration of the six partner countries in Eastern Europe and the Southern Caucasus: Armenia, Azerbaijan, Belarus,

Georgia, Moldova, and Ukraine. In the mentioned region, the EU has many different interests and priorities, such as security, stability, economic prosperity, consolidation of democracy and the rule of law. It is also worth mentioning that the EU is committed to establishing close, differentiated and mutually beneficial cooperation with all six countries within the framework of the Eastern Partnership, whatever motivates each country in its relations with the EU (Boonstra, Shapovalova, 2010).

In June 2008, the European Council officially requested the Commission to establish a proposal for an Eastern Partnership, mainly focusing on supporting regional cooperation and strengthening relations between the EU and its Eastern neighbours. A coherent policy framework for these countries as the EU's new eastern neighbours has become necessary (Nielsen and Vilson, 2014). In many cases, partner countries were facing everyday challenges with the Union. Tackling the challenges together and sharing the best practices promoted collaboration. The responses to the EU's initiative varied based on countries geopolitical, cultural and civilisation tensions and contradictions. The current policy of the EU towards these post-Socialist countries needs further conceptualisation to establish a sustainable development path and practical long-term cooperation. On the one hand, some decentralisation is needed in the current circumstances and decreasing the level of bureaucracy is also needed if long-term efficiency is the goal (Korosteleva, 2014).

From the Russian perspective, the existence of the Eastern Partnership is already being recognised as a threat meant to disassociate these countries from the Russian Federation. There are three significant aspects where the interest of Moscow can be undermined. The first one is the economic pillar. Establishing free trade area between the EU and these countries can lead to a decline in the demand for Russian products; therefore, their common trade would decrease (Youngs and Pishchikova, 2013). It is an important and valid part of the argument against the ENP. However, in the long term, it would balance the trade relations among the participants, and the higher competition would lead to higher efficiency in production, which would be in the interest of the parties.

The second aspect is energy consumption. It is well-known that the post-Soviet region still depends on the Russian energy sector, and to be precise, not only on consumption. These countries also realise massive revenue for transferring gas and oil through the Russian pipelines laid down in their countries towards the EU (Makarychev, A., 2014). This case is especially true for Ukraine and partially also for Moldova. The proposition of providing membership to these countries to the European Energy Community is very much against the interest of the Russian Government (Zagorski, 2010). It is a tricky question, as in this manner, there are many

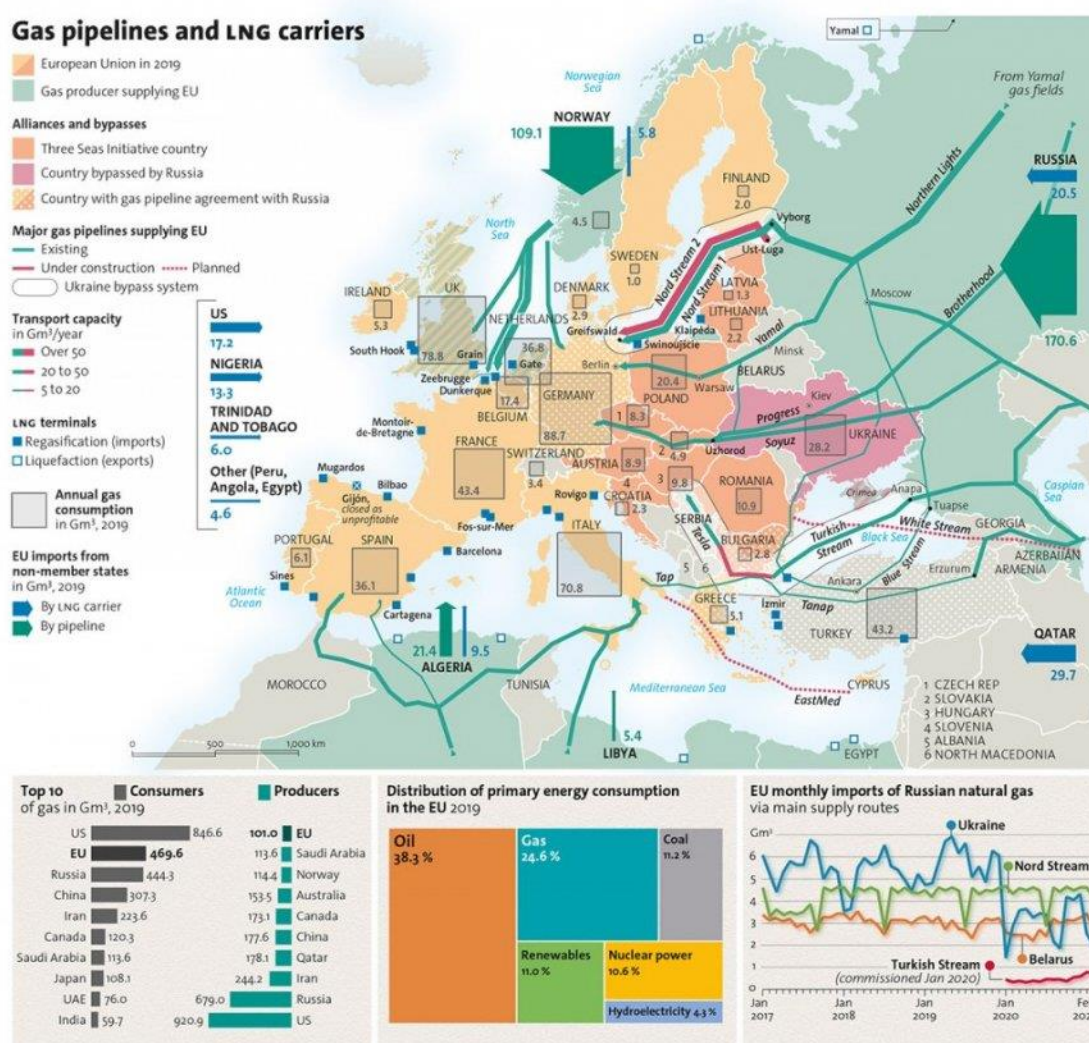
value-based discussions as well; nevertheless, it is purely about economic interest. A long-term alignment and cooperation that would serve every participant's interest can be reached, but the EU should act as a single actor. Unfortunately, the different national governments are currently having separate negotiations with the Russians; a great example is the agreement with the Germans and the existence of the North Stream pipeline.

The Russian natural gas industry can be understood through the idealistic assumption of serving the national interest, which underpins the dominant perception of natural gas resources as a foreign policy tool. While this perception is often considered a 'product' of the Putin administration, we contend that it is the product of history and, more specifically, of the country's Soviet past. Thus, while President Vladimir Putin's ascent to power is widely considered a critical juncture concerning gas policy, there was no rupture. The crucial features of the Soviet policy were restored.

Explanations governed by the idealistic perspective focus on the 'Grand Design' of state power and protecting national interests in the international arena. Factors relating to Russia's self-identification as a great power play a significant role in this context. Likewise, the dominant political culture and relevant geopolitical aspirations are viewed as the main explanations for the unsuccessful liberalisation efforts and the instrumentalisation of the economy for the sake of higher idealistic goals. Explanations based on individual utilitarianism disregard the 'Grand Design' justification and examine individual motives and goals. State capitalism is considered to serve the individual strategies of rent-seeking elites. The Russian oligarchy was weak enough to counter the Putin era's renationalisation plans and state capitalism.

Russia's 'Virtual Economy' (Gaddy & Ickes 1998, 2002) considers the inherited difficulties of Soviet central planning as the leading cause of the problematic Russian transition. Gaddy and Ickes view the post-Soviet Russian economy as a new economic system governed by 'the pretence that the economy is much larger than it is'. The roots of this virtual economy lie in the country's unreformed manufacturing sector, a legacy of the Soviet era when many companies' productive activity took away rather than added value to the economy. The only value-added sector was the energy industry, particularly Russia's natural gas monopoly corporation; Gazprom played an important role. The energy sector functioned like a 'value pump', transferring value to the economy. The 'virtual economy' that emerged was rooted in the continuation of the pretence that the economy had a sizeable value-producing manufacturing sector. It had a value-destroying sector, preserved by arbitrary pricing. Hedlund emphasises the path-dependent evolution of Russian energy policy as follows (2006): 'Rather than suffering from a "resource curse", Russia is suffering from an institutional curse rooted in old patterns.

