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## **ECONOMIC WARS WITHIN THE RUSSIA-UKRAINE CONFRONTATION**

### **Abstract:**

*Hybrid wars of the modern times include aggressive economic actions aimed at diminishing the defender's ability to counteract hostile attempts to achieve various military and political goals. The Russia-Ukraine confrontation delivers a good example of modern economic warfare. This paper reviews its basic methods and demonstrates that economic aggression comprises a very important component of Russia's hostile strategy towards Ukraine. It also reveals some specific features of the Ukrainian economy that enable the economic aggression of Russia. The tools of economic warfare are presented as direct and indirect ones. Among the results of economic wars for Ukraine the following are emphasized: untying of Ukrainian economy from the Russian one, redirection of foreign trade towards the EU and Asia, acceleration of structural and economic reforms.*

### **Keywords:**

*economic aggressor, economic war, Ukrainian-Russian economic relations*

## **Introduction**

Ukraine nowadays is an object of systematic and comprehensive aggressive actions from the side of the Russian Federation. This situation could be considered as a textbook example of a modern hybrid war. One of its important

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components is an economic war (further denoted as EW). In a broad sense, EW is defined as “an economic strategy based on the use of measures (e.g. blockade) of which the primary effect is to weaken the economy of another state.”<sup>2</sup> As such, EW involves a whole toolkit of economic, legal, and administrative measures directed against the opponent’s economy.

History knows a lot of examples when different nations attacked each other’s economies putting forward such an argument as “protection of national economic interests”. The policy of protectionism, trade wars between countries are e.g. of such kind. From the point of view of economics, such phenomena have been considered as interference into market in order to distort *laissez faire*. However, it is not clear at which point hostile economic actions against another country turn into EW *per se*. As stated in a collective monograph recently published by the Ukrainian National Institute of Strategic Studies, “establishing a fact of aggression in the non-military spheres of social life is extremely complicated, or even impossible. Virtually always there exists a possibility to mask actions of a hybrid aggression in the economy as protection of the national economic interests, economic rationale, and competition.”<sup>3</sup> That is why there is a need to distinguish EW from normal actions taken by a country to protect its own economy, which could, of course, damage another nation’s economy. We assume that in case of EW, the primary goal of hostile actions is to cripple the opponent’s economy, but not to gain any economic benefits, which could be the case with a protection policy. That is why EW could be considered not as a win/loss game, but in most cases as a loss/loss game; the strategy of an attacking party is: the losses of an opponent must be heavier; the strategy of a defending party is: to minimize own losses and to make the losses of the attacker inadmissible.

A set of goals related to EW could reach far beyond the economy; e.g. in case of Russia’s EW against Ukraine it is not only to weaken Ukrainian economy, but also to make Ukraine admit policy in line with Russia’s vision of its sphere of dominance where other nations (the ‘younger brother and sisters’) must obey the ‘older brother’ (Russia) and share its worldview; otherwise they are penalized. As Ukraine does not want to follow, Russia occupied part of its territory and engaged in a series of hostile economic actions, in course of which Ukraine lost significant parts of its economic resources, resulting in the downsizing of its GDP.

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<sup>2</sup> *Economic war*, “English Oxford Living Dictionaries”, <[https://en.oxford-dictionaries.com/definition/economic\\_war](https://en.oxford-dictionaries.com/definition/economic_war)> (25.01.2018).

<sup>3</sup> *Svitova gibridna vinya: ukrains'kiy front*, ed. V. P. Gorbulina, Kiev 2017, p. 99.

Modern EW could be considered not as an isolated set of actions that harm the opponent's economy, but as a part of a hybrid war, as a tool of making military actions more effective through lessening the opponent's ability to concentrate economic resources for defensive ends, pressing the country to change its political course, and to disrupt its political stability.

If EW is carried out simultaneously against a specific country supported by a group of countries (this is very close to a current situation of relations between Russia and most of the developed world), the unrolling of it and outcomes depend on the extent to which the involved parties are led by economic rationale (with regard to social welfare) and on how the incurred losses are allocated amongst different countries (the latter affects the actual unity of the countries holding a front against Russia<sup>4</sup>).

As Russia conducted and continues to engage in multiple acts of EW against Ukraine, we used the plural, not singular in the article's title. However, before 2014 EWs were sporadic and partial as they concerned some specific ware groups and markets. On the contrary, the ongoing economic warfare is a much more complex phenomenon and is characterized by desperateness of the parties. We agree with Sergii Kulytski's conclusion that as of 2014 there were no analogues to the modern state of Ukrainian-Russian economic relations<sup>5</sup>; moreover, since 2014, the economic warfare between Russia and Ukraine evolved into 'total EW'.

In order to assess the current Russia-Ukraine economic warfare, we need first to reveal its goals and ways. These issues attracted attention of many economists from Ukraine and globally. A systematic approach and important policy recommendations concerning adaptation of the Ukrainian economic policy in order to survive in EW with a much stronger and unpredictable opponent one could find in publications by Paul d'Anieri, Anders Åslund, Przemyslaw Furgacz, Sergii Kulytski, Yaroslava Bazyliuk, some Ukrainian experts from the National Institute of Strategic Studies and Razumkov Centre. This paper systematizes issues and trends in the Russia-Ukraine EW and outlines some poli-

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<sup>4</sup> E.g. according to the Vienna Institute of International Economic Studies, the biggest relative losses because of economic sanctions against Russia imposed in 2014 for Crimea annexation were born by Lithuania, Finland, Bulgaria, and Greece. – P. Havlik, V. Astov, *Economic consequences of the Ukraine conflict*, 14.10.2014, <<https://wiiw.ac.at/economic-consequences-of-the-ukraine-conflict-n-60.html>> (14.12.2017).

<sup>5</sup> S. Kulits'kiy, *Yekonomichni aspekty ninishn'ogo ukrains'ko-rosiys'kogo protistoyannya (pochatok)*, "Ukraina: podii, fakti, komentari" 2014, No. 19, pp. 26-42.

cies that would be beneficial for the Ukrainian nation state in mitigation of the economic assaults on it.

The approach applied intends to answer the following research questions: (i) why Ukraine became the primary target of Russian economic aggression within its hybrid warfare against the world; (ii) what are the goals of Russia's attacking the Ukrainian economy; (iii) by which means has the Ukrainian economy been hit; (iv) how has Ukraine fought back; (v) what are the outcomes and prospects of the Russia-Ukraine perpetual economic confrontation.

### **What makes Ukraine a target for Russian economic attacks?**

Ukraine suffers losses due to Russian economic aggression because its economy has weaknesses, a result of persisting structural problems and Soviet-time legacy. The most obvious ones are lower scale of economy in comparison to Russia and very strong economic dependence on Russian markets and supplies. Through decades of Ukrainian state independence not much has been done in order to build a strong and efficient national economy.

