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# Between Dependence and Integration: Ukraine's Relations With Russia

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*Abstract*

Ukraine's policy towards Russia since independence in 1991 has been characterised by a predicament: how to preserve its statehood in the context of its heavy economic dependence on Russia, which was intent on Ukraine's participation in Russian-led integration projects. In this essay we argue that only by understanding the complexities and seeming contradictions in Ukraine's positioning *vis-à-vis* Russia can a full understanding of Ukraine's commitment to Russia's integration projects be attained. This essay systematically examines Ukraine's responses to Russia's initiatives and illuminates the strategy of the Ukrainian elites to extract economic benefits while minimising commitments.

THE SO-CALLED 'UKRAINE CRISIS' BROUGHT INTO SHARP FOCUS the relationship between Ukraine and Russia. Despite, or rather because of, their historical closeness, relations between the two states have been intermittently acrimonious ever since the collapse of the Soviet Union. The relations were extensively studied during a 'golden era' of academic research on Ukraine's foreign policy in the 1990s and early 2000s, when scholars explored fast moving and intricate developments as Russia and Ukraine sought a *modus vivendi* (Lester 1994; Sherr 1996; Garnett 1997; Kuzio 1998; D'Anieri 1999; Moroney *et al.* 2002; Wolczuk 2003). Interest waned by the mid-2000s, with Ukraine's foreign policy only coming back into focus with the eruption of the Ukraine–Russia crisis in late 2013.

The trigger of the crisis was the Ukrainian leadership's decision to postpone the signing of the free trade agreement with the EU and its acceptance of Russia's economic assistance. Thus, a full account of the causes of the crisis can only be provided by gaining an understanding of Ukrainian domestic politics as well as Ukraine's relations with the EU and Russia, along with the nature of Ukraine's international commitments with regard to these two actors. Too often, however, scholars have opted for a broad geopolitical explanation focussing on Russia's rivalry with the West. For example, for Sakwa:

> Washington … impeded the formation of some substantive Ukrainian–Russian alliance, which would have created a powerful market of some 200 million people and harnessed the dynamism of the two countries to purposes that may not always have served the interests of the Atlantic Alliance. (Sakwa 2014, p. 247)

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In a variation of this, the EU has also been allocated blame for triggering the crisis. The EU–Ukraine free trade agreement is often seen as disruptive as it failed to take into account pre-existing economic ties, regional interdependencies and Ukraine's integration commitments *vis-à-vis* Russia—or, put simply, Russia's interests (Steinmeier 2013; Mearsheimer 2014; Braithwaite 2015; Tsygankov 2015). Such assertions are commonly based on Ukraine's 'pre-existing commitments' in relation to Russia, which the EU purportedly disrupted. However, as this essay argues, this contention is not supported by Ukraine's actual integration commitments, which are of particular interest in the light of Russia's integration agenda. This requires a suitable conceptual apparatus, going beyond the now-dated concept of 'multi-vector policy' (Kuzio 2005; Moshes 2006; Gnedina 2015). Given that Ukraine was confronted with a choice of economic integration with two different actors, namely the EU and Russia, the very nature of those 'integration offers' and Ukraine's engagement with them requires a more nuanced set of analytical tools. A full understanding of Ukraine's integration behaviour *vis-à-vis* Russia can only emerge from delving more deeply into the 'technocratic', legal nuances of their relations, which tended not to make headlines and, yet, which fundamentally contributed to the crisis of late 2013. This essay will explain Ukraine–Russia relations by focussing on why and how Ukraine reacted to, and engaged with, Russia-led projects for regional integration. To understand the why, we draw on Hirschman's seminal work (1980), according to which, first, an asymmetric economic relationship between two states (such as Russia and Ukraine) has political consequences, and second, economic relations influence the way in which governments define their interests, which in turn impacts on the foreign policy of the smaller state (in this case Ukraine). This latter aspect of Hirschman's work, which is much less appreciated, is of particular salience for Ukraine. In the highly asymmetric context with Russia, the Ukrainian incumbent elites defined national interests in terms of the benefits which accrued to them from perpetuating trade and energy dependence on Russia and only offered concessions to Russia in order to avoid the distress caused by the withdrawal of economic benefits.

This essay posits that only by understanding the complexities and seeming contradictions in Ukraine's positioning *vis-à-vis* Russia can a full understanding of Ukraine's commitment to Russia's integration projects be attained. In elaborating the how, we focus on three key episodes in Ukraine–Russia relations in the post-Soviet period. The first period relates to the economic integration projects within the framework of the Commonwealth of Independent States (CIS) in the mid-1990s. The second deals with the first half of the 2000s, during which two integration projects were launched by Russia (the Eurasian Economic Community in 2000 and the Common Economic Space in 2003). The third covers the period 2010–2013 and explores how Ukraine under President Yanukovych engaged with Russia's new Eurasian project launched in 2010. In each section, the discussion centres on the nature of Russia's offer and its exploitation of dependence on the one hand, and how Ukraine's elites engaged, while balancing dependence, sovereignty and commitment, on the other. In this context, relations with the EU will be touched on in order to highlight the extent to which Ukraine sought to engage with Brussels in order to resist Russia's demands.

Our analysis reveals that up to 2014 Ukraine was heavily dependent on Russia, with little done to reduce dependence. Russia exploited this economic dependence in pursuit of its own integration objectives in the post-Soviet space. This resulted in the Ukrainian leadership acting very cautiously when it came to entering into commitments with Russia. Our analysis reveals four key features. First, Ukraine's commitment to integration was highly functional and instrumental, with little interest in pursuing comprehensive and open-ended integration above and beyond seeking specific economic solutions to problems at hand (for example, achieving free trade). Second, driven by the need to balance dependence and sovereignty sensitivities, the Ukrainian elites avoided any open-ended, comprehensive, legally binding commitment to pursue 'deeper' forms of economic integration (such as economic unions). Third, the pattern of commitment was consistent for two decades, peaking at times of economic difficulties and/or elections in Ukraine, when the political survival of the ruling elites was at stake. Finally, negotiations with Russia were conducted at the highest political level in a non-transparent, *ad hoc* and largely opportunistic engagement, invariably influenced by Russia's evolving integration plans and the Ukrainian elites' short-term political and economic objectives.

### *Conceptualising Ukraine's relations with Russia*

The concepts and insights developed by Hirschman (1980) provide a useful starting point for conceptualising Ukraine's relations with Russia. From the very first days of its independence in 1991, these relations were dominated by a predicament: how to consolidate its independence in the context of an extensive economic dependence on Russia, which regarded Ukraine's independence as an aberration (Lester 1994; Kozakiewicz 1999; Bukkvoll 2001). On the one hand, upholding Ukraine's sovereignty was a key concern for Ukraine's elites, given that it was precarious and challenged (Wolczuk 2003, p. 28). On the other hand, Ukraine's economic interdependence with Russia was exceptionally high. Not only did many of its key industrial outputs emerge from cross-border production processes, but its manufacturing, which was highly energy intensive, was powered almost exclusively by Russian gas. At the same time, while Russia was heavily dependent on Ukraine's gas pipelines to transport hydrocarbons to customers further west, as a smaller, energy-poor state Ukraine's dependence was far greater on Russia with regard to trade and energy than *vice versa* (D'Anieri 1999; Balmaceda 2013).