Map 1: Overview of the gas pipelines between Russia and Europe



Source: Le monde, [Gas-pipelines 2020](#)

The deliberate use of oil and natural gas for foreign policy purposes is rooted in the 1960s when the enormous increase in oil output was coupled with the construction of an oil pipeline network followed by the development of a natural gas pipeline network (see Map 1). The still most extensive transportation route of Russian gas exports—the 'Brotherhood' pipeline—carrying over 100 billion cubic metres (bcm) of gas per year, started operating in 1967. It was not about making money (although they were making money) but about shaping a sphere of influence and undermining the West. The first dimension of the pipeline towards COMECON countries: As explained by Newnham, the 'a pattern began then, which continues today: Russia deliberately gave its allies oil and gas at highly subsidised prices, but only if they remained politically compliant (2011). The second dimension to Western Europe on a much higher price: a 20-year contract was signed in 1970 between the Soviet Foreign Trade Ministry and the West

German Ruhrgas to deliver gas to the Federal Republic of Germany. Five years later, Austria was the first West European country to import Soviet natural gas, while the USSR started exporting gas to Finland in 1974 and France in 1976. Increasing supplies of Soviet natural gas to Western Europe signified growing dependence and, from the Kremlin's perspective, potential influence on certain Western European countries to the detriment of Washington.

President Ronald Reagan's efforts, in 1981, to persuade Western European governments to reject imports of additional Soviet natural gas and the offer of financial incentives proved unsuccessful. The need to diversify the EU's supply sources—dates back to Western European imports of Soviet gas. Since behaving as if Russia were still a military superpower was not a feasible option, energy became the appropriate substitute, which signified that Russia would transform itself from a rule-taker to a rule-maker in the energy sector. The enduring legacy of Soviet energy policy had a significant impact at this critical juncture. Moreover, according to Bradshaw and Connolly (2016), the increase in revenues from hydrocarbon exports 'laid the foundations for the return of the Russian defence–industrial complex'. In the absence of Soviet military power, hydrocarbons were an appropriate tool for restoring Russian influence in the near abroad. Diminishing state control over the Russian natural gas industry would have been irreconcilable with such a policy choice. The increase in oil and gas prices produced the appropriate economic conditions for implementing this policy. However, it was only the accelerator, not the cause behind it. The export of natural gas has emerged as one of the most potent assets of Russian foreign policy in the Putin era. Gazprom was created on that premise to serve the national interest, to control gas production and export, and at the same time to create revenue for the rent-seeking Russian elite. As a result of the war this export strategy is already affected. The natural gas consumption of EU countries decreased by 10-15%, and more importantly the purchases of Russian gas decreased by 75%. It is just the beginning of the process, but as it seems the European dependence on Russian energy is not going to be that significant anymore (Mišík and Nosko, 2023). Nevertheless, Ukraine's situation is different from other EU countries.

Last but not least, the third aspect is the military threat that economic cooperation means in the long term. Rationalised pure business cooperation would likely affect security policies (Valieva, K., 2016). It is difficult to find any supportive theory to this argument, but if the historical precedents are going to be assessed, then an obvious correlation can be noted. During the accession process of the post-Socialist region to the EU, none would first become a member of the EU before it joined NATO. This topic is not discussed in the scholarly literature but is

part of Russian Foreign Policy. When a country receives an invitation to participate in European Integration, in the eyes of the Russian government, it is only a matter of time before it will be invited to join NATO. In the specific case of Georgia, Moldova and Ukraine, it is a potential threat to Russian security. Their nuclear deterrence would decrease, which could lead to the dismissal of the MAD (mutually assured destruction) doctrine in the long term. It is the most crucial perspective on the topic (Sokolski, 2004). The economic interest is far more critical than value-based policies in the case of most countries in the world. However, security concerns and military interests have ultimate supremacy in every case. Based on the findings and especially on the dynamically changing Russian foreign policy, this perspective will be a game changer regarding discussions about Ukraine's future.

In sum, Ukraine's decision to prioritize closer ties with the European Union (EU) over the Eurasian Economic Union (EEU) was influenced by a variety of political, economic, and historical factors. First of all, potential economic benefits are much higher. The EU is one of the largest and most prosperous trading blocs globally, with a combined GDP much larger than the EEU. Closer integration with the EU could provide Ukraine with access to a larger market, more foreign direct investment, and economic development opportunities. In parallel, the EU is known for its emphasis on democracy, rule of law, and human rights. Choosing closer ties with the EU can be seen as a move toward adopting and promoting these values within Ukraine. This stands in contrast to the EEU, which is largely dominated by Russia and perceived as less democratic. Furthermore, huge part of Ukraine has a history of cultural, political, and historical ties with Europe. Aligning with the EU can be seen as a way for Ukraine to strengthen these connections and emphasize its European identity. Last but not least, there is a history of political and economic dependence on Russia. By aligning with the EU, Ukraine may be looking to diversify its international relations and decrease its reliance on Russia, which could help the country assert its sovereignty.

5.1.3 The other alternative: Greater Eurasia

It is important to note that Ukraine decided not to participate in discussion about the EEU after the Maidan revolution. Nevertheless, it is worth analysing what happened since then and whether this could be a realistic option for Ukraine. As trade relations were becoming increasingly significant among these countries, the necessary policy creation has also been emphasised by all the participants. Russia has already reached a level where its trade level with China and Asian countries is higher than with Western countries. Russia is propelling towards

Asia, more specifically towards China. This orientation is now being supported by building new economic ties, reviving their Asian roots and even cooperation in military and technological research and development. The number of free trade partners was also increasing in the last five years, and there are also central prospective FTA members of the cooperation.

Regarding Greater Euroasia, most scholars argue that this new identity-seeking is more about political and security-related interest gaining rather than real economic output. This change of direction is also being supported by the ideology of neo-euroasianism (Malle, 2020). The role of China in this whole process will be more than notable. If they agreed to cooperate more deeply, Central Asian countries and Mongolia would belong to their interest areas, and the heart of Asia would be under their control. Another critical obstacle being mentioned is these countries' authoritarian character. It could block the long-term integration processes, and the supranational institutions would not be effective without actual democratic regulations. It could have also been a blocker point from the Ukrainian perspective. The expression of Greater Euroasia is becoming more and more common in Russian rhetoric, and the EU sceptic EEU is not that frequently used anymore. With this new approach, the Russians would also like to deepen their cooperation with China, India, Turkey, Iran, Egypt, and ASEAN countries. American protectionism will also be a crucial aspect in the success of these new cooperations. Nevertheless, it is a noteworthy shift that Russians consider themselves Euroasians rather than Europeans. The narrative of this shift is more about returning home, especially since two-thirds of the population is still living on the European side of the country.

On the other hand, it is worth mentioning why and how this cooperation would benefit China. Three aspects can be mentioned: active presence in Central Asia, unexpected resilience to US-driven containment policies, and comparatively higher military strength. The importance of cultural standoffs among the participants should also be noted, which creates a unique diplomatic role for Russia in finding a common understanding even in problematic situations.

Most participants' common trade is still executed in US dollars, but the shifting process has already started towards the ruble and yuan. Trade has been rising between Russia and China, especially since 2014; China is Russia's most relevant single trade partner, with a 12,5% share of the total trade. Another important aspect is that Russia is exporting strategic goods to China, such as arms, machinery, oil and gas, providing considerable political importance to Russia. Unfortunately, the level of FDI is insignificant as trade between the actors, but it is also growing yearly, and major investments are only about to come (Wischnick, 2017).

It is a fact that Russia's Western-orientated policies ended up in frustration in the mid of 2000s. Russian foreign policy classically considers Russia a nuclear superpower and a former

hegemon. Therefore, they expected to become main participants in global foreign policy, including Europe's security policies. Unfortunately, the Russians felt betrayed by the second part of the decade due to the unsuccessful arm-treaty negotiations (only a simple declaration has been signed instead of a detailed contract) between Bush and Putin. The defensive missile systems installed in Poland and the Czech Republic also played a cardinal role in this process, not even mentioning the result of the Yugoslavian war (Kosovo's independence). Putin officially declared a telling fracture between Western powers and Russia in his famous speech in 2007 at the Munich Security Conference (Putin, 2007). Then in 2008, the Georgian war already embodied this new approach, and the preparation processes of the EEU has also been launched.

It is also a fact that Russia's eastern orientation is more evidentiary in the political field rather than in economic numbers. However, the commitment is fundamental in the long term, and some significant investments have been promised in the region. Economic successes will be present only middle and long term, which will also be highly dependent on the level of Chinese investments. The EEU and the Silk Road Economic Belt have signed a comprehensive economic contract, but the real investments have yet to flow. The Russians' new identity-seeking approach is also essential in this process. After the 2014 geopolitical changes, Russia has turned to itself and will be focusing on itself in the future. It can be a game changer aspect if they find those answers which are currently open (economic development and modernisation, fighting against corruption etc.). Alongside China, they can start forming a new global hegemon in the long run (Lukin, 2021).