One of the recent analytic reports of the National Institute of Strategic Studies emphasizes the following macroeconomic weaknesses of the Ukrainian economy which made it vulnerable to Russian hostile economic actions: lowering of international competitiveness (domination of raw-material industries, decrease in export capacity and growing import dependence); weak economic dynamics; low investment attractiveness due to the high systematic risks; unstable financial and monetary system; low internal market capacity<sup>6</sup>.

This list could be expanded with additional macro-factors, like the soaring disparity of Ukraine's international trade (within 2001-2014 its cumulative negative trade balance with Russia reached \$77 billion<sup>7</sup>); a dangerous level of dependence on energy supplies from Russia including those for the nuclear power plants; excessively high Russian share in export of services (gas transit) and military products. One should not forget about insufficient economic dynamics experienced by Ukraine through many years: according to the World

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<sup>6</sup> NISD, *Yekonomichna Bezpekaukraïni v umovakh gibridnoi agresii. Analitichna dopovid'*, Kiev 2017.

<sup>7</sup> Ya. B. Bazilyuk, *Zabezpechennya yekonomichnoi bezpeki Ukraïni v umovakh gibridnoi viyni*, "Strategichni prioriteti" 2015, No. 3, p. 49.

Bank, Ukraine has had the lowest growth rate for 1993-2012 in comparison to other transitional economies<sup>8</sup>.

A special place in the vulnerability of Ukrainian economy is held by its dependence on Russian gas and oil supplies<sup>9</sup>. In the late 1990s, P. D'Anieri concluded that economic relations, especially energy trade between both countries, is a weak point of Ukrainian economy and policy; it has been often used by Russia for coercion in order to reach political goals concerning Ukraine, like the CIS membership, Black Sea Fleet placement, NATO non-accession, management over the Ukrainian gas pipelines etc.<sup>10</sup>

From a microeconomic perspective it is worth drawing attention to technological backwardness of many Ukrainian manufacturing industries, which stops them delivering high-value products to developed markets because of high production costs or low quality (this fact was the most important argument for the ex-President Yanukovych in stopping Ukraine's association with the EU). Here also belongs inefficiency of markets, many of which are still too concentrated and have been prone to monopolistic power by the largest companies controlled by oligarchs.

Market inefficiency struck one of the most important economy sectors – banking. In Ukraine, a dominance of so called ‘pocket banks’ which actually served the only one big client and associated persons has been observed; these banks had been often used for exercising some special schemes for massive off-shore money transfers. What is especially dangerous from the point of view of the ongoing conventional and hybrid wars unleashed by Russia against Ukraine is a significant share of financial markets being under the influence of Russia. According to Volodymyr Lanovyi, Russian banks control about 40 per cent of commercial bank capital in Ukraine and have an 18 per cent share in the market of financial services; most Russian banks are making losses and do not invest into the Ukrainian economy, rendering services only to Russian-owned companies and pumping out currency from the country in order to fund Russia's hybrid war<sup>11</sup>.

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<sup>8</sup> Ch. Dunnet, *Why The Economies Of Ukraine and Russia Are Nearly Inseparable: Ukrainian-Russian Business Ties, Explained*, 17.03.2015, <<https://medium.com/@Hromadske/why-economies-of-ukraine-and-russia-are-almost-inseparable-783834461dd5>> (05.02.2018).

<sup>9</sup> K. Shinkaruk, *Ukraïna– Rosiia: stsenarii rozvitku vidnosin do 2020*, Kiev 2011.

<sup>10</sup> P. J. D'Anieri, *Economic Interdependence in Ukrainian-Russian Relations*, New York 1999, p. 201.

<sup>11</sup> *Rosiys'ki banki v Ukraïni pratsyuyut' na rozvalekonomiki*– V.Lanoviy, 17.03.2017, <<https://hromadskeradio.org/programs/hromadska-hvylya/rosiyski-banky-v-ukrayini-pracyuyut-na-rozval-ekonomiky-volodymyr-lanovyy>> (25.02.2018).

From the institutional point of view, the overall weakness of Ukrainian political institutions is present: too high power centralization, oligarch control over political parties, low transparency and accountability of central and local authorities. The government at the central and local levels has been accused of corruption and acting more in private interests than for public welfare. This formed a soil for Russia to exert direct influence over state policy in Ukraine before the Revolution of Dignity.

All the features mentioned above made possible for Russia to a exert multifaceted strategy of weakening the Ukrainian economy in order to fell it completely and, with support of a pro-Russian ‘fifth column’, to restore Russian political dominance in Ukraine. Within this global goal we could distinguish some subsets of EW goals which have been pursued through implementation of different instruments.

### **Goals and ways of Russia’s economic warfare against Ukraine**

The primary super-goal of Russia has been achieving political concessions from Ukraine: if Ukraine follows a pro-Russian political course, Russia will grant economic benefits; if not, it will retaliate, masking this as ordinary economy protection measures. A good illustration for this situation could be a \$15 billion loan from Russia (\$3 billion of which had been received before outbreak of the Revolution of Dignity in 2013) to the former Ukrainian government as a pay to the ex-President for not signing the Association Agreement with the EU; another one is the so-called Kharkiv agreements of 2010 which prolonged Russian Black Sea Fleet presence in Ukrainian Sevastopol for 25 years, in return Russia offered a \$100 discount on the price of gas.

The fact of political motivation of economic strikes is an object of common agreement among most experts in Russia-Ukraine economic relations. E.g., Stratfor agency stated that the core issue of gas between both countries that has lasted for more than a decade “is Ukraine’s sovereignty and Russia’s centuries-old desire to integrate Ukraine into its sphere of influence... The disagreement over natural gas is merely the latest incarnation of an issue that has played out over centuries: Ukraine’s independence and Russia’s opposition to it”<sup>12</sup>.

Another goal, an internal one, could be implicitly derived from the logic of actions of the Putin regime. It is undermining the economic development of

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<sup>12</sup> *Russia and Ukraine’s Continuous Energy Relations*, “Stratfor Worldview”, 29.01.2013, <<https://worldview.stratfor.com/article/russia-and-ukraines-contentious-energy-relationship>> (05.02.2018).

Ukraine not only because of getting some political concession, but in order to demonstrate to the Russian people that Ukraine would fail on its course because it has politically separated from Russia and has chosen ‘a wrong way’ of democracy, political competition and defending its national, political, cultural and economical identity.

The next one could be crushing a competitor on the global markets. Ukrainian companies compete with Russian producers in export of agricultural products, metals, military products, aviation transportation, space services etc. Hitting these industries with sanctions, embargoes *etc.* would open new possibilities for the big Russian companies which are closely related to the governing regime.

And, last but not least – using EW to trigger social instability in the country will make it possible to change the political course of Ukraine through installing spokespersons and political parties which are loyal to Russia.

There exists an enormous catalogue of ways and techniques for EW in achieving these goals. Most of them have been applied by Russia in the course of the ongoing hybrid war against Ukraine.