As Hirschman (1980) has argued, such strong economic dependence has critical political implications. In the first place, for bigger states trade becomes an instrument of national power. Foreign trade not only enhances the potential military power of a country (the supply effect) but also may become a direct source of power in itself (the influence effect) of the larger country (country A) over its smaller partners. The influence effect derives from the fact that:

> the trade conducted between country A, on the one hand, and countries B, C, D, etc. on the other, is worth something to B, C, D etc. and that they would therefore consent to grant A certain advantages—military, political, economic—in order to retain the possibility of trading with A. (Hirschman 1980, pp. 14–5)

Exhibiting the trade asymmetry associated with 'the Hirschman effect', in 2011 Russia accounted for nearly 28% of Ukraine's trade, whereas Ukraine accounted for less than 5% of Russia's trade. Ukraine relied on energy supplies from Russia and, with its hugely inefficient energy use and energy-intensive industries, was one of the largest consumers of Russian gas in the world. Despite being an energy-poor state, Ukraine behaved like an energy-rich state and heavily subsidised gas prices for residential users, meaning that low gas prices were of the utmost importance for the Ukrainian economy and state budget (Balmaceda 2013). Such asymmetry gives the larger country coercive power over the smaller, because 'an interruption of the relationship would cause much greater distress in B than in A' (Abdelal & Kirshner 1999, p. 120). Furthermore, the economic dependence of Ukraine on Russia was exacerbated by Ukraine's unreformed economy and outdated technological capacity (especially with regard to more value-added goods, such as machinery), which made it difficult for Ukraine to capture other markets, including the EU's (Gnedina & Sleptsova 2012).

Hirschman's work helps explain how asymmetric economic relations result in larger states accruing political benefits: they can use economic means to advance their political goals *vis-à-vis* smaller states, something which 'makes the pursuit of power a relatively easy task' (Hirschman 1980, p. vi). Indeed, the history of post-Soviet regional economic integration provides abundant evidence of Russia's linkage of market access with energy supply, labour migration, provision of finance or other issues outside the scope of the integration projects. Notably, the provision of benefits to smaller countries have also depended on them agreeing to station military bases or cede control over strategic assets, such as energy transportation infrastructure (Gould-Davies 2016). In line with Keohane and Nye, we refer to this propensity as the linkage strategy (2000, pp. 25–6). We also note that Russia's linkage strategy with regard to Ukraine increased under President Putin. Russia's foreign policy, both in the near abroad and globally, was aimed at reclaiming its 'great power' status in the international arena (Lo 2015). Ukraine's participation in the Russia-led economic bloc formed an integral part of this plan (Dragneva & Wolczuk 2013, 2015a), reflecting Ukraine's pivotal geopolitical location (Kapusniak 2008, pp. 41–8).

The second powerful insight (less appreciated, but more significant in the case of Ukraine) provided by Hirschman relates to the way that economic dependence shapes domestic developments in the smaller state (country B). Dependence resulting from asymmetries in economic relationships shapes the preferences of smaller states: their very notion of 'national interest' is defined by economic dependence. Therefore, the difficulty for country B of dispensing with trade relations with A depends on several factors, the most salient being the strength of the vested interests which A has created by its trade with B (Hirschman 1980, p. 28). The smaller state's interests converge toward those of the dominant state, thanks to the incentives offered by the latter. As a result, economic dependence can have a profound and lasting effect: 'the pattern of economic relations, especially during periods of political transition when national interests are most malleable, will have a formative influence on their trajectories' (Abdelal & Kirshner 1999, p. 122).

In order to fully understand Ukraine's relations with Russia, we argue that it is pivotal to understand the key role and interests of Ukraine's political and economic elites. Many other studies of Ukraine attribute domestic and foreign policy outcomes to narrow elite preferences (Puglisi 2003, 2008; Bukkvoll 2004; Gnedina & Sleptsova 2012; Shumylo-Tapiola 2012). As in other post-Soviet states, the presidency, which was the locus of power in post-Soviet Ukraine (Wolczuk 2002), was the key institution for representing the interests of oligarchs—the powerful business tycoons who emerged in Ukraine in the 1990s. The Ukrainian presidents managed relations with Russia with a view to securing the economic benefits specifically sought by the oligarchs (such as access to the Russian market and lower energy prices for Ukraine's energy-intensive industries), who in return facilitated the political survival of the successive presidents.

As Åslund argues, for most of its independent existence, Ukraine's distorted economy was defined by a partial reform equilibrium, whereby the winners of early reform sought to preserve its features and block further modernisation, continuing to generate significant gains while imposing high costs on the population as a whole (Åslund 2009). The elites' management of dependence was critical in maintaining this equilibrium: market access and cheap energy resources, in particular, served to reduce the pressure for domestic reforms. Trade, and especially energy imports, from Russia were crucially important not only for the national economy but also served as a source of rents for the incumbent elites (Åslund 2009; Balmaceda 2013). The way the elites managed economic dependence on Russia was, in effect, a reform substitution strategy. While the Ukrainian elites lacked the incentives and capacity to embark on comprehensive and sustainable reforms, economic dependence on Russia became a proxy for reform.

At the same time, the lack of domestic reforms made Ukraine vulnerable to any deterioration of economic relations with Russia (Toritsyn & Miller 2002). In essence, the country's economic performance, and hence the elites' political survival, came to depend on the economic partnership with Russia. This also gives important insights as to why, up until 2014, Ukrainian elites took very limited steps to reduce the trade and energy dependence on Russia, despite distrusting Russia's intentions. In such a context domestic weakness increased the vulnerability to external demands. As noted by Sherr:

> the weaker Ukraine internally, the stronger the Russian factor—in internal affairs as well as international relations. For this reason, internal incapacity and external dependence have operated like the blades of a scissor, opening or closing in tandem. (Sherr 2006, p. 11)

This cycle repeated itself over the first two decades of Ukraine's independence. The approach served the interests of the Ukrainian elites relatively well, until President Yanukovych was confronted with its fateful consequences in late 2013.