Regarding the Chinese perspective, I believe military cooperation would be the most important with Russia. Technologically the Russian Army is more advanced, and their experiences are also more noteworthy, which could be very useful for the Chinese. Another vital role for the Russians from the Chinese perspective would be a diplomatic bridging role to reach a common understanding among the culturally and politically different participating Asian countries. This role is the most dominant in the success of this Greater Euroasian vision. Regarding getting into a "sandwich" between China and the US, Russia would instead decide to partner with China, agreeing on their unique terms and rules. As this threat is a reality, many Russian scholars are already preparing studies on how such a situation could be controlled (Lukin, 2018). From Ukraine's perspective this cooperation never seemed as a real alternative. Based on the development of the regional integration during the last 6-7 years, it turns out that it was a wise decision not to participate in it as it wouldn't result significant economic development as was expected.

5.2 Obstacles

In order to have a clear picture of a country's economic prospects and to answer the question of whether Ukraine will stay the eternal promise or really will start using its great location and rich base of resources, all the ongoing internal processes need to be analysed and understood. Every aspect is given to become a regional hegemon and an excellent example for other post-Soviet countries but there are several obstacles yet to overcome. In this section these aspects are going to be assessed.

5.2.1 Language and minority issues

In the 1990s, after the dissolution of the Soviet Union, massive changes came to Ukraine. The national language became highly relevant; even so, Russian was also a state language. The new governments had a more nationalistic view than the communist leaders had, which affected all the minorities living on the territory of Ukraine negatively. There are many statistics about how the number of minorities changed in the past 25 years, and they were declining due to nationalistic policies. Recently, the country was quite divided in the use of language. Even in Kyiv, 50% of the population speaks Russian as their first language. Until 2012, the previous language law was in force from the Soviet times, which did not regulate the use of language at all. Then during the reign of Yanukovych, the parliament accepted a new modernised bill: any language other than Ukrainian could be considered a regional minority language if it was used by more than 10% of the local population. As a result of that, minority languages could be used in courts, schools and government institutions in these regions (Kulyk, 2013).

After the 2014 revolution, this bill was repealed on the first day of the interim government. The first decision of the new government was to dismiss the use of the Russian language as a regional language all over Ukraine. At the same time, it has negatively affected all the other minority languages in the country. In the framework of the Ukrainian education and language reform, the introduction of Ukrainian grammar and literature classes is required in the state- and municipally-funded ethnic schools starting from the fifth grade. According to Kyiv, the amendments are necessary because the graduates of ethnic schools do not have sufficient knowledge of the Ukrainian language. The biggest problem is that the new legislation does not meet the minimum criteria for minority rights. On the other hand, it takes away already existing privileges that are not familiar with minority law regulations in Europe. So the process is backward.

Lately, many discussions and debates have been ongoing regarding the new language law accepted in May of 2019, which has gone further and banned the use of the Russian language in cultural products, movies, books, songs etc., not even mentioning the official use of the language. The new law has been criticised as ill-defined, illegal, and unconstitutional. It has also been overviewed and opposed by the Venice Commission (Toronchuk and Markovskiy, 2018) and in parallel discussed in the UN's Security Council (brought up by the Russians).

The Hungarian government insists that changes to Ukrainian education and language laws curtail minority rights. Budapest, meanwhile, has said it would lift the veto on Ukraine-NATO talks and provide €50 million for border infrastructure development only after Hungarians living in the Transcarpathia are granted full rights. Recently even Bulgaria joined the Hungarian government against Ukrainian integration due to minority rights problems. There were several meetings between the two foreign affairs ministers but no breakthrough until now.

The latest follow-up decision regarding the language law in the country was the approval of an action plan in May 2021. It promotes using the Ukrainian language in every aspect of public life (Data of the Ukrainian Parliament, 2020). The Minister of Culture called the program "gentle Ukrainianization". It is aligned with the 2019 Law on Language that was accepted in the last days of Poroshenko's presidency (Kudriavtseva, 2021). Zelensky criticised the law during his election campaign and frequently spoke Russian then. He has changed his approach to the language question after becoming president.

The recently accepted action plan strengthens the main principles of the 2019 law. It describes the role of Ukrainian as an identity marker for the nation, especially during Russian aggression. The specific steps of the plan are also based on the original Law on Language. First, it ensures the obligatory use of Ukrainian for state officials and civil servants. It also emphasises digital methods such as creating online language courses available to every citizen free of charge and access to a central dictionary database. The most effective part of the plan was the support for the Ukrainian film industry, as their goal is to reach Ukrainian-language dubbing for every movie and television broadcast. In parallel, Ukrainian became the default language for public service in January 2021 (Chayinska et al, 2022).

Regarding public education, Ukrainian is mandated to become every school's primary language of instruction. However, this is still quite controversial due to its pro-Ukrainian but anti-liberty background. The law on minorities is still being prepared; that is probably the reason behind the government's hesitation. In the meantime, the official state language mandate of the Russian language has been removed, many Russian-speaking media have been banned, and some local governments have already banned the use of the Russian language in provincial

schools. These aspects show that Zelensky's policies have shifted more to the right aiming for more nationalistic voters than during his election. It will clearly be an obstacle during future discussions with the EU, but at the moment, Ukrainians do not accept any compromise.

5.2.2 Identity seeking and security dilemma issues leading to a violent conflict

After the financial crisis of 1998, significant economic development started, lasting until 2004, when the first identity-related question had emerged. Western scholars are often undervaluing these aspects. However, even this example can show us that long-term economic prosperity can only happen with an understanding of the root causes of the issues that are taking place in the country. Quick results can be reached with only economic governance, but other aspects must be understood to put the country on at least a middle-term development path. This part will provide a theoretical perspective to understand the background's driving forces of the identity issues.

The massive country of forty-two million people has struggled with identity questions for 25 years since it became independent from the Soviet Union. None of the Ukrainian governments could resolve the internal divisions or build solid political institutions, implement economic reforms, overcome corruption and reduce the influence of powerful oligarchs. All the presidents allowed oligarchs to gain increasing control over the economy. That is how we could reach a situation by 2010 when Ukraine's fifty wealthiest people controlled nearly half of the country's gross domestic product (Wilson 2013). According to these numbers, it is not even a question that elites are dominating Ukraine's economic life and politics. We can easily allocate an oligarch who controls the region in every county. Why is it important? Because without their support, the chance of a violent conflict is relatively small. In order to understand the onset of the Ukrainian conflict, we need to examine this question in detail. What was the immense driving force of the whole process, greed or grievances?

Ukraine's most prolonged and deadly crisis since its post-Soviet independence began as a protest after the government dropped plans to build up closer economic relations with the European Union, which has since caused a global standoff between Russia and Western powers (Rácz, 2014). The crisis occurred because of many reasons, as more than twenty years of weak governance, a corrupt economy dominated by oligarchs, heavy reliance on Russia, and sharp differences between Ukraine's linguistically, religiously, and ethnically distinct eastern and western halves (McMahon 2014).

The parties' perceptions must be examined to understand the onset of the conflict. The pro-European nationalistic Ukrainians are considering Ukraine as a regional power. According to the country's resources, it could even be true. Unfortunately, it was never confirmed due to non-consistent governance in the past 25 years. However, in most cases, Ukraine could act as an independent actor in world politics, but they always had a solid and close cooperation with Russia (Rose, 2000). The security dilemma was never a significant question for the Ukrainians before, as in the Budapest Memorandum, they received assurances from the world's great powers for their safety and integrity. Despite all these facts, some western Ukrainian oligarchs decided to lead the country towards the EU and NATO. Moreover, that was when the actual security dilemma occurred, especially in the eastern part of the country.

Posen already, in 1993, came up with this theory and warned the political leaders that this kind of approach in Ukraine could lead to a conflict later. After the 2014 regime change in Kyiv, the first decision of the new government was to dismiss the use of the Russian language as a regional language in Ukraine (BBC, 2014). As a result of that, many Russian-speaking Ukrainian citizens felt it was not their country anymore and did not feel safe. According to Posen, a security dilemma is when offensive and defensive military forces are more or less identical (Posen, 1993). If offensive operations are more effective than defensive operations, actors will choose the offensive options to survive. In the case of Ukraine, this theory is correct in two aspects. The first moment was the occupation of Crimea by the Russian forces. They had superiority on the peninsula, and Kyiv's political crisis remained unresolved. That was an unexpected opportunity for Moscow (Marxsen, 2014).

Nevertheless, after these events, the Russian-speaking eastern Ukrainians wanted a similar process, so eastern oligarchs started to fund and financially support local militias to revolt against Kyiv. After the violent regime change led by the far-right nationalist, the local population of Eastern Ukraine started to fear them, another important reason for the conflict. From another perspective, Ukrainian leaders were always facing a security dilemma. Their big brother Russia was much more potent and they depended on them, so they had to act following the Russian interests.