The EW measures could be presented in two groups – direct and indirect ones.

Direct measures of EW include actions taken with the intention to openly damage the opponent’s economy. This group of EW measures could be split into the following ones:

1. Measures against specific markets: embargoes, pressure on the national currency to make it weaker, agreements with the third party to minimize access of goods from the opponent country to its internal markets, dumping, imposing tariff barriers, financial destabilization etc. Most of them have been quite extensively discussed within a context of the Russia-Ukraine economic controversy by P. Furgacz for 2014-2015.<sup>13</sup>
2. Ban on specific types of international cooperation that are essential for the opponent country. To this belong stopping agreements on cooperation in different spheres (academic, scientific, military, labor migration, trans-border movement), denial of access to objects of physical infrastructure (highways, airports, seaports etc.) as well as to the natural space (water, air, land) for users from the opponent country.

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<sup>13</sup> P. Furgacz, *The Russian-Ukrainian Economic War*, „Ante Portas – Studia nad Bezpieczeństwem” 2015, nr 2(5), ss. 115-130.

3. Negative influence on country's image as an international trade partner: dissemination of information to undermine trust in suppliers, governments and countries in order to diminish export possibilities, credit facilities etc.

It must be mentioned here that these measures are initiated exclusively by an economic aggressor who is convinced of his superiority as an economic power. The aggressor selects the sphere and time for an attack and expects his endeavour to be successful.

While analyzing the list of EW acts undertaken by Russia, one would see that Russia applied all the instruments listed above, also initiating these measures. Interestingly, Ukraine, even being an object of the hybrid war in its East (Donetsk and Luhansk region) and South (Crimea) tried to postpone its own response to Russia's direct EW acts: the Law On Sanctions that laid down a legal ground for application of the economic sanctions against Russia was adopted only on August 14, 2014, months after the Russian annexation of Crimea and outbreak of the war in the East of the country. However, the mechanism of sanctions was activated in the middle of 2015, far behind the EU, USA and many other countries which imposed personal and economic sanctions against Russia for its actions in Ukraine in March-July 2014.

Indirect measures of EW include actions that are a by-product of other hybrid war actions. This group of measures includes the following:

1. Militarization of economy. Striving to defend its own independence, the country must restructure its economy, produce and buy more and more weaponry, increase army staff etc. Expansion of the military expenditures could be achieved through austerity measures taken in other public spheres and needs imposition of additional taxes that depress private demand and investments. In 2013, the Ukrainian defence budget was 1.1 per cent to GDP, but in 2017 it reached 3.4 per cent.
2. Instability caused by military actions and subversive activities. This diminishes incentives for local and foreign investors and generates an outflow of foreign capital. According to the Ukrainian Ministry of Finance, DFI net inflow to Ukraine dropped in 2014 by more than 10 times (from \$4.5 billion to 0.4), which meant a massive capital outflow caused by expansion of military actions. Within the next two years it recovered to some extent, but still not reached the pre-war level at \$1.9 billion in 2017. The total stock of DFI in the Ukrainian economy dropped in 2013-2016 by \$17.6 billion.
3. Capture or destruction of industrial assets and physical infrastructure in course of the military actions and occupation. E.g. in August 2014, the



output of the Ukrainian mining industry dropped by 27.4 per cent as a result of war in the East of Ukraine, manufacturing industry by 19.2 per cent, energy production by 17.3 per cent.<sup>14</sup> Russian occupation of parts of the Donetsk and Luhansk regions which had been very significant exporting and manufacturing regions of Ukraine (10 per cent of GDP in 2013), led to national GDP drop by 7 per cent in 2014 to 2013<sup>15</sup> that could be derived from 70 per cent GDP decline in the occupied East and destruction there of about 12,000 units of physical assets<sup>16</sup>. Dozens of enterprises, especially those in the military industry, were captured and relocated to Russia (often with all the personnel).

The occupation of Crimea had much less effect on Ukrainian GDP due to its lesser economic importance, but in this case we must count for very big potential losses with regard to natural resource extraction: one billion *t* of oil, up to 13 trillion *m*<sup>3</sup> of gas<sup>17</sup>; in total, the estimate of economic losses due to Crimea annexation amounts up to \$1,000 billion foremost due to the forfeiture of its offshore oil and gas reserves<sup>18</sup>

The negative economic dynamics due to loss of economic assets and cash-flows negatively affected the Ukrainian external debt. Despite the fact that the country's total amount of gross foreign debt diminished from \$135.1 billion in 2012 to \$116.5 billion in 2017, its external debt/GDP ratio significantly worsened: from 76.8 to 121.7 per cent<sup>19</sup>, which caused a negative influence on the Ukrainian possibilities to attract loans in the global financial markets.

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<sup>14</sup> S. Kulits'kiy, *Yekonomichni aspekti ninishn'ogo ukrains'ko-rosiys'kogo protistoyannya (zavershennya)*, "Ukraïna: podii, fakti, komentari" 2014, No. 20, p. 25.

<sup>15</sup> A. Aslund, *Viyarosiï proti yekonomiki Ukraïni*, <[http://www.ji-magazine.lviv.ua/2015/Aslund\\_Vijna\\_Rosii\\_proty\\_ekonomiky\\_Ukraïny.htm](http://www.ji-magazine.lviv.ua/2015/Aslund_Vijna_Rosii_proty_ekonomiky_Ukraïny.htm)> (22.02.2018).

<sup>16</sup> A. Åslund, *Kremlin Aggression in Ukraine: the Price Tag*, Atlantic Council March 2018, <[http://www.atlanticcouncil.org/images/publications/Cost\\_of\\_Kremlin\\_Aggression\\_web.pdf](http://www.atlanticcouncil.org/images/publications/Cost_of_Kremlin_Aggression_web.pdf)> (17.01.2018).

<sup>17</sup> D. J. Unger, *With Crimea Annexation, Putin Expands Oil And Gas Empire*, "Christian Science Monitor", 21.03.2014, <<https://www.csmonitor.com/Environment/Energy-Voices/2014/0321/With-Crimea-annexation-Putin-expands-oil-and-gas-empire>> (15.03.2018).

<sup>18</sup> M. Bugriy, *Economic Warfare in the Russian-Ukrainian Conflict: Crimea*, "Eurasia Daily Monitor", 3.11.2014, Vol. 11, Issue 195, <<https://jamestown.org/program/economic-warfare-in-the-russian-ukrainian-conflict-crimea/>> (15.11.2017).

<sup>19</sup> *Ukrainian Ministry of Finance*, <<https://index.minfin.com.ua/ua/economy/foreigndebt/>> (22.05.2018).