Thus, Hirschman's framework helps to understand the influence that the larger state exerts over the smaller state and why a smaller dependent country is disinclined to rupture economic ties. Russia sought to use this dependence to entice Ukraine to join the Russia-led integration bloc. Therefore it is highly pertinent to explore how the smaller, dependent country reacts to the far-reaching political demands of the larger state. Admittedly, this is not a simple task—understanding the notion of integration commitments requires a venture into the specialised yet complex world of international law and its growing overlap with international relations and comparative studies of regional trade structures (Raustiala 2005; Duina & Morano-Foadi 2011). It is certainly known that there are different forms and stages on a continuum from economic cooperation to integration, involving different degrees of harmonisation of economic activity (from agreements on trade tariffs to ones dealing with complex regulatory issues such as, for example, phyto-sanitary control). It is less understood, however, that countries engage through different types of international commitments: not just bilateral or multilateral, but also commitments of a different kind of scope, precision and degree to which they bind signatory states. As a rule, free trade agreements entail a lower type of commitment than customs union and economic unions, but these forms/stages are often mixed and/or 'packaged' in various ways in legal agreements.

Given that economic integration choices and commitments are at the heart of the Ukrainian crisis, this suggests a fruitful avenue for exploration. The crisis of late 2013 can only be explained by focussing on the 'technocratic', legal nuances of Ukraine–Russia relations. With their unmistakable geopolitical underpinnings, international treaties are a key structural element of international relations (Chayes & Chayes 1993). Furthermore, as we argue in this essay, regardless of the reservations one may hold about the formality or limited relevance of legal commitments in the post-Soviet world, they provide a remarkably clear picture of Ukraine's preferences in response to Russia's objectives. Therefore, in the next empirical section we scrutinise Ukraine's integration behaviour since independence.

## *Ukraine's integration behaviour* vis-à-vis *Russia (1992–2014)*

### *Reintegration within the CIS (1993–1995)*

This first period focusses on the aftermath of the disintegration of the USSR, characterised by the pre-occupation with the search for a new legal framework for interactions between the former Soviet republics and Russia's first modest attempts at reintegration.

Initially, Russia proposed a new type of Union based around the Ukraine–Russia tandem, but Ukraine only agreed to the loose format of the CIS (Walker 2003) albeit very reluctantly. Ukraine clearly tried to balance its newly won sovereignty and independence with preserving economic ties with Russia in order to ensure its economic viability as a new state. Ukraine was a recalcitrant participant at best, only agreeing to engage with the CIS framework insofar as it did not threaten its sovereignty (Wolczuk 2003, 2007). For example, Kyiv refused to participate in the CIS Inter-Parliamentary Assembly agreed upon in March 1992 or in the Economic Court of the CIS set up a few months later; it also withdrew from signing the Charter of the CIS in January 1993. The Charter defined the notion of 'membership'; so declining to sign it sent a strong message regarding the limits of Ukraine's participation in the CIS (Wolczuk 2003).

Wary of contributing to the emergence of a strong CIS, the Ukrainian authorities prioritised bilateral relations with Russia. In June 1993 a bilateral free trade agreement was signed. This was a basic agreement to move relations from the system of planned deliveries to market principles and halt the decline in bilateral trade. Yet it was also a weak and patchy one, providing for limited trade liberalisation, (for example, exemptions to trade were defined in annual bilateral protocols) and containing no disciplines for breaches of its provisions (Dragneva & de Kort 2007). Ironically, given the weakness of the multilateral CIS framework in constraining Russia's hegemonic position in the 'near abroad', Ukraine was left more vulnerable to Russia's superior bargaining power in a bilateral context, as predicted by Hirschman.

### *The CIS Economic Union of 1993*

While at first Russia's agenda for the CIS was modest, by 1993 President Yel'tsin sought to bolster Russia's position as a centripetal force for post-Soviet reintegration, developing plans for setting up a CIS economic union. A framework treaty was promptly signed in September 1993, to be followed by specific implementation agreements. The project envisaged EU-like economic integration, progressing from a free trade area to 'deep' economic integration, and sought to strengthen the institutional structure of the CIS. A dedicated regulatory body, the Inter-State Economic Commission, was planned, which entailed some supranational delegation (Dragneva & Wolczuk 2015a). However, Ukraine's room for manoeuvre was limited: while President Kravchuk of Ukraine favoured a pro-Western orientation, the Ukrainian elites lacked the single-mindedness and sound domestic policies to achieve this reorientation. With the country engulfed in a deepening economic crisis and rising popular discontent, including a miners' strike in Eastern Ukraine in 1993, improving relations with Russia acquired political urgency.

Facing domestic upheaval, Kravchuk committed to the CIS Economic Union by signing the joint declaration in May 1993 and participated in drafting its framework treaty. In the end, however, he agreed only on associated membership. The terms of this association were only clarified in April 1994, when a special agreement was signed with the Economic Union's founding members. Yet ironically this agreement never came into force as it was not ratified by most of the CIS countries, including Ukraine. As a result, Ukraine stayed out of what was viewed as a potentially open-ended commitment with some loss of sovereignty, preferring instead to sign selectively the specific implementing agreements within the Economic Union package (Dragneva & Dimitrova 2007). Concluding narrow, functional agreements to secure free trade in the post-Soviet space became a long-standing preference of Ukraine.

*The CIS Customs Union of 1995*

The CIS framework—involving 12 post-Soviet states with very different expectations—was, however, unwieldy and ultimately too costly for Russia. As a more feasible alternative, Moscow shifted its focus to a smaller and more committed group of states which could spearhead integration. To this end, Russia signed an agreement on a customs union with Belarus and Kazakhstan in January 1995, later joined by Kyrgyzstan and Tajikistan. Ukraine's participation in this project was perceived as crucial if it was to be a meaningful international body. Therefore, in addition to political persuasion, the Russian leadership used clear economic pressure to persuade the Ukrainian leaders to accede. Russia imposed excise duties on oil and gas imports, which were to remain in place until Ukraine joined the Customs Union, thus raising the cost of staying outside (Balmaceda 1998). This marked the Kremlin's emerging propensity to link energy and trade with achieving its aims in Ukraine, as predicted by Hirschman's influence affect, whereby economic dependence allows the larger state to pursue its own political objectives *vis-à-vis* the smaller, dependent state.

In 1994 President Kuchma came to power on a pro-Russian platform and decried the Ukrainian nationalism which ignored economic realities (Wolczuk 1997). However, while Kuchma persisted with a selective approach to agreements with Russia, during his two terms (1994–2004), he also perfected Ukraine's integration 'game' with Russia, aimed at maximising the benefits and minimising the commitments. Like his predecessor, Kuchma engaged in a dialogue on the CIS customs union, only to eschew participation in the new initiative. In line with the preferences of Kuchma's political and economic backers, namely regional elites in eastern and southern Ukraine (Bukkvoll 2004), Ukraine was concerned about achieving free trade with Russia/CIS but no more than that. The leadership was unclear if free trade would result from the new initiative, as the process was found to be driven by a top-down and hasty dynamic rather than attention to economic detail (Brzezinski & Sullivan 1997, p. 280), and Kuchma pulled back. Interested in the specified economic benefits and suspicious of the credibility of Russia's new promises, the President asked for the full implementation of the commitments already undertaken, such as the 1993 bilateral free trade agreement, before engaging in further integration steps.