According to Jervis, a security dilemma is a situation in which a state tries to increase its security to decrease the security of others (1978). This approach supports the Russian perspective. Suppose Ukraine is increasing its security by cooperating with NATO or even by becoming a member; that would enormously decrease the security of Russia. Jarvis also argues

that states seek to control or at least neutralise areas on their border to protect themselves. The disadvantage of the Ukrainians is that they are neighbours of the world's second most vital military power. Based on Snyder's view, the security questions among European states should be analysed from a different perspective. First of all, they all should unite and create their alliance opposing Russia and the US at the same time. European nations should take more or full responsibility for their defence and security, resulting in a more sustainable balance of power in the international field (Snyder, 1984). In the next decade, the Europeanization process of Ukraine can not only mean economic integration but can also lead to its security cooperation with the European states. The only peaceful outcome of this process could be that Europe will form its security alliance, which will simultaneously oppose Russia, China and the US and have more cooperative relations with Russia. In this case, Ukraine can be a member of such an alliance, and the security dilemma on both sides would not be relevant anymore. As we all know by 2023, as a result of the full-scale war this scenario is not likely not happen anymore.

In my opinion, Jarvis's concept of security dilemma explains the cursed situation of Ukraine very well. They are a buffer zone between Russia and NATO, resulting in minimal manoeuvring space. In this case, the best option would be to become neutral with additional assurances from great powers. Nevertheless, Ukraine could emerge from the post-Soviet bloc with its economic prosperity. This development would result in economic power, which could also be used to develop their military tools further. A similar position to Turkey could be reached, benefiting every regional actor at the same time.

According to another explanation, weak states and governance always create an opportunity for the frustration that motivates insurgency. According to Levi, a strong state is representative, accountable to its people, and able to protect the population from violence (Levi, 2006). In the case of Ukraine, all of these points were not met after the Euromaidan regime change. The Poroshenko government needed to be more representative, as it represented only the country's western regions. It was not accountable either, as the level of corruption was still one of the highest in the world; only in a few Central-African countries is the situation worse. Moreover, if we look at whether the government could protect its citizens, we can claim it was outside its capabilities too. After the regime change, the pro-Russian militias could rise in the eastern territories. In the case of strong leadership, not even mentioning the government's legibility, it could not happen, at least not on such a big scale.

It can be clearly stated that the pro-European, more nationalistic oligarchs had the opportunity to start an uprising based on Yanukovich's decision in late 2013. However, after

the regime change in Kyiv, the pro-Russian elite had the same chance; even so, their case was even more problematic, as recruiting soldiers to fight against their government is never easy. The decision of an individual to participate in a rebellion always depends on potential costs and benefits. They will join the uprising only if the expected benefits are higher than what is offered by the current status quo (Muller and Opp, 1986). It shows why most opportunity theorists do not perceive domestic violence as an emotional reaction to grievances but rather as a rational response to the circumstances.

On the other hand, among the most important driving forces of an armed conflict, we can usually find the opportunity and the motivation (Taydas, Enia and James, 2011). As Ukrainian society was always relatively divided, the motivation for an uprising was hiding in the dark, waiting for an opportunity. The nationalistic pro-Western elites always wanted to get closer to Europe and break up with the Russians, but they could never recruit too many supporters for this idea. On the other hand, pro-Russian elites always believed in the country's integrity and its Russian-based identity. Minor clashes between the two perspectives could have already been registered during the last 15 years, but economic interest played the most crucial role in most cases. Armed conflict was only needed once both parties could realise their major incomes from the country. This stable status quo has changed due to the revolution, and the economic stability of the Eastern part of the country has been threatened. All in all, it can be claimed that the main driving force of the violence in Kyiv and Eastern Ukraine was not the grievances or ancient hatred, but rather economic threats and the opportunistic approach of oligarchs dominating the regions.

To summarise the beginning of the violence, the onset and the main driving force of the conflict, we can claim that the most relevant ingredient was the opportunity on both sides. Nevertheless, on its own, it would have never led to a violent conflict, but it was the spark which was missing previously. Regarding the parties' motivations, the security dilemma also played an important role, leading to fear later. Compared to any other similar conflict, we can state that ethnic differences were not necessary, as only some far-right nationalistic Ukrainians were sharing extremist approaches. They were always in the minority and never had significant support from the population. However, the divided country has two different identities, but there is no difference between them nor culturally, or historically. The other necessary driving force of the armed conflict was the political and ideological difference between the elites, who could successfully influence their population in a nationalistic way. Without the help and support of the elite, violence would have never started in Kyiv or Eastern Ukraine.

Based on the findings, the main reason behind the fights' dynamics was the wrong answers carried out by the newly emerged government. If they had started negotiating with the eastern militias, no fights would have been necessary. It would have led to a more federal country, which was obviously outside their interest. On the other side, if Russia wouldn't have intervened in the conflict in summer of 2015, Kyiv could successfully regain control of the eastern provinces, but it was not in their interest at that time. The question of the security dilemma has played an essential role on both sides. It can be claimed that the unexpected happenings and the reactions to these events led to this violent conflict. We examined the motivations and perceptions of both sides. There was no ancient hatred between the parties, and it was not playing a substantial role in the Russian-Ukrainian common history during the last centuries. The nationalistic approach is not prevalent nor popular in Ukraine; however, the Poroshenko administration was making significant movements.

The population never really supported the government's operations against the rebels. For the eastern oligarchs, the situation could have been more sustainable without the ban on the Russian language at schools and in the media. This conflict was a nightmare for every participant, except for the far-right radicals, but these violent people always occur when they can fight. In my opinion, the conflict would not occur without the help of the local Russian elites, but what is also important to note, if the Ukrainian government's reaction had been peaceful for the revolts in the Eastern part of the country, the whole situation could have been solved shortly. Without the support of the elites on both sides, the conflict could not escalate that much, which is why it is primarily their responsibility

5.2.3 European Commission's findings on the Ukrainian case

As mentioned in the previous chapter, the relations were shallow and only evolved after the new government came to power in Kyiv. As a result, a primary finding of the EU Commission stated the need for closer EU-Ukraine relations. The signing of the Association Agreement and the creation of the Deep and Comprehensive Free Trade Area (DCFTA) have been essential steps towards closer integration between Ukraine and the EU. They have been seen as important milestones in the EU-Ukraine relationship.

Nevertheless, the EU Commission has also expressed concerns about the slow pace of reforms, particularly in the judiciary and anti-corruption efforts. The EU has emphasised the importance of continuing reform efforts to build a robust, transparent, and accountable government and promote Ukraine's long-term political and economic stability. In addition, the EU Commission

has emphasised the importance of human rights and democratic values in Ukraine (European Commission, 2020). The EU has called for more excellent protection of human rights and freedoms and has promoted democracy and the rule of law as constitutive components of Ukraine's political and economic development. The impact of the conflict on the country's economy has also been a primary concern for the EU Commission. The conflict has led to significant economic disruption and instability, and the EU has provided financial assistance to support Ukraine's recovery and development.

Ukraine's GDP has grown steadily in recent years, albeit from a low base. According to the World Bank, Ukraine's GDP grew by 3.2% in 2021, following a contraction of 4.0% in 2020 due to the COVID-19 pandemic. However, Ukraine's GDP per capita at PPP remains one of the lowest in Europe. It is also necessary to note that the EU is Ukraine's largest trading partner, accounting for more than 40% of its exports and imports. Figure 10 shows that the EU-Ukraine Association Agreement has helped to boost trade between the two parties. Even so, challenges still need to be solved in customs procedures, technical regulations, and market access. Figure 11 and 12 are showing how Ukraine's import and export partners were changing throughout the last 10 years. The Euromaidan resulted a swift change between EU and Russia, nowadays EU is a strategic trade partner while Russia is only one of the less relevant ones.

Figure 10: EU trade with Ukraine, 2007-2017



Source: Eurostat, 2023

The EU is also an important investor in Ukraine, particularly in energy, agriculture, and infrastructure. Nevertheless, Ukraine's investment climate remains challenging, with

corruption, bureaucracy, and legal uncertainty deterring many investors. European countries have supported Ukraine's economic reform agenda, particularly in governance, the rule of law, and public finance management. Ukraine has made progress in some areas, such as energy sector reform and deregulation, but more needs to be done to address corruption and improve the business environment.

The pandemic has significantly impacted the country’s economy, particularly regarding reduced trade and investment and increased healthcare and social spending. The EU has provided fundamental financial and technical assistance to Ukraine to help mitigate the impact of the pandemic (European Commission, 2022a). European Commission has been closely monitoring Ukraine's implementation of the Association Agreement with the EU, which covers a range of areas, including trade, political cooperation, reforms in justice, energy, and public administration. While the Commission has acknowledged some progress, it has also highlighted ongoing challenges in areas such as corruption, the rule of law, and the independence of the judiciary.

The European Commission has been assessing Ukraine's progress towards meeting the requirements for visa liberalisation with the EU, which would allow Ukrainian citizens to travel to the EU without a visa for short stays. The Commission has noted progress in document security, border management, and migration management; eventually, it provided a Visa-free regime for Ukrainian citizens in 2017 (Bereziuk et al. 2020).