## Economic warfare 2012-2017: Russian attacks and Ukrainian response

EW had been initiated by Russia against Ukraine a long time before the hybrid war actually started. The principles were applied many times in order to force Ukraine to carry out policies demanded by Russia. However, since 2012, as Ukraine approached the signing of the EU Association Agreement, hostilities have been accelerating and growing in intensity within a plan of action to make Ukraine change its path<sup>20</sup>. These hostile economic actions (mostly export bans) from Russia's side were: the cheese war (January 2012, the import of Ukrainian cheese stopped), chocolate war (July 2013, the import of chocolate produced by Roshen company was banned due to allegedly low quality of the products), steel pipe war (July 2013, Russia lifted Ukrainian import quotas), steel war (August 2013, ban on steel import from selected Ukrainian steel mills), customs war (August 2013, when Ukrainian goods underwent enhanced customs control that actually stopped Ukrainian export to Russia) among many others.

After the Crimea annexation and triggering the war in the East of Ukraine, EW between the countries became permanent and total. In 2014, Russia abolished a preference regime to selected imported goods from Ukraine and imposed higher customs on them. In 2015, the Free Trade Agreement between Russia and Ukraine was abolished and the most favored nation treatment regime had been imposed, which also led to an increase in custom duties for Ukraine. According to some estimates, as a result of this act the average custom duties for Ukrainian goods increased by 7.6 per cent; however, for Russian goods, due to the different export structure, only by 1.7 per cent; in result, Ukraine got higher trade balance deficit<sup>21</sup>.

Russia-Ukraine EW now consists of many separate wars which actually embrace all good groups traded. In July 2014, the import of Ukrainian milk products was prohibited; in October 2014, export and transit of fruits and vegetables through Russian territory from Ukraine was banned; in August 2015, export of Ukrainian agricultural products was banned.

All these actions were initiated by Russia with the intention to do maximum injury to those sectors of Ukrainian economy which export significant share of their output to Russia<sup>22</sup>. The Russian sanctions to Ukraine in 2014

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<sup>20</sup> Yu. Mostova, T. Silina, *Rosiys'kiy plan, osmisleniy i neshchadnyy*, "Dzerkalo tizhnya", 16.08.2013, <<https://dt.ua/internal/rosiyskiy-plan-osmisleniy-i-neschadnyy-.html>> (22.12.2017).

<sup>21</sup> R. Guicci, V. Moldovan, *Wirkungen neuer Handels- und Transitrestriktionen Russlands*, "Newsletter" April 2016, Deutsche Beratergruppe Ukraine, Ausgabe 90.

<sup>22</sup> Ya. B. Bazilyuk, D. Yu. Ventskovs'kiy, *Zovnishn'otorgovel'ni chinniki gibridnikh zagroz yekonomichniy bezpetsi Ukraini*, "Nezalezhniy auditor" 2016, No. 16, pp. 46-53.

caused a six per cent drop in GDP and three per cent drop in FDI according to estimate of A. Åslund<sup>23</sup>.

Russia has tried to financially destabilize Ukraine by barring it from the most important source of export proceeds stemming from gas transit. In order to reach this goal Russia invested a lot of resources into construction of the gas pipe lines to Europe bypassing the territory of Ukraine (Nord Stream 1 and 2). Success in realization of this project (that really has no economic rationale) would mean significant problems for the Ukrainian economy. Stopping the gas transit through territory of Ukraine would zero country's gas transit revenue that allows paying for the gas supply from EU and would cause an export revenue loss in amount of \$3 billion (2.3 per cent to the GDP).

Since fall 2017, Ukraine has been an object of the hacker attacks that aim to seize control over the critical infrastructure objects and paralyze the state administration, the origin of the attacks was admittedly Russia. Of course, not only Ukraine was attacked by them, but it is priority target.

EW acts from the Russian side were supported by the information war instruments. Among them:

1. Attempts to undermine the trust of Western partners in the Ukrainian economy and government. As an example is information aired in August 2017 by the Russian Federal News Agency that Ukraine could not be a good gas transit partner for Europe<sup>24</sup>. The Russian media allegedly cited the Ukrainian Minister that the Ukrainian gas pipe lines are a disaster, omitting that this official person actually talked about some hypothetical case if no new investments be made; this fake news was intended to gain more support in Europe for Nord Stream 2.
2. Discrediting the governmental economic policy for the Ukrainian people, including policy of economic sanctions against Russia. In June 2017, the Russian Internet media including the official ones launched information that Ukrainian sanctions against occupied Crimea hurt its economy much more than the Crimean one. This fake news was based on an interview of a well-known Ukrainian agriculture economy expert on an effect of the Ukrainian sanctions on the Crimean agriculture. The Russian media reported that this person assumed ruination of Ukrainian agriculture in the South of Ukraine due to stopping water pumping to

<sup>23</sup> A. Åslund, *Vynarosii proty yekonomiki Ukraïni*, <[http://www.ji-magazine.lviv.ua/2015/Åslund\\_Vijna\\_Rosii\\_proty\\_ekonomiky\\_Ukrainy.htm](http://www.ji-magazine.lviv.ua/2015/Åslund_Vijna_Rosii_proty_ekonomiky_Ukrainy.htm)> (22.02.2018).

<sup>24</sup> *Min-energo Ukrainy predupredilo o vozmozhnykh problemakh s tranzitom gaza*, 7.08.2017 <<https://ria.ru/world/20170806/1499857463.html>> (20.01.2018)

Crimea<sup>25</sup>. However, the actual speech of the expert contained the opposite information: thanks to no water supply to Crimea the Ukrainian agriculture gets much more water for watering the fields. This fake information was initiated with two aims: firstly, persuading those Ukrainians who still pay attention to Russian media that the Ukrainian government hurts Ukrainian economy because of its reckless policy towards Russia; secondly, demonstrating to media believers in Russia that in Ukraine everything is much worse than in the occupied Crimea. In fact, stopping the water supply through the North Crimean canal spelled disaster for agriculture in the Northern part of Crimea: the irrigated areas there shrank by 90 per cent, the water quality diminished greatly<sup>26</sup>.

3. Creating a picture of an imaginary great dissatisfaction with the policy of the Ukrainian government. To this row belong the ongoing efforts to show that Ukrainian business elite does not support the economic policy carried out by its own government. A tool for supporting such an image is hacking the official websites of some big companies by Russia-based hackers and posting fake information like “Appeal to the Ukrainian government” or “Appeal to the Ukrainian President” concerning the economic policy in an industry<sup>27</sup>. This fake news then circulated in the pro-Russia Ukrainian media and among specially selected ‘experts’.

In all the cases of trade wars mentioned above Ukraine fought back by imposing reciprocal sanctions to Russia. Nevertheless, Ukrainian total losses have exceeded those of Russia in absolute and relative numbers. However, there are some economic spheres where Russia’s losses were much higher than the Ukrainian ones. In the first line, it is inter-country military-technical cooperation.

In August 2014, Ukraine stopped all forms of military-technical cooperation with Russia<sup>28</sup>, causing a collapse in some spheres of the Russian military

<sup>25</sup> *Kiyev b'yet trevogu: vodnaya blokada Kryma unichtozhayet Ukrainu*, 31.07.2017, <https://novostionline.net/obshhestvo/kiiev-bet-trevogu-vodnaya-blokada-kryma-unichtozhayet-ukrainu/> (14.01.2018).