However, the economic cost of staying outside was growing for Ukraine. In the late 1990s a build-up of protectionist measures led to trade wars between Ukraine and Russia. Ukraine complained about Russia's discriminatory and protectionist trade policy, the unpredictability of restrictions imposed and the manipulation of physical barriers, such as customs procedures, which were introduced on the demands of various Russian lobbies.[1] An attempt was made to resolve these accumulated problems in the context of a renewed attempt for a CIS-wide free trade agreement in April 1999, which Ukraine joined.[2] Ukraine's expectations were dashed as Russia refused to ratify it, as it did in the case of its 1994 predecessor. Instead, Russia preferred to deal with trade issues on a case-by-case basis in bilateral relations, something which provided the opportunity to link any trade-related concession to its own objectives. However, during the first ten years of Ukrainian independence Russia still lacked a coordinated political strategy *vis-à-vis* Ukraine (Bukkvoll 2001). This would change with the coming to power of Vladimir Putin, who would engage in issue-linkage in a more explicit and determined way.

Between 1993 and 1995, Ukraine's integration behaviour followed a very clear pattern: standing aside from Russia's open-ended, comprehensive integration projects but engaging in minimalist and flexible frameworks through bilateral and narrow-scope multilateral free trade agreements (mainly FTAs). However, Ukraine failed to achieve free trade because Russia was only ready to grant it as a stepping stone towards 'deeper' integration.

### *Seeking a* modus operandi *during Putin's first presidency (2000–2004)*

Putin's first presidential term in 2000 led to a major upgrade of Russia's strategy towards Ukraine, backed by an enhanced capacity to implement it. In a clear demonstration of Hirschman's theory, the economic costs of supporting the states in the 'near abroad' became directly linked to the realisation of Russian foreign policy objectives. After the half-hearted and unsuccessful attempts to attract Ukraine in the 1990s, the new Russian leadership switched to a more 'pragmatic' approach by adopting explicit economic conditionality, namely stressing the economic benefits of integration bestowed onto the states willing to engage in 'deeper' integration. This way, multiple dependencies such as energy, trade, credits and labour migration became instruments for the reintegration of the post-Soviet space.

Russia's interest in integration intensified at a time when the Ukrainian authorities' domestic and external standing was at a low, making the Ukrainian leadership more reliant on Russia's support than in the 1990s. President Kuchma was facing a crisis at home in the aftermath of the Gongadze scandal of 2000–2001, when he was implicated in the murder of an opposition journalist. His standing was further compromised by the Kolchuga affair (in which he was implicated in the selling of radar systems to Iraq, thereby breaching the international embargo which was in place). This culminated in Kuchma's international isolation, as exemplified at the NATO summit in December 2002, to which he was not invited (but which he attended nevertheless). At the same time, economic reforms were largely abandoned following the ousting of the reformist government in 2001, something which further alienated Kuchma

[1]'Ukraine Finds Russia an Unreliable Partner', *Jamestown Monitor*, 15 November 1995, available at: http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=9409&tx_ttnews%5BbackPid%5D=209&no_cache=1#.VuAqOf7cuA4, accessed 16 March 2016.

[2]Notably, and unlike the previous 1994 FTA project, the 1999 accord did not refer to free trade as a transitional step to deeper economic integration (Dragneva & de Kort 2007).

from the Western states and institutions (Toritsyn & Miller 2002). As a result he cautiously turned to Russia.

### *The Eurasian Economic Community (2001–2002)*

The Eurasian Economic Community (EEC, or *Evrazes*) was the first major regional integration initiative launched by newly-elected President Putin. It represented a noteworthy shift in Russia's foreign policy, aimed at re-establishing Russia's place as a 'great power' in the international system (Lo 2002; Sherr 2002). The EEC comprised Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. The institutional design of the EEC eradicated some of the problems plaguing the CIS by precluding a 'pick and mix' approach to integration. Russia's position in the new regime was strengthened institutionally, with the voting rules of its key body, the Integration Committee, giving it a decisive voice (Dragneva 2013).

For Russia, Ukraine's participation in the project was of great importance and this goal was pursued in a much more coherent and purposeful way in comparison to previous initiatives. For example, in various meetings and communications, Putin offered strong political support to the embattled Ukrainian President, for example by offering him the chairmanship of the CIS Council of Heads of State in 2003, even though Ukraine was not a full member of the CIS. Explicit economic conditionality was also deployed to incentivise Ukraine by offering to remove costly exemptions from its free trade with Russia and resolve standing anti-dumping and taxation disputes upon its membership. The benefits for Ukraine of such concessions were estimated at $400–450 million.[3] Furthermore, Russia made clear that gas prices would be higher to the countries remaining outside the new grouping (Donaldson & Nogee 2009).

This combination of sticks and carrots led Kuchma to participate in Russia's regional plans. In March 2002, he declared Ukraine's interest in becoming an observer in the EEC, a decision which was finalised at a meeting with Putin in May 2002. In doing so, Kuchma hoped to secure specific economic benefits and boost his domestic popularity, while avoiding a general commitment to join Russia-led integration projects. Mindful of Russia's dominant position and far-reaching objectives, Kuchma signed up to nothing more than associated membership—a position with no formal definition or clear commitments. Perhaps reflecting the prevailing ambiguity when it came to integration, Kuchma used the terms CIS Economic Union, CIS Customs Union, CIS Free Trade Zone and EEC interchangeably.[4]

### *Common Economic Space (2003–2004)*

As Ukraine's decision on the EEC fell short of the Kremlin's expectations, it soon proposed a new initiative. The plan for a new economic organisation of Russia, Kazakhstan, Belarus and Ukraine was announced in February 2003. The aim was to create a common economic space, overseen by a common regulatory body with supranational features. For Russia, this was a path to 'deep' economic integration, including a currency union (Kembayev 2009), modelled on the European single market (Dragneva & Wolczuk 2015a).

[3]'Sovmestnaya press-konferetsiya c Prezidentom Ukrainy Leonidom Kuchmoi', The Kremlin, 17 May 2002, available at: http://kremlin.ru/transcripts/21598, accessed 16 March 2016.

[4]'Kuchma—A CIS Integrator?', *Jamestown Monitor*, 20 March 2002, available at: http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=24018&tx_ttnews%5BbackPid%5D=216&no_cache=1#.VuAzLf7cuA4, accessed 16 March 2016.

In Ukraine these proposals triggered a heated domestic debate, both within the political elites and the expert community.[5] Questions were raised over the potential consequences for Ukraine's independence (Silina 2003). With its vague objectives, accession to the Common Economic Space (CES) was seen as an open-ended commitment to reintegration with Russia. As Russia made free trade concessions dependent on Ukraine's commitment to deeper integration, which required pooling of sovereignty, this conditionality triggered concerns over ceding Ukraine's sovereignty, and thereby violating its 1996 Constitution, which explicitly prohibited this.