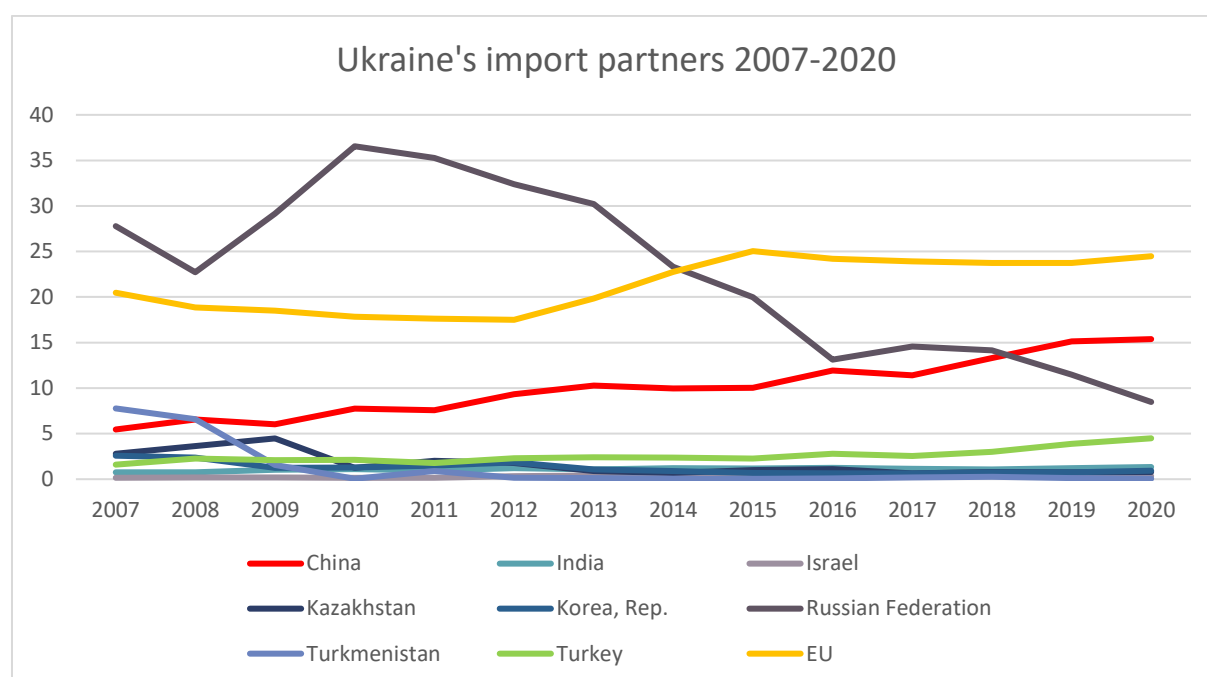
Figure 11: Ukraine export partners, 2007-2020



Source: World Bank World Integrated Trade Solution, 2023

The EU has supported Ukraine's efforts to reform its energy sector, which was historically dominated by state-owned enterprises and subject to political interference. The Commission has noted progress in areas such as establishing an independent regulator and adopting market-oriented pricing but also highlighted the need for further action on issues such as energy efficiency and the integration of Ukraine's energy system with the EU. Further support has been provided for combating corruption, which has long been a noteworthy challenge in the country. The Commission has noted some progress in areas such as establishing anti-corruption institutions and adopting new anti-corruption laws but also underlined the need for further action on issues such as law enforcement, asset recovery, and the prosecution of high-level corruption cases. Particularly in light of the ongoing crisis in eastern Ukraine, the European Commission has been monitoring the condition of human rights and democratic progress in Ukraine. The Commission has emphasised the necessity for Ukraine to uphold the rights of all of its inhabitants, particularly minorities, and to prevent further human rights abuses as a result of the war. The Commission has also demanded that democratic institutions be strengthened and that media freedom is protected (European Commission, 2022b). Furthermore, civil society organisations in Ukraine face major challenges, including threats and intimidation from powerful interests, and there is a need for greater support and protection for civil society actors. The EU has significantly promoted economic integration between Ukraine and the EU, mainly through the Deep and Comprehensive Free Trade Area (DCFTA) that is part of the Association Agreement.

Figure 12: Ukraine import partners, 2007-2020



Source: World Bank World Integrated Trade Solution, 2023

In addition, several risks and challenges are associated with granting Ukraine EU membership. First and foremost, economic challenges. Ukraine is a moderately emerging country, and EU membership could significantly strain the bloc's resources. To meet EU standards, the EU must invest heavily in Ukraine's infrastructure, economy, and public services. It could be a major financial burden for the EU, which is already facing budgetary challenges. In parallel, Ukraine has a history of political instability, and there are concerns that EU membership could exacerbate this instability. Joining the EU could lead to political polarisation and tensions between different regions and ethnic groups within Ukraine. It could ultimately lead to instability and another conflict within the country. Ukraine also has a telling corruption problem, and there are concerns that this could spread to the EU if Ukraine were to join. Corruption could undermine the rule of law and damage the EU's reputation as a clean and transparent organisation (European Council, 2022).

It is crucial to bring up the security risks. Because Ukraine and Russia have a common border, some worry that awarding Ukraine EU membership may incite Russian hostility. Increased tensions and potential unrest in the area could result from this. It could be challenging for Ukraine to align its laws and regulations with EU norms if it becomes an EU member. Ukraine's legal and regulatory system may need considerable modifications during this process, which

might last many years. Last but not least, joining the EU might cause a migration of Ukrainian employees to other EU nations. Although this would be advantageous for Ukraine and the EU, there are worries that it might also strain the labour market in other EU nations and cause social unrest.

The EU Commission's findings in Ukraine reflect its commitment to supporting Ukraine's political and economic development, promoting democracy and the rule of law, and maintaining Ukraine's territorial integrity and sovereignty. The EU has played a substantial role in supporting Ukraine during recent political and economic change. Its continued engagement with Ukraine will be organic to its long-term stability and prosperity. All in all, the progress with reforms has been slow and uneven, and there is a need for sustained political will and more effective implementation. Granting Ukraine EU membership would be complex and challenging, with major risks and challenges. The EU must consider these risks carefully before deciding on Ukraine's membership.

5.2.4 High level comparison between Ukraine and the Balkan countries

This chapter compares the economic differences between Ukraine and the Balkan countries from an economic integration perspective.

First and foremost, Ukraine's integration with the EU has been more limited during the last ten years. Despite Ukraine signed an Association Agreement with the EU in 2014, including a Deep and Comprehensive Free Trade Area, the country has yet to make noteworthy progress in joining the EU. Ukraine's relationship with the EU has been complicated by the ongoing conflict in the eastern part of the country and the annexation of Crimea by Russia, which has led to sanctions and trade restrictions on both sides. Ukraine's access to the EU market is limited, and it has struggled to diversify its export markets.

Another benefit of economic integration with the EU is access to EU funding and support. The EU provides important funding and technical assistance to countries integrating with the EU, which can help promote economic development. The Balkan countries have received operative EU funding through the Instrument for Pre-Accession Assistance (IPA), which provides funding for reforms and infrastructure development (Lukšić et al., 2022). In contrast, Ukraine has received less EU funding, and the country has struggled to implement the reforms necessary to access EU funding.

In terms of economic indicators, the Balkan countries and Ukraine differ significantly. The Balkan countries have a higher GDP per capita at PPP than Ukraine, and their economies have grown faster in recent years. According to data from the World Bank, the average GDP per capita at PPP for the Balkan countries in 2020 was approximately \$19,000, while Ukraine's GDP per capita at PPP was approximately \$12,800. In comparison with the EU's average, Ukraine is only around the 29%, while Serbia and Montenegro above 40%. In addition, the Balkan countries' economies have been growing at an average rate of approximately 3.5% per year over the past five years, while Ukraine's economy has been growing at an average rate of approximately 2.5% per year over the same period.

Ukraine and the Balkan countries have different economic structures and growth patterns. With a population of 44 million, Ukraine is an agricultural and industrial country with vast natural resources, including fertile land and large mineral deposits. In contrast, the Balkan countries are a collection of small countries with diverse economies ranging from service-based to industrial and manufacturing-oriented. A telling difference between Ukraine and the Balkan countries is their level of economic development. Ukraine's GDP per capita at PPP is lower than most Balkan countries (World bank, 2022). This disparity is due to several factors, including political instability, corruption, and inadequate infrastructure. The Balkan countries, in contrast, have made evidential progress in recent years, with many countries, including Montenegro and Serbia, experiencing sustained economic growth. The economic situation in Ukraine has been challenging in recent years. It has significantly impacted the country's economy, with GDP growth sluggish and unemployment levels high. In contrast, the Balkan countries have experienced relatively stable political environments, which have helped to attract foreign investment and promote economic growth.