<sup>26</sup> *Vsya nadezhda – na vodu sneba: chto zhdet sel'skoye khozyaystvo Kryma – Mikhail Yatsyuk*, 14.11.2017, <<https://ru.krymr.com/a/28853950.html>> (15.04.2018).

<sup>27</sup> See for example: O. Koval', *Na DP «Antonov» zdiysneno khakers'ku ataku*, 18.01.2018, <<https://ua.news.ua/na-dp-antonov-zdiysneno-hakersku-ataku/>> (23.02.2018).

<sup>28</sup> *Pro rishennya Radi natsional'noi bezpeki i oboroni Ukraïni vid 27.08.2014 r., "Pro zakhodi shchodo udoskonalennya derzhavnoi viys'kovo-tekhnichnoi politiki"*, Ukaz Prezidenta Ukraïni No. 691, 2014 <<http://www.president.gov.ua/documents/6912014-17592>> (28.03.2018).

industry and postponed realization of many governmental programs of Russian army re-equipment. Ukrainian military-industrial complex produced a lot of the components which are essential for the Russian military industry. To these belong: engines for helicopters, missiles, gas turbines for Navy vessels, maintenance of the Russian nuclear arsenal among others; in total, 160 Ukrainian companies exported to Russia annually 200 types of military products and 3,000 components in the value of \$2 billion.

The truth is that the most goods of military use produced in Ukraine and exported to Russia cannot be replaced by the Russian domestic production in the short run. It could be possible in the long run, however, it will require investments in value of many USD billion (a source of which is absent now as Russia is under international economic sanctions with unclear prospects for development of the global oil and gas markets).

Another example that is worth mentioning is the banking sector. As stated above, Russian banks played significant role in Ukrainian market of financial services, but their extensive presence in this key market increased risks of possible financial destruction of Ukrainian economy done on Kremlin demand. With regard to this danger, on March 2017, Ukraine imposed economic sanctions on the biggest Russian banks with state capital operating in Ukraine<sup>29</sup>. They were barred from engaging in financial operations with the mother companies, receiving loans on the Ukrainian interbank market, transferring capital abroad, attracting deposits, buying securities, paying out dividends and interest on securities, sharing of profit and capital. The reason for such a decision was not only potential risks of having such institutions, but also their direct actions undermining the Ukrainian statehood: they used their presence in order to fund terrorist activities in the occupied Eastern part of Ukraine by illegally transferring Ukrainian currency there.<sup>30</sup> After this decision their active operations were paralyzed, so many decided to withdraw from the Ukrainian market.

There are other economic strikes initiated by Ukraine. In September 2015, Ukraine initiated a ban on flights of Russian aviation carriers to/over Ukraine. In May 2017, Ukraine blocked all Russia-based Internet-services (as well as

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<sup>29</sup> *Pro rishennya Radi natsional'noi bezpeki i oboroni Ukraïni vid 15 bereznya 2017 r. "Pro zastosuvannya personal'nikh spetsial'nikh yekonomichnikh ta inshikh obmezhuval'nikh zakhodiv (sanktsiy)"*, Ukaz Prezidenta Ukraïni No. 63/2017, <<http://www.rnbo.gov.ua/documents/440.html>> (28.03.2018).

<sup>30</sup> V. Lanoviy, *Rosiy's'ki banki v Ukraïni finansuyut' ugrupuvannya «DNR» i «LNR»*, 9.03.2017, <<https://ua.krymr.com/a/28359868.html>> (25.02.2018).

Russian TV program broadcast) in order to stop Russian propaganda in Ukraine (these providers were highly commercialized and brought a lot of money to Russia), as well as prohibited dissemination of Russian commercial and anti-virus software.

Not all EW acts from Russia's side were successful due to effective response from Ukraine. This could be true concerning attempts of financial destabilization of the country. E.g. in June 2014, Russia demanded Ukraine to pay \$4.5 billion for gas consumption in the occupied Crimea and around \$70 billion according to the gas supply contracts as of 2009. This ended with a Stockholm Arbitrage judgment: Russia owes Ukraine \$2.6 billion<sup>31</sup>. In April 2014, Russia declared denouncement of the Kharkiv agreements as of 2010 and set a natural gas price for Ukraine at the level \$485 instead of \$268.5 per 1,000 m<sup>3</sup> before; in result, Ukraine completely stopped buying natural gas from Russia, relying on supply from European countries. The other examples of successful defence of the country's economic interests could be stopping payments from Ukrainian state budget to occupied territories, which created additional fiscal burden for Russia.

In the nearest future Ukraine could be in the position to apply financial penalties to Russia. Up to now Ukraine has filed several international court appeals to Russia regarding compensation for occupation of its territory and destruction of the economy there; the claims of the Ukrainian government, as well as of the legal and private persons could reach in total several hundred billion USD. Not waiting for the judgments of the international courts, Ukraine activated its legal actions against the Russian gas monopolist Gasprom whereby penalties from the Ukrainian Anti-Monopoly Committee amounted now up to UAH 172 billion (\$6.5 billion)<sup>32</sup>; Russian carriers received penalties for the illegal flights to Crimea in amount of UAH 5.4 billion (\$200 million)<sup>33</sup>. Of course, Russian companies do not accept the legality of these penalties, but the judgments of Ukrainian and international courts will soon give Ukraine a legal right to confiscate Russian assets anywhere. These legal actions are potentially

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<sup>31</sup> In May 2018, in line with the abovementioned Stockholm Arbitrage judgment Ukraine initiated a mandative confiscation of the Gasprom assets in the UK, the Netherlands and Switzerland.

<sup>32</sup> *Ukraina nachala opisaniye i arest ukrainskikh aktivov "Gazproma"*, - Groysman, 7.03.2018, <[https://censor.net.ua/news/3054481/ukraina\\_nachala\\_opisanie\\_i\\_arest\\_ukrain-skih\\_aktivov\\_gazproma\\_groyisman](https://censor.net.ua/news/3054481/ukraina_nachala_opisanie_i_arest_ukrain-skih_aktivov_gazproma_groyisman)> (15.04.2018).

<sup>33</sup> *Rosiy'ski aviakompaniivzhe oshtrafuvali na 5,4 mil'yarda griven' za porushennya povitryanogo Prostoruukr*, 12.03.2018, <<https://economics.unian.ua/transport/10038998-rosiyski-aviakompaniji-vzhe-oshttrafuvali-na-5-4-milyarda-griven-za-porushennya-povitryanogo-prostoru-ukrajini.html>> (20.05.2018).

detrimental for Russia because they will cause a massive outflow of currency from the country or loss of public assets abroad.