There were considerable differences in preferences. For the Ukrainian leadership the CES was a means of securing free trade with its partners and dealing with the pressing issues of trade exemptions and penalties, all of vital importance to Kuchma's oligarchic backers.[6] However, the oligarchs themselves disagreed on the risks of gaining access to free trade in exchange for a loss of 'economic sovereignty' (Bukkvoll 2004). More broadly, questions were raised about the consequences of participation in the CES for Ukraine's 'European vector' and its planned entry into the World Trade Organization. At this point participation would not violate any of Ukraine's commitments to the EU (see below). However, it was noted that CES membership would jeopardise future integration prospects, subject to Ukraine's lobbying with the EU at the time.[7] The CES was depicted as a 'return to the USSR' and relegation to 'the second division of Europe' by Roman Shpek, Ukraine's representative to the EU (Poliakova 2003).

However, domestic developments compelled the leadership to accept the invitation. Following the Gongadze affair, Kuchma's popularity was at rock bottom and, despite the formidable accumulation of formal and informal powers, Kuchma and his oligarchic backers were fearful of being ejected from power (D'Anieri 2006). In the 2002 parliamentary elections, the opposition 'Our Ukraine' bloc emerged as the most popular party, making it more difficult for the president to control the legislature. Demand for change was growing within the country and, with Kuchma approaching the end of his second term, the incumbent elites faced the uncertainty of the presidential contest in 2004. This vulnerability prompted Kuchma to enlist Russian support (Wilson 2005), and in exchange Kuchma agreed to show a greater readiness to accommodate Russia's demands, namely to participate in the newly proposed CES. He signed the joint declaration on the CES in February 2003, leading to a founding agreement in September 2003 which was ratified by the Rada in April 2004, just six months before the presidential elections. Ostracised in the West and faced with domestic uncertainties, the Ukrainian incumbent leadership was prepared to offer greater concessions in order to secure Russia's economic and political support and thereby ensure its political survival. This is evidenced in the manner in which the CES agreement was concluded. The process was led by Kuchma's special envoy, Deputy Prime Minister Azarov, known for his pro-Russian leanings, in an expedited process violating government procedure and alienating political

[5]For example, see Center for Peace, Conversion and Foreign Policy of Ukraine, Experts' evaluation on the Draft Agreement on the Single Economic Space, in *Ukrainian Monitor*, Policy Paper #13, September 2003. A study on Ukraine's Eurasian vector conducted by the Razumkov Centre was also reported in 'Ukraina-Evrazes: Nablyudenie? Sotrudnichestvo? Integratsiya?', *Zerkalo Nedeli*, 27 December 2002.

[6]See, 'Obsuzhdenie EEP v parlamente (stenogramma zasedaniya)', 16 September 2003, minutes available at: http://www.pravda.com.ua/rus/news/2003/09/16/4374340, accessed 9 March 2013.

[7]*Janes' Foreign Report*, 6 March 2003; *Oxford Analytica East Europe Daily Brief*, 13 June 2003.

opposition (Silina 2003, 2004). These violations caused ructions, resulting, for example, in the resignation of the Minister for the Economy, Valeriy Khoroshkovskyi.

In Bukkvoll's view (2004), the decision to sign up to Russia's project was primarily driven by the narrow political motivation of the Ukrainian leadership, rather than the balanced consideration of Ukraine's national interests, and it went against the spirit of public discussion in Ukraine at the time. But the incumbent elites were strongly interested in securing the election of Kuchma's anointed successor, Viktor Yanukovych. In return for lending support, the Kremlin wanted the CES deal finalised before the elections.

Nevertheless, Kuchma remained wary and signed up only to a framework agreement, which incorporated the principle of multi-level and multi-speed integration, which minimised the loss of sovereignty and allowed him (and his successor) to retain considerable flexibility and room for manoeuvre (Khokhotva 2003). Critically, Kuchma signed the agreement with an important reservation: subject to Ukraine's participation not contravening the country's 1996 Constitution. The leadership stressed that, despite signing a general framework agreement, Ukraine's actual commitment to future integration steps would be dependent on the free trade area being actually put in place (Bukkvoll 2004). Crucially, participation in CES was deemed compatible with Ukraine's 'European choice', as proclaimed by Azarov himself.[8]

The Ukrainian leader sought the economic benefits of lower trade barriers with Russia, remaining wary of committing beyond a free trade area. Nevertheless, Ukraine's more intensive engagement in the CES of 2003 (in comparison to that with the EEC in 2002) demonstrated that the Kremlin's linkage strategy—economic benefits for integration—was most effective, at a time when the political survival of the elites depended on Russia's economic and political support. The political calculus of the elites led them to adopt decisions on an *ad hoc* basis, without undertaking a transparent benefits analysis of pursing integration along different vectors or an overall assessment of the legal compatibility of simultaneous integration with the EU and CES (something which persisted until the next period, 2010–2013).[9]

However, even though embattled domestically, the Ukrainian leadership drew a fine line between 'strategic partnership' and integration with Russia, particularly in light of a renewed challenge to Ukraine's territorial integrity by Russia. In late 2003, Russia started building a dam by the Ukrainian island of Tuzla in the Kerch Straits, which was located within Ukrainian territorial waters in the Azov Sea (Woronowycz 2003). Russia appeared to be using the border issue in order to cement Ukraine's participation in the CES. As a result, the ratification of the CES agreement became part of a 'package' with two other agreements on borders, which delineated the terms of control over the Azov Sea and the Kerch Straits. While such a 'package' nominally secured Ukraine's engagement in the project, it once again impressed upon the Ukrainian political elite the threat presented by Russia. Confronted with this explicit disregard of Ukraine's territorial integrity, Kuchma announced that Ukraine had not made a firm commitment to integration and that future steps would be premised on the creation of a functioning free trade area (Bukkvoll 2004, p. 14).

[8] 'Obsuzhdenie EEP v parlamente (stenogramma zasedaniya)', 16 September 2003, minutes available at: http://www.pravda.com.ua/rus/news/2003/09/16/4374340, accessed 9 March 2013.

[9] One of the very few cost–benefit analyses was undertaken in the report, 'Ukraine–EU on the Road to 4 Freedoms', 2003, Analytical Report ordered by the Ministry of Economy and European Integration of Ukraine, AHT Consulting Group (Kyiv), June.