One of the most meaningful economic differences between Ukraine and the Balkan countries is their level of foreign investment. The Balkan countries, particularly Serbia and Montenegro, have attracted noteworthy foreign investment in recent years, which has helped promote economic growth and development (Endrődi-Kovács, 2020). In contrast, Ukraine has struggled to attract foreign investment, with corruption and political instability being mainly barriers.

Another relevant difference is their levels of entrepreneurship and innovation. The Balkan countries have a relatively high level of entrepreneurship and innovation, with many successful start-ups and technology companies emerging recently. In contrast, Ukraine's less developed entrepreneurial ecosystem has hindered its ability to promote innovation and growth.

The banking sector is also an area with differences. The Balkan countries have relatively well-developed banking sectors, with many local and international banks operating in the region (Tmava et al., 2019). In contrast, Ukraine's banking sector has been plagued by instability and corruption, undermining its confidence and hindering its ability to support economic growth. The Privat Bank case, described in the previous chapters, also supports this observation. The banking sector is crucial to economic growth and development, and Ukraine needs to address the challenges facing its banking sector to promote economic development.

Another aspect is their trade relations. The Balkan countries are closely linked to the European Union (EU), with many benefiting from preferential access to the EU market. In contrast, Ukraine's trade relationship with Russia has been a noteworthy source of economic instability in recent years. The conflict in eastern Ukraine and the annexation of Crimea led to trade restrictions and sanctions. The Balkan countries have diversified their export markets, which has helped to increase their economic resilience.

Infrastructure development is also an area where there are significant differences between Ukraine and the Balkan countries. The Balkan countries have invested heavily in infrastructure development, including roads, railways, and airports, in recent years. It has helped to improve their competitiveness and attract foreign investment (Filipović and Ignjatović, 2021). In contrast, Ukraine has struggled with inadequate infrastructure, which has hindered its economic growth and development. While Ukraine has made some progress in recent years, much remains to be done to modernise the country's infrastructure and promote economic growth.

When comparing the competitiveness of Ukraine and the Balkan countries, several critical indicators, including innovation, labour market efficiency, and infrastructure, can be considered. These factors determine a country's ability to compete in the global economy and attract foreign investment (WEF, 2019).

Regarding innovation, the Balkan countries have made telling progress in recent years. According to the Global Innovation Index 2021, Serbia is also considered a decisive innovator, ranking 46th, followed by North Macedonia at 64th, Albania at 76th, Montenegro at 80th, and Bosnia and Herzegovina at 92nd.

The Balkan countries have established innovation policies that include investments in research and development, education, and technology transfer. They have also focused on creating an environment that encourages innovation, including the availability of scientists and engineers,

the quality of universities, and the number of patents filed. For example, Croatia has made remarkable investments in science and technology, with its Science and Technology Park as a hub for innovation and research. Similarly, Serbia has established a network of technology parks and innovation centres that support the development of new technologies and start-ups.

In contrast, Ukraine lags behind in terms of innovation. According to the Global Innovation Index 2021, Ukraine ranks 55th out of 132 countries worldwide. Ukraine's innovation strengths include the quality of its universities and research institutions, but it faces challenges regarding technology transfer and intellectual property protection (Gordana and Biljana, 2021). The Ukrainian government has made efforts to improve its innovation ecosystem, including establishing a national innovation agency, increasing funding for research and development, and promoting collaboration between industry and academia. However, these efforts have yet to yield significant results.

Regarding labour market efficiency, the Balkan countries and Ukraine have different strengths and weaknesses. The Balkan countries have made progress in reducing their unemployment rates, which have been declining steadily in recent years. According to the World Economic Forum's Global Competitiveness Index (2021), Croatia and Serbia are considered the most efficient labour markets in the region, ranking 66th and 69th out of 140 countries worldwide, respectively. Compared to other European countries, relatively low labour costs also support the labour market efficiency in the Balkan countries. Nevertheless, the Balkan countries need help with skills mismatch and brain drain, where highly educated individuals leave the country searching for better job opportunities. On the other hand, Ukraine's labour market efficiency could be improved by a relatively high unemployment rate, which was 8.5% in 2020, and a mismatch between the skills of the workforce and the demands of the labour market. The WEF's Global Competitiveness Index 2021 ranks Ukraine's labour market efficiency at 92nd out of 140 countries worldwide. Even so, Ukraine has a relatively low labour cost compared to other European countries, which could be a competitive advantage for specific industries.

The Balkan countries have also significantly improved their transport infrastructure, including highways, railroads, and ports. They have also invested in energy infrastructure, such as renewable energy sources and smart grids. However, the Balkan countries need help with water and waste management and the quality of their telecommunications infrastructure. In contrast, Ukraine needs help with its outdated transport infrastructure, which needs modernisation. The country also needs help in terms of energy infrastructure, particularly diversifying its energy

sources away from Russian gas. Yet, Ukraine has made progress in terms of improving its telecommunications.

There are several factors to consider when considering whether the Balkan countries should be prioritised over Ukraine for EU membership. First and foremost, the historical and cultural connection between the Balkan countries and the EU is much stronger than that of Ukraine (Wunsch, 2017). The Balkan countries have a long history of interaction with Western Europe, and many share cultural and linguistic ties with EU member states. This cultural affinity could make it easier for the Balkan countries to integrate into the EU and adopt EU norms and standards.

Secondly, the Balkan countries have made major progress towards EU integration in recent years. Some countries such as Croatia and Slovenia, have already joined the EU, while others, such as Serbia and Montenegro, have started the process of joining. These countries have significantly reformed their political and economic systems and have committed to meeting the EU's membership criteria (Endrődi-Kovács and Tankovsky, 2022). In contrast, Ukraine has faced fundamental challenges in integrating with the EU, including political instability, corruption, and conflict with Russia.

Thirdly, the Balkan countries are strategically important for the EU's security and stability. The Balkans have long been a site of conflict and instability, and several unresolved regional disputes remain. By bringing the Balkan countries into the EU, the EU can help to promote stability and security in the region and can help to reduce the risk of conflict. In addition, the Balkans are located at a critical juncture between Europe, Asia, and the Middle East and have the potential to play an strategic role in EU foreign policy.

Finally, the Balkan countries offer the evidential economic potential for the EU. The Balkans have a young and dynamic population, abundant natural resources, and a strategic location that makes them an attractive destination for foreign investment. By integrating the Balkan countries into the EU, economic growth and development can start in the region and can help to create new markets for EU goods and services.

While challenges are indeed associated with integrating the Balkan countries into the EU, these challenges are manageable. The EU has already made major progress in helping the Balkan countries to reform their political and economic systems and has provided notable financial and technical assistance to support these efforts. By prioritising the Balkan countries for EU

membership, the EU can help to promote stability and security in the region and can help to strengthen its position as a global economic and political power.

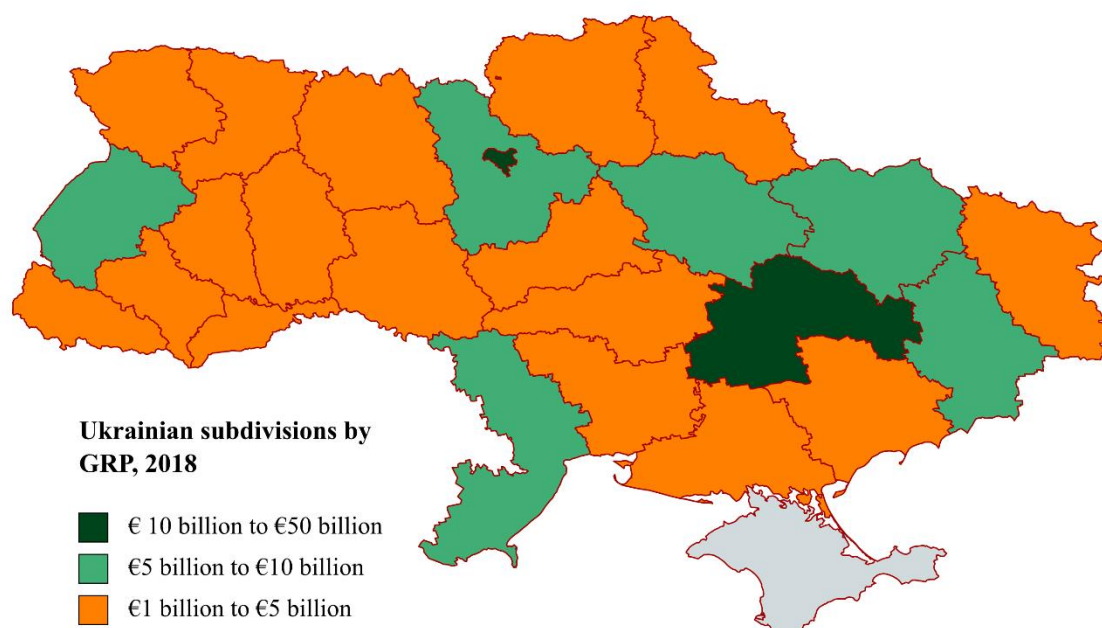
In conclusion, while Ukraine and the Balkan countries share some similarities, such as their cultural heritage and geographic proximity, they have remarkable economic differences. Ukraine has struggled with political instability, corruption, and inadequate infrastructure, while the Balkan countries have attracted foreign investment, developed innovative start-ups, and invested heavily in infrastructure development. While Ukraine and the Balkan countries both have tried to integrate with the EU, the Balkan countries have made more progress. There have been significant changes in Ukraine in recent years, but it still faces challenges in promoting economic growth and development.