Private Ukrainian companies whose property was confiscated by Russia in the course of Crimea annexation (where Russia “nationalized” about 5,000 Ukrainian enterprises) and occupation of Donbas also appealed to the international courts in order to get compensation for the assets lost. A first success is a judgment of the Permanent Court of Arbitration in The Hague as of May 2018 that supported their claim against Russia in the amount of \$159 million<sup>34</sup>. Thousands of cases against Russia submitted by private persons are being filed in the European Court of Human Rights, which also could mean significant monetary penalties for aggressor.

With some delay, the Ukrainian government began to initiate restrictions for Russian capital in other spheres of economy beyond the banking sector where the presence of the Russian capital still remains significant: mobile telephony, supply of electricity, machinery and metal production, oil refining and gas tank chains; 12 out of 100 biggest companies operating in the Ukrainian markets are effectively controlled by Russian capital<sup>35</sup>. The risks stemming from Russian capital in Ukraine are high because it seeks not only profit, but domination and control of whole industries applying political, economical and information tools<sup>36</sup>; and not the least – it uses its own profits for funding pro-Russian terrorists in the East. As well-known Ukrainian economist Oleksandr Pashaver put it, “We do not need Russian capital. It is too dangerous to play this game”<sup>37</sup>. That is why in March 2018 the new Law On Privatization was adopted, prohibiting Russian companies from taking part in privatization competitions.

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<sup>34</sup> L. E. Peterson, *Russia Held Liable in Confidential Award for Expropriation of Hotels, Apartments and Other Crimean Real Estate*, “Investment Arbitration Reporter” 09.05.2018, <<https://www.iareporter.com/articles/russia-held-liable-in-confidential-award-for-expropriation-of-hotels-apartments-and-other-crimean-real-estate-arbitrators-award-approximately-150-million-plus-legal-costs-for-breach-of-ukraine-bi/>> (27.05.2018).

<sup>35</sup> M. Nechiporenko, *Yekonomika Ukraïni: kurs deintoksikatsii vid rosiys'kogo kapitalu*, 1.04.2017, <<https://www.ukrinform.ua/rubric-economy/2203896-ekonomika-ukraini-kurs-deintoksikacii-vid-rosijskogo-kapitalu.html>> (26.02.2018).

<sup>36</sup> O. L. Mikhaylyuk, L. V. Sukhina, *Rosiy's'kiy kapital v yekonomitsi Ukraïni*, 2006, <<https://link.do/FMD7d>> (21.02.2018).

<sup>37</sup> *Rosiy's'kiy kapital nam ne potriben, vin duzhe nebezpechniy – Pashaver*, 5.03.2018, <<https://prm.ua/rosiyskiy-kapital-nam-ne-potriben-vin-duzhe-nebezpechniy-pashaver/>> (14.04.2018).

Many measures mentioned above were undertaken thanks to pressure exerted by the Ukrainian civil society. In 2013, a civil campaign started “Don’t buy the Russian goods” which resulted in significant sale cuts of the Russian consumer goods thanks to attaching country stickers to the tags or a ban enacted by decisions of local authorities (in result, the annual export of Russian consumer goods to Ukraine diminished by \$100 million<sup>38</sup>); a civil campaign against the Russian banks (especially Sberbank) resulted in significant outflow of deposits and increased their operational losses. A ban on any trade with the occupied territories of Crimea and Donetsk/Luhansk region was introduced after massive campaigns organized by civil society organizations.

### **An account of the economic fight outcomes**

The outcomes of the Russia-Ukraine EW could be presented as (i) economic losses of the involved parties, (ii) adjustment strategies applied by economic agents, (iii) a new configuration of economic relations.

As shown above, Ukraine experienced massive economic losses due to the hybrid war carried out by the Russian Federation; EW accounts for a significant fraction of these losses. The aggressive economic actions from Russia’s side did not remain unanswered. However, there is the problem of much higher importance of trade with Russia to Ukraine, than of trade with Ukraine to Russia, as well as structural differences in trade which made response to the hostile economic actions less effective. So in most cases within a narrow context of Russia-Ukraine economic controversy Ukraine suffered absolutely and relatively higher losses than Russia.

A. Åslund divides these losses into four categories (forfeiture of economic assets on the occupied territories, destruction of the capital assets due to the war actions, capture of cash flows, and diminishing of real FDI inflow); according to his calculations, Ukrainian value loss (in case the territories would be gone forever) amounts up to \$100 billion<sup>39</sup> excluding sacrifice of possible economic gains steaming from impossibility of economic use of natural and financial resources located in these territories. On the other hand, with the territories gone for some time Ukraine got rid of some significant payments towards these territories (pensions, budget support of local authorities, subsidies to the loss-

<sup>38</sup> S. Kulits'kiy, *Yekonomichniaspekti ninishn'ogo ukrains'ko-rosiys'kogo protistoyannya (pochatok)*, “Ukraïna: podii, fakti, komentari” 2014, No. 19, p. 42.

<sup>39</sup> A. Åslund, *Kremlin Aggression in Ukraine: the Price Tag*, Atlantic Council March 2018, <[http://www.atlanticcouncil.org/images/publications/Cost\\_of\\_Kremlin\\_Aggression\\_web.pdf](http://www.atlanticcouncil.org/images/publications/Cost_of_Kremlin_Aggression_web.pdf)> (17.01.2018).



making coal mining industry and benefits to the miners *etc.*), which of course do not offset country's direct and indirect economic losses.

As concerns Russia, its main economic loss is associated with the economic sanctions applied by the USA, EU and other countries of the world because of the Russian aggression against Ukraine. Efficiency of these sanctions is questioned by the Russian officials who continually claim that "these sanctions make the Russian economy stronger", which does not ring true even from the perspective of textbook microeconomics.

Because of sanctions, Russia became toxic as an economic partner and experiences a significant outflow of foreign investments; dismantling of cooperation in the R&D sphere diminishes its chances for development in the future. A raw estimate of actual losses due to these sanctions done by the non-governmental Russian experts differs greatly. According to Grigorii Yavlinsky, Russia is losing annually about three trillion ruble (\$50 billion)<sup>40</sup>. Some other experts (Yevsei Gurvich and Illya Prilepski) give more striking amounts: in 2014-2017, due to the financial sanctions and the oil price plunge, Russia was to lose about \$600 billion (loss from financial sanctions would amount to \$170 billion); the capital flight during this period would amount to \$280 billion, three fourths of that would be the result of sanctions<sup>41</sup>. These losses are not critical, but significant, and in the long run could become fatal for the county's economic progress.

To these amounts one should add direct annual outlays on the maintenance of the occupied territories – about two billion USD for Crimea and approximately the same amount for occupied parts of Ukraine in the East (Donbas), maintenance of the handicapped infrastructure in Crimea, the new investment projects caused by necessity (like building new electricity capacities in Crimea and drilling for fresh water) or political ambitions (the Crimea bridge). In order to increase the economic and fiscal burden of occupation for Russia, the Ukrainian government banned any economic relations with the occupied territories.