*The Eurasian project and Yanukovych's presidency (2010–2013)*

The Orange Revolution of 2004 and the subsequent election of Viktor Yushchenko as President in 2005 represented a watershed in Ukraine–Russia relations. Up until that point, the incumbents' favourable disposition towards Russia could be relied on by Moscow: although they tended to be unwilling to comply fully with Russia's integration agenda, they did not dismiss Russian demands outright. However, following the Orange Revolution, the new Ukrainian leadership turned the country westward, explicitly looking for much closer relations with the EU through binding commitments leading to open-ended, comprehensive integration. While in the late 1990s, Kuchma had proclaimed EU membership as a strategic objective for Ukraine,[10] with little done beyond the proclamation, the intent of Yushchenko was notably more pronounced. This triggered a persistent demand for a new bilateral framework on the part of Ukraine commensurate with its membership aspirations (Zlenko 2002). Following the Orange Revolution, the EU acquiesced to Ukraine's demand for a new legal framework, albeit denying Ukraine a membership perspective (Dragneva & Wolczuk 2014, 2015b). The negotiations on the Association Agreement started in 2007, whereas the negotiations on the economic part of the agreement—which became known as the Deep and Comprehensive Free Trade Area (DCFTA)—were launched after Ukraine's accession to the World Trade Organization in 2008. Ironically, however, while Ukraine was a *demandeur* in relations with the EU, asking for 'deep' integration up to and including membership, its elites were unwilling to pay the high economic cost of moving away from Russia.

Yet the 'Orange elites' did little to prepare the economy for the consequences of reorientation through reform, with dependence on Russia actually growing in the late 2000s. At the same time, while Ukraine's exports to Russia increased, Russia did not deliver on its promise of free trade, continuing various *ad hoc* restrictions. In addition, Russia became more resolved to play the 'energy card' *vis-à-vis* Ukraine by attempting to raise gas prices almost five-fold following the Orange Revolution (Pirani 2012, p. 176). This triggered the first 'gas war' of 2006. A second gas war followed in 2009, in which Ukraine's vulnerability was exposed, resulting in a controversial and unfavourable gas contract with Ukraine (Balmaceda 2013). Because of a pricing formula linking gas to oil prices, by 2010 Ukraine was paying about 10% more than countries like Germany and Italy, something it could ill-afford; in the wake of the global financial crisis Ukraine's GDP had shrunk by 15% in 2009.

The economic crisis turned out to be a double-edged sword for Yanukovych's political fortunes. It facilitated his comeback in the presidential race of 2010, when his campaign was based on the promise of pulling the economy out of the crisis caused by the ineptitude of the Orange leadership, but at the same time his fate was dependent on economic recovery. The economic crisis reshaped the priorities of the newly elected authorities as, by 2009, the strategic outlook of the oligarchs shifted from investment and expansion to survival. Yanukovych reaffirmed integration with the EU as the strategic choice of Ukraine and continued with concluding negotiations on the Association Agreement (Yanukovych 2010). Yet, being premised on long-term modernisation, European integration did not offer an instant solution to Ukraine's accumulated problems (Delcour & Wolczuk 2013 ). Therefore, integration with the EU became a kind of luxury—desirable in the long-term but not an immediate priority (Gnedina & Sleptsova 2012). Moreover, in response to Yanukovych's authoritarian tendencies

[10]'On Approval of the Strategy of Ukraine's integration into the European Union', Decree of the President of Ukraine, No. 615, 11 June 1998.

and application of selective justice to political opponents, namely the imprisonment of key opposition figures such as Yulia Tymoshenko, the EU made the signing of the Association Agreement conditional upon democratic reforms in Ukraine.

Russia was seen as a solution to Ukraine's problems by Yanukovych and he set out to recalibrate relations with Moscow to help kick start the Ukrainian economy after the collapse of 2009. At the top of his political agenda was the restoration of the profitability of oligarchic enterprises through access to the Russian market and, especially, reduced gas prices. Immediately, Yanukovych sought to capitalise on Ukraine's geopolitical importance for Russia by making strategic geopolitical concessions in exchange for economic benefits (Sherr 2010). One of his first steps was to sign the 'Kharkiv Accords' in April 2010 which extended the lease of the Sevastopol naval base to the Russian Black Sea Fleet in exchange for a 30% discount on the 2009 pricing formula for gas. Despite the agreement Ukraine could still hardly afford to pay the price, which reached about $425 per thousand cubic metres (tcm) by 2013, an eight-fold increase since 2005.

*The Customs Union membership offer (2011)*

Recognising Ukraine's predicament, Russia made a renewed and extensive integration offer to Ukraine. As negotiations on the EU–Ukraine Association Agreement drew to a close, in 2011 the Russian leadership invited Ukraine to join the newly formed Customs Union between Belarus, Kazakhstan and Russia. This was an ambitious reintegration scheme, to be supported by a common regulatory space developed in conjunction with Russia's accession to the World Trade Organization. The deep and advanced nature of the integration was fixed *a priori*: the Customs Union was 'programmed' to evolve into a Single Economic Space (SES) in 2012 and, ultimately, into the Eurasian Economic Union (EEU) by 2015. Unlike all previous post-Soviet integration initiatives, this was to be a binding regime which did not allow flexible or partial commitment, and which entailed the delegation of significant regulatory powers to a supranational Commission (Dragneva 2013 ).

Ukraine's participation was vital for the project and, to this end, Russia tailored its incentives to play on Ukraine's dependency and offered not only free trade but also a marked reduction in gas prices (from $425 to $268 per tcm) if Ukraine joined the Eurasian project (EDB 2012). There is little doubt that Russia sought to appeal to Ukraine's rent-seeking elites: according to Åslund (2014), during Yanukovych's presidency the regime extracted rents of approximately $3 billion per year. In essence, sustaining energy and trade interdependence was a vital substitute for much needed domestic reform.

In contrast to the previous integration offers, the invitation to join the EEU was accompanied by a concerted campaign to demonstrate the advantages of this option as opposed to the European orientation. The campaign triggered extensive debates in Ukraine, which exposed the weakness of Russia's attraction as a pole of integration: its governance record hardly offered a solution to Ukraine's accumulated problems (Razumkov Centre 2013). The overall view was that joining the EEU was detrimental to Ukraine's national interests.[11] Yanukovych's position on membership reflected this domestic consensus: 'Ukraine has made its choice. It has entered the WTO and develops in line with the principles of this organisation. That is why joining the Customs Union is now impossible' (Solov'ev & Sidorenko 2010).

[11]For a more detailed discussion see Dragneva and Wolczuk (2015b, pp. 71–3).

Nevertheless, mindful of Ukraine's dependence, Yanukovych hoped to pursue a 'third way' by proclaiming a 'strategic economic partnership' with Russia, rather than full membership in Russia's integration project. The Ukrainian leadership proposed a '3+1' format (namely Russia, Belarus, Kazakhstan plus Ukraine) that would allow Ukraine to derive the benefits of improved trade terms with the Customs Union but without entering into the binding commitments resulting from membership. This was in the pragmatic and selective spirit of Ukraine's previous pattern of engagement with Russia's initiatives. Yet, on this occasion Ukraine's proposal was rejected swiftly because Russia wanted greater legal commitment in exchange for the specific economic benefits sought by Ukraine.