5.2.5 Economic drawbacks of the war

The war in Ukraine has been going on for more than a year, killing thousands of people and destroying millions of lives. It has also had a negative impact on the global economy. One of the main reasons for Russian aggression is Ukraine's desire to integrate into the Western world. During the last 20 years Russia could not maintain its cultural and economic dominance in the country, and its role was steadily decreasing. The war has hit Ukrainian economy hard, destroying some industries, causing mass emigration, and contributing to a fall in household incomes and increased government spending. In parallel, the budget deficit and public debt started to rise sharply. As the war continues, the adverse effects on the economy deepen.

The IMF estimated that Ukraine's GDP fell by 40-45% in 2022 (IMF, 2022). A proportion of the heavy industry and agricultural land has been lost, but the impact of the war is also felt in the western half of the country, even if the fighting has been avoided it. Map 2 shows the contribution of each Ukrainian region to the gross national product in 2018. The most advanced industrial production is located in the areas marked in green, coinciding with the parts of the country that were under attack during the first phase of the war. It suggests that this vast GDP decline will be permanent, and even after a comprehensive reconstruction, it will be difficult for the country to reach its previous income levels.

Map 2: Contribution of each Ukrainian region to the gross regional product (2018, GRP)



Source: Ukrainian Statistical Office, [Ukrstat 2020](#)

War has a massive impact on businesses and people's incomes. According to recent data from the National Bank of Ukraine (NBU), 32% of businesses suspended operations in March 2022; this figure fell to 17% in April and 14% in May. Despite the slight improvement, business opportunities are on the decline, as is the absorption market, which has fallen by 40% compared to purchases observed last year, not to mention the reduction in export activity to almost zero. Heavy industrial production has suffered the most severe damage, especially mining and metallurgy. This was followed by the country's energy infrastructure, which suffered a loss of almost 30%.

Unemployment has swelled enormously due to the war, reaching 40% in April, and salaries have fallen even in the public sector. The fall in exports has reduced prices for the population, but also, on the other hand, producers' incomes. In recent months, inflation has also been highly erratic and varies widely from region to region, depending on the efficiency of supply chains. The extreme levels of emigration are also linked to the poor economic outlook. According to UNHCR data, by July 2022, more than 8 million people had left Ukraine following the outbreak of the war, and roughly 2.8 million had returned. And that is only the population that has migrated westwards, while at least 2 million people in the eastern half of the country have left the country towards Russia. Migration has many adverse effects on a country: loss of young

people who can contribute to the country's future development, reduction in the number of professionals, and decline in internal consumption and business activities. Permanent emigration affects nearly 15% of Ukraine's population.

Currently, Ukraine's budget is only sustainable with external support. Loans from international financial institutions, which Ukraine currently receives, increases the public debt. In the past, 90% of the Marshall Plan disbursements were accounted for as aid, and we may see a similar solution after the war's end. It is too early to talk about reconstruction, as the war is still raging, and the outcome is unpredictable. Even so, the European Commission and the Ukrainian government discuss a possible joint reconstruction budget. Some estimates put the cost at around €200-500 billion. What is agreed upon is the form of the financial transaction. These funds would be disbursed as grants rather than loans (Becker et al., 2022).

5.3 Overall non-economic assessment

Regarding the non-economic research of the work, the goal was to perform a foreign policy analysis, understanding the leading actor's roles and interests. In the case of Ukraine, these players are the EU and Russia. The US also plays a strategic role but it is only military and as the scope of this paper is economic, it has not been assessed. China should also be mentioned in case of any global question, but in this specific case, their role is marginal. Their most important aim is to compete with the US for the global leadership position. Therefore, in the case of Ukraine, they are pretending to take a neutral position but are undermining every American statement related to the situation. Their main aim is to purchase other agricultural lands in Ukraine, and during the last five years, they have been successful with it. Nevertheless, due to the recent land reform, American companies are interested in Ukrainian lands, so there is competition between them. As China's role is secondary, these aspects have been removed from Figure 13. Instead, the three other players + Ukraine's most critical non-economic aspects are highlighted.

Figure 13: Main interests for the key players



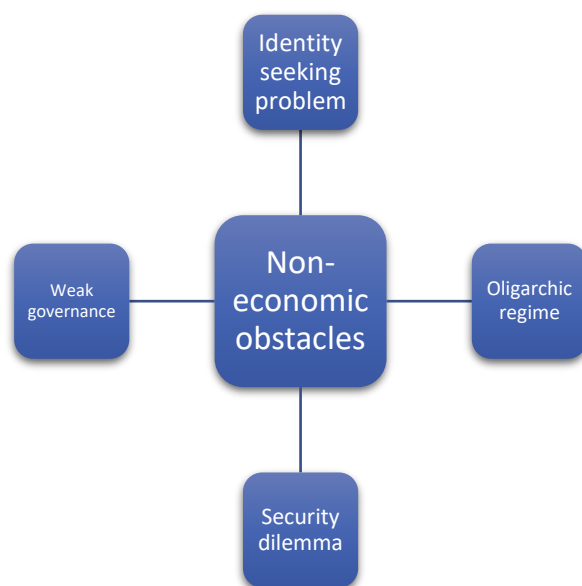
Source: based on the author's research

In the case of Russia, the main interest is quite clear. They have a realistic interest-based approach towards their international relations, while in the case of the EU, it is more value-based (or at least it is presented as value-based). Russia was already using its natural gas as a foreign policy tool for decades, but they are currently ready to act drastically regarding energy policy. From their perspective, their nuclear deterrence is being decreased with Ukraine's western integration, and in the long term, it can lead to the dissolution of the MAD doctrine. It would result in a strategic backbone for them. That is why they must demonstrate their military power to protect their geopolitical interest. In the short and middle term, they are trying to undermine Ukraine's development, as it would create a precedent for another post-soviet country in Russia's zone of influence. If Ukraine can become once a booming economy and reach prosperity, that clearly will threaten the currently reigning Russian elite and regime.

In the case of the EU, they have lost most of their interest advocacy potential in international relations. European powers can have only a minor influence on a conflict that is taking place on the same continent. Another aspect that previously been assessed, is the international regime characteristic of NATO. It is working as a direct US interest advocating institution. Based on the hegemon stability theory, bandwagoning became an efficient policy for EU countries during the last 30 years. Recently a higher military contribution has been demanded from them, and most nations executed the necessary reforms. A huge mistake from the EU's side is that there

is no straightforward concept for the cooperation with the post-Soviet region. The current processes in Moldova, Georgia and Ukraine are all backing it up. EU looks for economic opportunities in Ukraine but without a clear strategy. Based on the results of the paper, first the future of the Western Balkan needs to be clarified and established, and as a next step a clear framework for the post-Soviet countries.

Figure 14: Identifying non-economic shortcomings for Ukraine



Source: based on the author's research

In sum, Ukraine is struggling with many internal problems parallel to the ongoing armed conflict on its territory. As the economic issues have already been summarised, the non-economic obstacles have also been presented in this section (see Figure 14). An essential issue before the war started was its identity-seeking problem. Many citizens used to have a double identity, Russian and Ukrainian. During 30 years of independence, the Ukrainian identity could not dominate the territory. However, as the Russians started the war, mainly bombing the eastern part of the country that these citizens inhabited, it changed. The Russian leadership was not calculating with that the locals would not support them against Kyiv. Which is still a substantial obstacle, is the oligarchic regime. The current government has recently passed the deoligarchisation law, but it has yet to be executed.

The most critical challenge is the security dilemma. Most of the experts have already seen this conflict to be coming. According to the Russian understanding of international relations, no country shall increase its security to such a level that decreases the security of others. From the Ukrainian perspective, this is a challenge that they need to deal with. *As a result of the non-economic assessment, including comparison with Western Balkan countries, evaluating EU-Ukraine relations and analysing internal and international obstacles, hypothesis 3 can be accepted.* First and foremost the ongoing conflict needs to be settled, and not only with a ceasefire but with a sustainable peace. Without that, long-term security cannot be established which would be crucial for economic prosperity.