As concerns the adjustment strategy, Ukraine has chosen a way of diminishing vulnerability of its economy caused by its tight connection to the Russian markets. Due to sanctions, embargoes and other policy actions a radical

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<sup>40</sup> Yavlinskiy *podschital poteri rossiyskoy ekonomiki ot-sanktsiy*, 18.05.2018, <<http://expert.ru/2018/02/8/yavlinskiy-podschital-poteri-rossijskoj-ekonomiki-ot-sanktsij/>> (20.05.2018).

<sup>41</sup> L. Shevtsova, *The Sanctions on Russia: How Hard Do They Bite?* <<https://www.the-american-interest.com/2016/04/04/the-sanctions-on-russia-how-hard-do-they-bite/>> (20.05.2018).

change in the structure of the Russia-Ukraine trade relations has been observed: Ukrainian goods have been exported more and more to other than Russian markets, especially to Europe. Ukraine completely stopped using Russian natural gas, holds negotiations concerning supply of liquefied gas from the Near East (first of all from Qatar) and takes measures to minimize Russia's supply of fissible fuel for the nuclear power stations (until 2012, a Russian share in supply of fissible fuel was 95 per cent, but since 2017 only 50 per cent).

As data in Table 1 demonstrate, since 2012, there occurred a sharp change in Ukrainian trade with Russia: the volume of Ukrainian export to Russia had diminished by 3.6 times, import from Russia by 5 times; in result, Russia's share in Ukrainian export changed from 25.63 to 9.1 per cent, in import from 31.56 to 14.56 per cent.

Table 1. Ukrainian trade with Russia, 2012-2017

Years	\$1,000s		Share of Russia in Ukrainian foreign trade, per cent	
	Export	Import	Export	Import
2012	26,257,732	17,615,322	25.63	31.56
2013	15,048,961	23,418,942	23.78	30.47
2014	9,813,478	11,228,396	18.16	21.37
2015	6,323,782	4,826,317	12.64	17.29
2016	5,150,366	3,592,967	9.88	13.25
2017	7,209,149	3,936,579	9.10	14.56

Source: *Statistical Service of Ukraine*.

This shows that Ukraine has achieved significant progress in untying the *Gordian knot* of seemingly eternal bonding with the economy of its opponent. This data, disregarding some fluctuations (like in 2017, when an increase in the mutual trade was observed that gave reason to some observers to state that this fact is “underscoring a complicated spider’s web of geopolitical and economic interests that still bind the two erstwhile Soviet allies”<sup>42</sup>), demonstrate that Ukrainian goods that are rejected by Russia now are being supplied to the bigger and less risky European and Asian markets. The Russian markets have been

<sup>42</sup> N. Peterson, ‘A Step Backward’: *As the War Worsens, Trade Between Russia and Ukraine Increases*, “The Daily Signal”, 22.01.2018, <<http://dailysignal.com/2018/01/22/-step-backward-war-worsens-trade-russia-ukraine-increases/>> (05.02.2018).

substituted mostly for European ones whose share in Ukrainian foreign trade exceeded 40 per cent by 2018. This is especially true for the Ukrainian agricultural export, which expanded despite a complete closing of the Russian markets.

Ukraine still has significant economic bonds with Russia; however, they became looser with time. A drastic drop in bilateral export and import that occurred 2013-2017 means that the forecasts made by some experts concerning impossibility to overcome Ukraine's economic dependency from Russia<sup>43</sup> did not come true; it looks like Russia will soon become an insignificant trade partner instead of number one in 2012. Disregarding current harsh times, the Ukrainian economy has potential to adjust to a new situation because its government has pursued a strategy of reorientation of economic relations with developed markets. As P. Furgacz put it, after some time the situation will change and Russia would achieve much bigger losses because of EW than Ukraine<sup>44</sup>.

There occurred also a significant change in the inter-country labor migration. Traditionally, since the Soviet times, Ukrainian labor force was employed in many Russian industries: the one most important was oil and gas extraction. Data for 2010-2012 counted 1.5 million official labor migrants with 45 per cent of those working in Russia<sup>45</sup>, but after Russian aggressive acts it has diminished greatly: in 2017, according to data of the Ukrainian Statistical Service, only 26 per cent out of total 1.3 million official labor migrants moved to Russia, but instead 39 per cent to Poland<sup>46</sup>.

Despite all the losses stemming from a conscious choice of cutting economic bonds with Russia, Ukraine stands to gain much more in the future, like technological advancement of production, its higher quality, the civilized and non-politicized trade relations, inflow of foreign investments with advanced technologies. But in order to achieve all this, there should be furthered a consequent policy of cutting down relations with Russia. Ukraine has also no other

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<sup>43</sup> E.g. as mentioned in 2015: "Even despite the re-orientation of the Ukrainian economy, it's difficult to imagine that Russia will not remain an important cornerstone of the country's international trade" – Ch. Dunnet, *Why The Economies Of Ukraine and Russia Are Nearly Inseparable: Ukrainian-Russian Business Ties, Explained*, 17.03.2015, <<https://medium.com/@Hromadske/why-economies-of-ukraine-and-russia-are-almost-inseparable-783834461dd5>> (05.02.2018).

<sup>44</sup> P. Furgacz, *op. cit.*, s. 125.

<sup>45</sup> G. Vakhitova, T. Coupe, *The Relation Between Education and Migration in Ukraine*, Budapest 2013.

<sup>46</sup> *Zovnishnya trudova migratsiya (za rezul'tatami modul'nogo vibirkovogo obszhennya)*, *Stat. byuleten' Derzhavnoi sluzhbi statistiki*, Kiev 2017.

way but to adjust its economy to the new reality – without cheap oil and gas and preservation of the obsolete technologies – striving for the high quality of products and efficient economic institutions. The radical reforms in all the spheres of society including economy became a topical agenda.

As concerns re-configuration of economic relations, Ukraine drives to complete breakdown of the existing structure and mechanisms of external economic relations. This conclusion follows from the fact that in March 2018 Ukraine scuttled the Agreement on Programme of economic cooperation with the Russian Federation for 2011-2020<sup>47</sup> that held a coordinated vision of Ukraine and Russia onto prospects of the long-run mutually beneficial economic cooperation. It means that Ukraine has no more interest in cooperation with Russia in various spheres of economy (like energy production, aviation, space industry, agriculture and so on, which were prioritized in the Agreement<sup>48</sup>) and will look for more reliable partners which do not further political interests through economic relations. Another event that signalizes a radical turn in Ukrainian policy is stopping all activities within the Commonwealth of Independent States since May 2018.