### *Ukraine's price for free trade*

Since 1991, free trade with Russia had remained an elusive goal for Ukraine. Ukrainians hoped that, at last, it could be secured *via* the new CIS-wide FTA after two earlier attempts had failed (in 1994 and 1999). The economic crisis of 2008–2009 meant that the Ukrainian leadership and oligarchs were particularly sensitive to the recurring, unpredictable restrictions on trade with Russia and hence were looking for a legal framework curbing Russia's use of *ad hoc* protectionist measures. Thus, the leadership participated readily in the negotiations on the agreement, which was concluded in 2011 and signed by Ukraine in October. The focus of the CIS FTA was exclusively on trade issues, something which suited Ukraine well, particularly as it allowed Ukraine to pursue integration with the EU as the free trade area agreement was deemed compatible with EU DCFTA (Silina 2011). The fact that they initialled the DCFTA before ratifying the CIS FTA testifies to its importance to the Ukrainian elite.

However, from the Russian perspective, the offer of a CIS FTA was not intended to liberalise trade. It was in fact part of the broader strategy to draw Ukraine into the Customs Union. It was ironic therefore that the FTA concealed a 'trap' for the Ukrainian negotiators in the form of Annex 6, which in a highly asymmetrical way allowed Russia to raise tariffs in the case of increased volumes of Ukraine's imports.[12] The Annex made vague provisions about the preconditions and the process of activating it, allowing self-serving interpretations by Russia. Thus, Ukraine derived relatively few benefits from the new agreement but became vulnerable to the general threat stemming from Annex 6 (Dragneva & Wolczuk 2014).

### *Ukraine's search for a 'third way' with the EEU (2013)*

Overall, by 2013 the Ukrainian leadership failed to achieve its goals of free trade or lower energy prices, as Russia offered these benefits only as part of the enticement to join the Eurasian integration bloc. In the spring of 2013, the Ukrainian leadership once again proposed vague cooperation formulas, resulting in the agreement to become an observer in the Eurasian project, embodied in a non-binding and succinct Memorandum for Cooperation between

[12]Annex 6 envisaged the unilateral right of the Customs Union member states to revert to less favourable tariffs, namely the Most Favoured Nation (MFN) regime, if a signatory state in the CIS FTA concluded an agreement with a third party, which resulted in higher volumes of imports from that country to an extent that caused harm or danger of harm to industry. This provision was subsequently used by Russia to punish Ukraine for concluding the Association Agreement. Russia also used this provision to revert to MFN terms with Ukraine in January 2016, even though Russia did not provide credible evidence of harm sustained as a result of the Association Agreement—hardly surprising given that the latter's implementation had not even begun (Dragneva & Wolczuk 2014, 2015c).

Ukraine and the Eurasian Economic Commission of May 2013.[13] Formally, Ukraine's commitment did not go beyond observer status, much in line with the long-standing pattern of avoiding commitment or a loss of sovereignty. But it was clearly part of the 'integration game', in which it sought to engage sufficiently to persuade Russia to fulfil its free trade promise and offer lower energy prices.

This did not satisfy the Kremlin, which was deeply frustrated by Ukraine's tendency to give vague undertakings (Glaz'ev 2011). To demonstrate Ukraine's vulnerability, Russia triggered a trade war in the summer of 2013, whereby Ukrainian exports were subjected to lengthy and detailed checks on the Ukrainian–Russian border, causing huge losses for the Ukrainian exporters. Yet even this was not enough to persuade Ukraine to join the Customs Union (Silna 2013).

However, Hirschman's view that 'harassed statesmen generally have a short-run view' would soon be confirmed in the case of Ukraine (Hirschman 1980, p. 27). The economic outlook of the Ukrainian economy deteriorated in the autumn of 2013 as the country slid into recession, and was expected to shrink further in 2014 with high gas prices crippling its unstructured economy. The failure of Yanukovych's presidency to deliver on his electoral promises of economic recovery did not bode well for his chances in the forthcoming presidential elections of 2015.

In the autumn of 2013 Yanukovych indicated his readiness to sign the Association Agreement during the Eastern Partnership summit in Vilnius in November 2013; in turn the EU relaxed its democratic conditionality. In turn Russia relaxed its economic conditionality as it sought to stop Ukraine's integration with the EU. As the Association Agreement was incompatible with membership of the planned EEU (der Loo & Van Elsuwege 2012), Moscow agreed to provide significant economic support for the Ukrainian leadership not to sign the Association Agreement with the EU. This deal was made during Yanukovych's secret meetings with Putin in October–November 2013, with Mykola Azarov, by then Prime Minister, hammering out the details with his Russian counterpart, Dimitrii Medvedev, in December 2013. However, by then the mass protests against Yanukovych's decision had started.

*Yanukovych's bail-out and the Vilnius u-turn*

Yanukovych 'postponed' the signing of the Association Agreement. In turn, Kyiv received from Russia a $15 billion financial loan, a reduction of gas prices to $268 per tcm and the promise of 'normalisation' of trade (that is, actual implementation of the previous legal commitments by Russia, such as the 2011 CIS FTA). However, reflecting the mistrust of Yanukovych in the Kremlin, these came with stringent conditions. The $15 billion loan was to be disbursed in instalments, enabling Russia to introduce its own conditionality for payment. The lowering of gas prices was discretionary, to be reviewed quarterly. Yanukovych was put on a short leash, which would have curtailed the scope for future 'game playing'. The Kremlin had learnt its lesson: having invested a great deal in the Eurasian project, it was making the full use of economic dependence to ensure Ukraine's participation.

Given their domestic weakness, the political survival of the incumbent elites in Ukraine made them prioritise the immediate deal with Russia over the longer-term benefits of integration

[13] 'Memorandum ob uglublenii vzaimodeistviya mezhdu Evraziiskoi ekonomicheskoi komissiei i Ukrainoi', 31 May 2013, available at: https://docs.eaeunion.org/docs/ru-ru/0144009/ms_24072013_doc, accessed 19 March 2016.

with the EU. Like the case of the EEC in 2003, the decision to suspend the Association Agreement and accept the Russian offer was taken by a narrow circle of the President's closest associates—without appropriate deliberations with regard to this momentous foreign policy decision. It is noteworthy that the Ukrainian oligarchs, most of which were highly interested in access to the Russian market and lowering of energy prices, remained silent on Ukraine's integration choices. To the wider public, postponing the signing of the Association Agreement was presented as a technical delay on the grounds that it was a costly proposition for Ukraine, in contrast to the more beneficial economic package offered by Russia (Dragneva & Wolczuk 2015b).

The deal with Russia was presented as a success by the Ukrainian authorities, who clearly viewed it as such: Yanukovych had succeeded in extracting considerable benefits from Russia without making an official commitment to join the Eurasian regime. However, by postponing the signing of the Association Agreement, Yanukovych did offer *de facto* a major concession to the Kremlin—he had agreed to reduce Ukraine's relations with the EU to that of a function of Ukraine–Russia relations. As a result, Ukraine's 'European choice' became conditional upon Russia's relations with the EU, which had already been stagnant for some time. No other Ukrainian President had been asked to, or indeed, had had to make a concession on Ukraine's European choice. This is because during Kuchma's presidency (1994–2004), there was no integration 'offer' from the EU; during Yushchenko's presidency (2005–2009) there was no binding integration 'offer' from Russia.