6 Conclusion

In the case of Ukraine, a controversial situation has emerged. There was an increase in social welfare and successful establishment of democracy, and market economy during the first part of the decade of the millenium. The country has made major progress in developing its economy and has settled a stable and predictable development path. Indeed, by 2008, the country's competitiveness and foreign image had improved considerably. We have witnessed a profound transformation process, while in parallel a struggle with the Soviet legacy. *All three sub hypothesis has successfully been accepted based on quantitative, qualitative and statistical research.*

In general, Ukraine has made telling progress towards European integration. Until 2013, it had a stable and growing economy, and its competitiveness has been steadily improving, with increasingly positive ratings from international credit rating agencies. Its trade with EU Member States has increased yearly, and the Ukrainian economy continues to show substantial economic potential. Russia's role in the Ukrainian economy has also significantly reduced. However, the country still has room for improvement in terms of legal harmonisation and the effectiveness of regulatory changes. Serious problems have been identified in financial sustainability, and the transparency of the financial system still needs to be improved. Furthermore, corruption stays as one of the biggest problems. Ukraine is still one of the lowest-performing countries in the international corruption ranking, and the major influence of the black economy plays a fundamental role in this rating. Nevertheless, Zelensky's presidency is a historical turning point. After many years of political and economic crisis, the opportunity for a modernised Ukraine became possible with his victory. In parallel, the renewal of the parliament and the new generation of politicians offer the option to make the changes in the country long-lasting. He is using the tools of populist rhetoric against the previous generation of politicians' elite as well as against oligarchs. He has also started centralising power and becoming the 'strong hand' representative. The most relevant reforms can be seen below.

One of the first goals of the research was to assess the recently executed reforms. The positive aspects are:

- The National Bank of Ukraine has **improved** its reputation,
- the public debt was **reduced** to 51 per cent of the GDP, which was also the best result in the last five years.
- Public finances and the banking system have been **reformed**, which helped to stabilise the financial sector.
- Inflation was **kept** under 10%, the best result since 2014.
- GDP growth has **reached** a steady 3 per cent.
- In 2019 the parliament passed an anti-corruption bill **criminalising** illegal enrichment practices for state representatives.
- **Restored** anti-corruption institutions.
- Proper land reform has also been passed through the parliament, **increasing** Ukraine's agricultural competitiveness.

On the other hand, he was effective regarding reforms, but he still needs to continue this path. His most successful reforms were the law on nationalised banks and the law on land regulation, which were inevitable for receiving IMF support to stabilise the central budget. Decentralisation became a real success during his reign, which has also partially helped to modernise the infrastructure. The following two years will also highlight whether his law of deoligarchisation will be efficient; currently, it cannot be assessed.

All in all, during the last 3-4 years, long-awaited fundamental changes have started in the country. It is a long path full of sacrifice and disappointment, but he has all the ability and support to succeed with his promises. The socioeconomic situation still needs to be improved for most of the citizens. Unemployment and prices are increasing, especially for housing, communal services, electricity and gas. Currently, the incomes of the families and the general health problems are the most critical issues as a result of the full-scale war, not even mentioning the decreasing population.

Even so, implementing effective reforms has increased optimism among the population. Zelensky's ratings are also relatively high, although he needed help to turn to reality many of his election promises. The public is still very optimistic about his presidency, and based on the

current polls, he has a solid chance to be re-elected in 2024. He can secure his leading role in Ukrainian politics even under challenging circumstances, and nobody can challenge him for the presidency.

An important aspect is that markets reacted well to Zelensky's twin victories. It meant that Ukraine's borrowing and repayment costs had been reduced. The country's IT sector is booming, but there is still space to improve. The government is about to introduce new legislation to strengthen customs cooperation with the EU, which could help decrease the volume of corruption and smuggling. The anticipated stability needs to be improved in the country's economy; only two-three-year success periods could have been noted. The economic rollercoaster has always paired with the political crisis in the country. The previous leadership did not even have the chance to engage with economic populism as there were other issues they had to focus on rather than people's living standards. Therefore, the most crucial task is stabilising the central power and saving the economic reforms process. He still faces high corruption in every part of the economy, and the powerful oligarchs are making it even worse. Nevertheless, his support among the population and Western partners is still relatively high, and the opportunity is still there to continue his reforms and to improve his mistakes.

Another important goal of the writing was to assess Ukraine's economic situation based on an adapted version of Palánkai's framework. Overall, the integration analysis has shown beyond any doubt that Ukraine is not ready for European integration at the moment, as it has not been able to meet most of the criteria and expectations (see Figure 15). It is worth mentioning that there have been positive changes in several areas, such as price liberalisation, international trade and the convergence of the Ukrainian economy towards European standards. However, there are still severe shortcomings in competition policy, financial sustainability and macro stability, not even mentioning the level of skilled labour which will be a huge challenge after the war ends. Based on the papers findings, if Ukraine's international relations can be settled, domestic political reforms can continue, and the population's commitment to the European Union is maintained, Ukraine could have a realistic chance of joining the EU in the second part of the next decade, following the introduction of peace on its territory. The integration must also be capable of enlargement, as it is set in the Copenhagen criteria. From the European Union's side, the strategic enlargement needs to be evaluated and successfully overcome the current challenging period. There is indeed a vast economic potential in Ukraine, but they could not use it for 30 years. Providing them with immediate EU membership would cause further problems within the country's economic structures. They must eliminate most of their shortcomings, and the EU should help and supervise them.

Figure 15: Weak points of economic maturity

Functioning Market Economy	Competitiveness	Convergence	Macro Stability	Financing ability
<ul style="list-style-type: none"> • Low quality infrastructure • Weak economic governance • Stiff corporate structures 	<ul style="list-style-type: none"> • Inefficient institutional structures • High bureaucracy • Significantly high corruption 	<ul style="list-style-type: none"> • Stagnating GDP per capita at PPP • Low life expectancy • Relatively low HDI 	<ul style="list-style-type: none"> • Volatile GDP • High inflation • Dependence on IMF credits 	<ul style="list-style-type: none"> • Low IFDI • High amount of non-performing loans • Constantly negative central budget

Source: Based on authors' research

The third goal was to create a composite indicator and then apply it in the comparison between Ukraine and other EU candidate countries. Based on the result, Ukraine is behind not only the least developed EU Member States, but even many Western-Balkan countries are in better shape. With the assistance of the created composite indicator, the main economic aspects could be effectively compared. Ukraine officially received its candidate status from the EU in 2022, but providing them with a fast-track opportunity to join the integration is unrealistic. Based on the findings, their situation differs from the Western Balkan countries. They are far from the maturity level that Montenegro and Serbia are already representing.

Regarding the non-economic research of the work, the goal was to understand the external actor's roles and interests on the one hand, and present the internal obstacles that Ukraine is facing on the other hand. It is obvious that the American hegemony is declining, and more and more challenges are rising towards their global leading role. From the EU's side, a higher contribution is being demanded to its security as their bandwagoning strategy cannot be obtained anymore. It became clear after the breakout of the war that only with commercial relations it is not possible to ensure peace, the role of security has significantly increased in the international relations. Another important aspect is that the EU needs a more straightforward concept of how to deal with the Eastern Partnership countries. From Russia's perspective, these countries are part of their interest zone and willing to take even military actions to protect their influence. Nevertheless, there are also many concerning factors in Ukraine internally. Their identity-seeking problem still is a significant challenge, and it is also an open question of how

the oligarchic elite will react and behave themselves during the war. Noteworthy, that the current situation is highly dependant on the military conflicts results. But the already achieved results from the last 6-7 years are showing that the Ukrainians are determined in joining the EU and potentially NATO. If they will receive the necessary economic, military and legal support then their goals can be realized, it will only be a question of time. However, momentarily it would be a controversial decision to provide them fast-track membership in any cooperation.

It is important to note that while academic research may have its limitations, it still plays a crucial role in advancing our understanding of various phenomena and informing public policy and decision-making. The most relevant limitations of the study were the following: limited scope - in case of Ukraine the geopolitical aspects could have been deeper analysed and other International Relations theories could also have been discussed; time constraints – the effects of COVID and the breakout of the full-scale war were only partially covered; data accessibility – in this part of the world data collection is always a challenge. However, there are general limitations that the research could overcome: generalisability and challenges with replication. As a result of this work further researches can be conducted in the topic. First and foremost, the adopted integration maturity assessment can be used for other Eastern Partnership countries. Based on these results, a comprehensive framework for assessing membership seeking countries economic readiness could also be established. In parallel, a similar composite indicator can be replicated for the political and institutional aspects. Another part of the topic that would worth to research is the geopolitical aspects of the question. The war in Ukraine after a while became a proxy war that might be one of the most important indications that the international system and the balance among great powers is changing. It is obviously a challenge towards the unipolar system, it is basically a post hegemonial conflict. But it is a highly relevant question whether it will turn to a bi or multi poral one by the end of the decade. In this work there was no opportunity to discuss these significant questions, but its results could contribute to a further research related to the above mentioned problems.

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