Some Russian experts do not want to admit that Ukraine will be in the position to adjust to the European technical standards and will be obliged to lift the existing economic sanctions and open its markets for Russian goods under pressure of approaching economic collapse, returning to *status quo* of the pre-revolution time<sup>49</sup>. However, all the above-mentioned shows that Ukraine is moving fast away to the point of no return in its economic relations with Russia. That is why it seems irrelevant “to plan the depth of economic restrictions concerning Russian Federation with regard to grade of its aggression”<sup>50</sup> as some experts put it; Ukraine needs a strategy of reducing to a possible (economically rational) minimum the bilateral economic relations regardless of how Russia behaves within a specific period of time. This is since Russian aggressive strategy is based on an assumption that Ukraine is a historic misconception and economic ties, in line with the military tools, must be used in order to bring it to its place as a part of the so-called ‘Russian world’. And this ideological

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<sup>47</sup> *Pro pripinennya dii Programi yekonomichnogo spivrobitnitstva Ukraïni i Rosiys'koi Federatsii na 2011—2020 roki, Postanova KMU vid 21 bereznya 2018 r. No. 191*, <<https://www.kmu.gov.ua/ua/npas/pro-pripinennya-diyi-progr>> (12.04.2018).

<sup>48</sup> It should be acknowledged that most of the provisions of this Programme did not work because of self-interested policy of the Russian government.

<sup>49</sup> L. Gusev, *The Economic Relations Between Ukraine and Russia at the Present Stage*, „Ante Portas – Studia nad Bezpieczeństwem” 2015, nr 2(5), s. 134.

<sup>50</sup> Ya. B. Bazilyuk, *Zabezpechennya yekonomichnoi bezpeki Ukraïni v umovakh gibridnoi viyni*, “Strategichni prioriteti” 2015, No. 3 (36), p. 52.

concept leaves no place for Ukrainian nation and statehood as such, so there is no sense waiting until the Russian government adopted a more friendly strategy and to consider Ukraine as a respected and independent economic partner. That is why we fully support a forecast made by the experts of the Ukrainian Razumkov Centre that Ukraine as an independent state has no other choice but confronting coexistence with Russia that means permanent EW, drifting away and diminishing the volume of mutual economic relations.<sup>51</sup>

As a bottom line for the aftermath of the Russia-Ukraine economic confrontation, we would like to cite one of the conclusions of Western experts: “By all appearances, the Ukrainian and Russian economies seem certain to keep drifting apart in the years ahead. Free of its own historical dependence on Russia, Ukraine will look to other markets, especially Europe, for new export destinations and energy supplies.”<sup>52</sup>

*Table 2. Growth rate of the Ukrainian economy 2014-2018, per cent*

	2014	2015	2016	2017	2018 (estimate)
Real GDP	-6.8	-9.9	2.3	1.7	3.0
Import	-28.1	-29.3	4.6	17.5	5.0
Export	-19.9	-27.7	-3.9	17.4	5.2

Source: *Mizhnarodniy tsentr perspektivnikh doslidzhen'* (2018).

With regard to such developments it would be interesting to assess prospects of the Ukrainian economy in the nearest future. Actually, in 2016 we could observe some recovery – real GDP growth – that will be enhanced through 2018 and following years (see Table 2). The IMF forecast for Ukraine supports this assumption: 3.2 per cent of GDP growth for 2018 and 3.3 for 2019<sup>53</sup>. From this data we could conclude that the Ukrainian economy is on the mend, no matter the compromised economic relations with Russia, but its

<sup>51</sup> *Rozriv mizh Ukraïnouy IROSICYU til'ki pogliblyuvatimet'sya – prognoz Tsentru Razumkova*, <<https://www.ukrinform.ua/rubric-polytics/2195330-rozriv-miz-ukrainou-i-rosieiu-tilki-pogliblyuvatimetsa-prognoz-centru-razumkova.html>> (20.02.2018).

<sup>52</sup> *The Economic Ramification of Conflict in Ukraine*, “Stratfor Worldview”, 20.04.2017, <<https://worldview.stratfor.com/article/economic-ramifications-conflict-ukraine>> (15.03.2018).

<sup>53</sup> *IMF reviews downwards Ukraine's GDP growth forecast for 2019*, 17.04.2018, <<https://en.interfax.com.ua/news/economic/499566.html>> (2.06.2018).

growth rate is still far below what is needed to compensate for the sharp downfall of 2014-2015 caused by Russian aggression.

## Conclusions

Since 2012, Ukraine has struggled to hold fast as an independent state in its military, political and economic combat with a much stronger opponent – Russia. As Ukraine has no intention to give up its independence, this situation has become a permanent one. The economic controversies between two nations evolved into the permanent and total economic war. The best way to win an EW for Ukraine is to minimize the volume of its economic relations with Russia and the adversary's presence in economy, as well as launching radical reforms in all spheres, economy first of all.

Due to the huge difference in size and structure of economy, Ukraine could collapse in this situation without support from the civilized world. Being outraged by Russia's breaking the world order with its aggressive actions against Ukraine, the most significant countries of the world introduced economic and other sanctions against Russia which hampered its tries to undermine the Ukrainian economy or to capture other territories.

Russia has not achieved any of its goals within EW. In fact, the results of current economic warfare are opposite to the expected ones.

First of all, Ukraine made no political concessions as concerns its independence and statehood. In political sense, Ukraine is now far away from Russia in comparison to 2013. The nation is advancing on the path of economic integration with the EU rejecting all forms of previously existing economic cooperation with Russia and its satellites (like Customs Union, CIS *etc.*).

Secondly, Russian direct and indirect actions against the Ukrainian economy did not succeed in destroying it. Of course, they had a significant negative effect, but the Ukrainian economy shows the signs of recovery and demonstrates accelerating growth that is connected with advancements in technology and quality of goods. The 'eternal' bonds with Russian economy seem to weaken with a trend to make Russia an insignificant trade partner of Ukraine.

Russia also did not succeed in ousting Ukraine from the global markets. Being pushed out the Russian markets, Ukrainian goods nowadays are successfully traded in EU and Asia markets.

The recent experience of Russian EWs with the bordering post-Soviet countries which sought to break the long-lasting economic ties with Russia (the Baltic states, Moldova, Georgia) demonstrates that the course chosen by Ukraine could be a success.

As there are no chances for reconciliation, Ukraine needs to constantly apply subsequent measures in different spheres which could deplete Russian economy and made more problematic the active EW from the Russian side.

To these measures belong first of all financial sanctions according to judgments of Ukrainian and international courts. Ukrainian government must act pro-actively in its financial claims against Russia for capturing/destroying economic assets and cash flows as well as stay pressive concerning a confiscation of Russian public assets in Ukraine and globally according to its legal claims. There are also some non-finalized but unforgotten issues that could be put on the agenda. E.g. it could be a case with \$80 billion of the USSR Sberbank assets in Ukraine as well as other Soviet assets abroad which were gone in 1991 as Russia declared itself the legal successor of USSR; Ukraine did not agree, but at that time lacked political will and power to insist on full compensation.

The only mainstay of survival and triumph in an economic war with a much stronger opponent is a consequent policy of economic reforms to raise the nation's economic capacity and to encourage Ukrainian people to work more efficiently.

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