Like his predecessors, Yanukovych sought short-term gains from Russia without actually committing to integration. But the leadership's readiness to mortgage Ukraine's 'European choice' to Russia on a short-term basis in pursuit of his political survival was met with mass protests.[14] Following his flight to Russia, Yanukovych was deposed from power, an event which triggered Russia's intervention in Ukraine, and which in turn represented a fundamental challenge to the European security order.[15]

No doubt, Russia's powerful reaction to the changes in Ukraine stemmed in no small measure from the frustration caused by Kyiv's reluctance since 1991 to reintegrate with Russia, despite repeated attempts and strong dependence. The importance of Ukraine accounted for Russia's readiness to indulge the notorious vacillation of Ukrainian elites in 1991–2004; however, in this later episode, during 2010–2013, lessons had been drawn from previous episodes and the use of dependence based on the linkage strategy aimed to curtail Ukraine's 'integration game'.

### *End of economic dependence*

After two decades of failing to achieve its strategic objectives *vis-à-vis* Ukraine by using economic dependence, in 2014 Russia's strategy shifted to actual coercion. As Keohane and Nye argue 'employing force on one issue against an independent state with which one has a variety of relationships is likely to rupture mutually profitable relations on other issues' (Keohane & Nye 2000, p. 24). The use of military might disrupted long-standing patterns of complex interdependence, leading Ukraine to incur a hitherto unthinkable cost—even curtailing its trade and energy relationship with Russia—in order to preserve its sovereignty (Sidenko 2014).

[14]See the contribution by Onuch and Sasse in this collection and Wilson (2014).
[15]See Averre's contribution in this collection.

Inevitably, energy and trade dependence between the two states dropped precipitously. The value of Ukraine's imports to Russia decreased threefold between 2014 and 2015—from $12 billion to $4 billion.[16] By the autumn of 2015, Russia's share in Ukraine's trade fell to 18.2%, whereas the EU's grew to 31.5%.[17] Russia made an attempt to revise the terms of the Association Agreement in trilateral talks with the EU and Ukraine (or at least to postpone its implementation) using the threat of activating Annex 6 of the 2011 CIS FTA (Dragneva & Wolczuk 2015c). With the EU and Ukraine regarding Russian claims as baseless, Moscow unilaterally stopped applying the CIS FTA to Ukraine and introduced the MFA tariffs as of January 2016.[18] This brought to an end the free trade regime, however partial it was. Unable to agree on terms for purchasing gas with Russia (Varfolomeyev 2015), Ukraine purchased gas supplies from Slovakia, Hungary and Poland. While Moscow anticipated that Ukraine's economy would collapse and lead to a turn back to Russia (Trenin 2014), this scenario has not transpired.

## *Conclusion*

The myths that have arisen since 2014 about the origins of the crisis between Ukraine and Russia have obscured a complex relationship that had progressively become more fraught. In simple terms, the objectives of the two states became increasingly incompatible: Russia wanted some form of reintegration of its near abroad; Ukraine increasingly wanted to be part of the prosperous and integrated West, however unattainable that may have been during the period studied.

Yet the realities of Hirschman's dynamics (1980) are evident: asymmetry confers power on the stronger power, forcing the smaller power to converge on the interests of the stronger. Russia used its economic might to influence Ukraine as 'such a relationship gives the larger country coercive power over the smaller, because an interruption of the relationship would cause much greater distress in B than in A' (Abdelal & Kirshner 1999, p. 120). The key phenomenon that this essay has sought to highlight is that the essence of Ukraine's vulnerability lay in the strength of the vested interests in Ukraine, which economic relations with Russia created and sustained. The willingness of the Ukrainian elites to exploit the energy dependence for their own personal gains accounts for Ukraine's prolonged and indeed increasing dependence on Russia. Russia used this dependence to secure Ukraine's participation in Russia-led integration regimes. However, Russia's far-reaching ambitions *vis-à-vis* Ukraine created room for manoeuvre which the Ukrainian elites exploited adroitly. Therefore, our analysis demonstrates that asymmetric economic dependence *per se* cannot explain actual bargaining outcomes between the larger and smaller state, without considering the nature of the demand placed on the smaller state.

The case of Ukraine–Russia relations also indicates that the use of economic dependence can trigger unintended consequences for the larger state, by creating the expectation that it can

[16]In 2014 trade with Russia declined by a third, consolidating the position of the EU as the largest trading partner of Ukraine. See the Ukrainian State Statistical Service, available at: http://www.ukrstat.gov.ua/.

[17]WTO Statistics on Ukraine, September 2015, available at: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=UA, accessed 9 March 2016.

[18]'Trilateral Talks on EU–Ukraine DCFTA: Distinguishing between Myths and Reality', European Commission, DG Trade, 2015, available at: http://trade.ec.europa.eu/doclib/docs/2015/december/tradoc_154127.pdf, accessed 22 March 2016.

influence the smaller state, something which is not addressed by Hirschman. Having defined Ukraine's participation as a *sine qua non* of the success of its integration projects, Ukraine became a pivotal country in asserting Russia's 'great power' status. As Garnett perceptively observed almost two decades ago, 'Russia's definition of itself as a state and international actor is significantly shaped by its long-term ties with Ukraine' (Garnett 1997, p. 7).

Ukraine's half-hearted but repeated engagement with Russian integration projects seems to have misled the Kremlin into believing that this would culminate in a wholehearted commitment to Russia-led integration at some stage in the future. It is perhaps this sense of betrayal which explains the powerful economic and military backlash from Russia which, ironically, is proving to be counter-productive. Not only has Ukraine's trade dependence on Russia collapsed, but perhaps more importantly, Russia has lost much of what leverage it had over Ukraine. Russia's actions in Ukraine have reverberated more widely and have had a profound impact on Russia's political relations and economic interdependence with the EU and the West in general.

Nevertheless, as the smaller, dependent state, Ukraine has clearly borne the brunt of the consequences of dependence. By hollowing out Ukraine economically, politically and militarily by a chronic failure to reform (Korablin 2015), the Ukrainian elites left the country exposed to Russia's punitive measures for failing to act on its political demands. As Russia still retains a powerful array of instruments to cripple the country in military, political and economic terms, Ukraine–Russia relations will remain profoundly antagonistic and unsettled and the resulting costs for Ukraine will continue to be very high, not least in terms of loss of life, dislocation and a protracted economic downturn. However, despite the massive level of distress inflicted and the slow pace of reforms in Ukraine, there are few indications that Ukraine is anything but determined to further lessen its economic dependence on Russia.

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