



# The Centre for Euro-Atlantic Integration and Democracy

## Ukraine: Current Situation and Future Prospects

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*Last year brought major changes to the security of Central Europe with the conflict in Ukraine. It has not only altered security perceptions, but questioned the post-Cold War security architecture of Europe. On December 19<sup>th</sup> the Center for Euro-Atlantic Integration and Democracy organized a discussion on the situation in Ukraine, with a special focus to the security, financial and social outlook for 2015 and beyond. The present paper is the summary of the main discussion points*

### Broader security

Russian aggression has its limits insofar as it is restrained both by external and internal factors. Evidently, the reaction of the West is the key external factor in defining potential trajectories of the conflict, but what is not so evident whether we can develop finally a proper Western strategy that manages to balance between putting too much pressure on Putin and being unnecessarily indulgent with Moscow. In the former case, the worst scenario is that Putin feels to be so threatened and backed into a corner that he loses touch with reality and becomes inclined to resort to extreme solutions. On the other hand, an excessively yielding Western attitude is what Putin can most effectively abuse and benefit from, as it has been apparent so far.

At this moment, Western policies towards Russia are focused on economic and financial sanctions. The latest development in this field was the recently enacted U.S. legislation that empowers President Obama to impose more sanctions on Russia by extending the current ones to the Russian military industry and to Gazprom.

Nevertheless, 2015 introduced a greater global threat: the Islamic fundamentalism. A threat that is equally present in Western countries and in Russia, and which therefore needs to be fought with common efforts through effective collaboration. The problem is that Russian leadership still does not recognize that it needs the West, not even in the face of recent attacks in Chechnya and Dagestan.

The West and Russia need to find a way to live in a “cold peace” with each other, somehow preventing their conflicting interests from escalating into military confrontation. When it comes to NATO, membership needs to be offered and NATO needs to be open towards Ukraine, even though Ukraine will not become the member of the Alliance in the foreseeable future. It is crucial though that NATO decides what it really wants, especially in the case of those non-member states that are of strategic importance for the organization. A clearly defined NATO strategy is necessary to avoid the loss of credibility.



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### Frozen or unfrozen

The Ukrainian side was relatively successful in the beginning of the confrontation, which was not so surprising provided that irregular units can usually never hold territory against advancing regular forces. Nevertheless, after this short period of relative military success, pro-Russian forces quickly overcame Ukrainian forces in late August, leading to the present military standoff. The intensity of the conflict has decreased since mid-September. Ukraine is militarily incapable to recapture the separatist areas of Donetsk and Luhansk, and the most it can achieve is to continue to hold the borderlines given that Western support is provided.

The expenses of the confrontation are becoming unsustainable on both sides, which is one of the reasons why the intensity of the fighting has recently diminished. Current Russian interest is to attempt to freeze the conflict in order to lower political, economic and military costs without having to admit political defeat.

The main difference to other European frozen conflicts, such as the Transnistrian is first of all that Transnistria traditionally had an identity of being separate opposed to the Eastern-Ukrainian region. Secondly, Moldova had no intention to recapture the separatist area by force, which is in contrast with the eagerness of Kiev to reestablish the status quo ante. Finally, and perhaps most importantly, unlike Eastern Ukraine, Transnistria had a relatively healthy and functioning economy, whereas the separatist regions of Ukraine have gone through massive destruction and are currently struggling with extreme war damage. In addition, due to the essentially different geopolitical context at the time of the Transnistrian breakaway Russia did not have to deal with the condemnation and resistance of the international community.

### Towards an economic abyss.....

While sanctions on Russia have been successful in attaining their original purpose – that is to weaken Russian economy -, the repercussions of the economic recession in Russia are far reaching. As a consequence not only other former CIS countries could suffer but also Kiev could be hit by the indirect effects of Western sanctions imposed on Russia. The currency crisis in Russia, a result of the economic strains engendered by Western sanctions, indicates that the protracted and devastating conflict in Ukraine could sometime in the future be finally settled. Nevertheless, neither a Russian nor a Ukrainian economic meltdown could possibly be in the interest of the sanctioning states on the long-term. Therefore the amplitude and severity of the sanctions should be prudently evaluated and the ultimate purpose of such measures should not be to cause unnecessary economic damage that could have serious spill-over effects on Ukraine. In other words, sanctions can easily become counterproductive if not handled carefully and wisely enough. Right now, Russian economy is struggling with the drop of the oil prices and the subsequent crisis of the ruble that is further exacerbated by the fact that apparently Russian reserves are insufficient in the long run.

Concerning the situation of the energy transit and the Russia-Ukraine gas dispute, it appears that the assurance of continued supplies from Russia depends on Ukraine's financial situation since Moscow has made clear that there would be no free gas for Ukraine. The financial situation of Kiev though is more than concerning. Currently Ukraine would need more than 50 million dollars only for the settlement of its debt for 2015. In face of this tremendous financial deficit, IMF clearly underestimates the needs of Ukraine.



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### ....and social disaster?

The stabilization of Ukraine requires a complex combination of economic and political solutions, stable institutions, fight against corruption and also a functioning, thus attractive decentralization. Dealing with the Russian minority will be a unique challenge, since unlike other national minorities they are not willing to agree on their status as a minority, making it more difficult to find a consensus.

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The Ukrainian society has gone through an enormous transformation process in the last decades, a process that is heavily overloaded with complications and deficiencies. The Ukrainian society is one of the most concerning in Europe according to almost every indicator. The most worrisome social problems include the devastating situation of public health care and the pension system. Ukrainian health care system is on the verge of collapse, with shortages of medicine and a constant threat of epidemics, especially HIV/AIDS.

Meanwhile due to the aging of the Ukrainian society pensions are highly unbalanced. With the dramatic raise of utility bills scheduled from January 1<sup>st</sup> 2015, prices are already placing an additional burden on Ukrainian citizens. Given the complexity and deep-rootedness of the Ukrainian social, economic and political crisis, IMF loans as short-term solutions are simply not sufficient. Due to the omnipotence of corruption renewed efforts on behalf of the Ukrainian government have been introduced in order to reinforce the fight against corruption through the establishment of new institutions, the drafting of a new anti-corruption strategy and the assignment of a new leadership. Nevertheless, in lack of sufficient budgetary capacity the operation of these institutions and the implementation of reforms are unviable.

As to the social transition in Ukraine, there are three major trends as the driving forces of the transformation process: the gradual integration of the leaders of civil society organizations into the new government, the widespread recognition of the idea that social change is possible not just through revolution and politics, and finally the 'de-oligarchisation' of Ukraine. Ukrainian civil society will have the decisive role in determining the future of Ukraine and the eventual outcome of the ongoing crisis.

In any case Ukraine needs massive financial support and needs it now. In this process the responsibility of the Central European countries, who largely managed their transition with the help of massive external funding is enormous. These countries will have to show more solidarity.