

A TALE OF TWO INTERESTS:
THE EU-UKRAINE DEEP AND
COMPREHENSIVE FREE TRADE AREA

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ABSTRACT

The Revolution of Dignity of 2013 in Ukraine was arguably born through the decision of the Yanukovich administration to suspend the negotiations and signature of the Ukraine–European Union Association Agreement and Deep and Comprehensive Free Trade Area. The political implications of this decision were dire and have changed the very nature of EU-Ukraine and Russian relations. At the same time, Kyiv has since moved closer to Brussels in its trade relations, with the provisional application of the Deep and Comprehensive Free Trade Area as of January 2016. This was met with apprehension by Moscow, cancelling their own Free Trade Area with Ukraine as of December 2015. The Ukrainian government, throughout 2014, 2015 and the early stages of 2016 so far, has implemented dozens of reform measures, aimed at the eventual integration of Ukraine with the European Union.

This thesis takes the case of Ukraine to highlight a renewed neo-functionalist behaving European Union, to contend that neo-functionalism should be used as a theoretical framework to understand the actions and behaviour of the European Union with partnership states. By analysing the impact of the Association Agreement on Ukraine, it is clear that political motivations drive the economic integration of the two entities, as the economic climate between the EU and Ukraine has been historically unfavourable. By establishing this environment and highlighting the interconnectedness of reforms and economic measures, Ukraine shows as a viable case for renewed neo-functionalist approaches.

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LIST OF ABBREVIATIONS

DCFTA	Deep and Comprehensive Free Trade Area
FTA	Free Trade Agreement
EU-UA AA	The Ukraine–European Union Association Agreement
EU	European Union
UA	Ukraine
AA	Association Agreement
EURATOM	European Atomic Energy Committee
ENP	Eastern Neighbourhood Partnership
EaP	Eastern Partnership
CIS	Commonwealth of Independent States

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INTRODUCTION

The provisional implementation of the Deep and Comprehensive Free Trade Area (DCFTA) took place as of January 1st 2016. This is part of Title IV of the Ukraine and European Union Association Agreement (EU-UA AA) on Trade and Trade-related Matters. Since November 2014, Title III: Justice, Freedom and Security, V: Economic and Sector Cooperation, VI: Financial Cooperation with Anti-Fraud Provisions and VII: Institutional, General and Final Provisions have also been provisionally adopted.¹

The complete scope of the EU-UA AA is extensive, and has brought about significant debate amongst the EU-28 countries, the EU as a whole and EURATOM in relation to the ratification of the AA. The Dutch consultative referendum on April 6th 2016, where 61% of voters opposed the ratification of the agreement, has shown how the actual the matter of deeper cooperation between Ukraine and the EU is currently a topical discussion within the European sphere.² However, it is important to mention that dialogue between the EU and UA is not a recent event, as strategic cooperation between the EU and UA began as in 2008 with a Stabilisation document that was established between the two bodies.³

The relevance of this research is clearly understood through context. The European Union has established multiple Association Agreements with Eastern Neighbourhood Partners. The most prominent are those established with Georgia, Moldova and Ukraine. As of January 2016, following a report from the European Commission, all three respective parties have achieved significant measures

¹ An excellent overview as to what each Title involves can be seen via: European External Action Service, Quick Guide to the EU-Ukraine Association Agreement, accessed February 10, 2016, http://eeas.europa.eu/top_stories/pdf/150625-quick-guide-to-the-eu-ua-association-agreement.pdf.

² Netherlands rejects EU-Ukraine partnership deal, *BBC News*, 07.04.2016, accessed May 1, 2016, <http://www.bbc.com/news/world-europe-35976086>.

³ Council of the European Union, *EU-Ukraine Summit, Joint Declaration on the EU-Ukraine Association Agreement & Deepening EU-Ukraine Cooperation*, Document Number 12812/08, (Brussels, 9th September 2008).

in respect to their movement towards reforming in line with EU requirements, provisionally adopting some of the measures of the Association Agreement. For Ukraine, the provisional application of multiple parts of the EU-UA AA stemmed from the events in 2013 when former President Viktor Yanukovich took a U-turn in his decision to sign the EU-UA AA. The President elected to align Ukraine with the Russian-led Customs Union. This only became evident to the International Community at the Third Eastern Partnership Summit in Vilnius that took place during the 28th-29th November 2013.⁴ In November 2013, civilian protests in Ukraine saw the removal of a *quasi-authoritarian leader* as well as a national movement from Ukrainians pushing for further integration of Ukraine with the European Union rather than Russia.⁵ The decision of President Yanukovich to strategically align with the Russian Federation over the EU arguably sparked the Euromaidan Revolution in Ukraine. During the revolution hundreds were killed in the violent clashes between protestors and the former Ukrainian Special Forces.⁶ The Euromaidan 2013 was a ‘critical juncture’ in the nature of EU-UA relations for a number of reasons. The evidence is the events that followed the revolution. 2014 saw the new pro-EU interim government, the annexation of Crimea by Russian led forces and the ‘Separatist’ War in East Ukraine directly or indirectly supported by Moscow. This makes 2013 a natural starting point for this thesis.

⁴ Ukraine fails to sign Landmark deal at EU summit, Euronews, 29.11.2013, accessed February 10, 2016, <http://www.euronews.com/2013/11/29/ukraine-fails-to-sign-landmark-deal-at-eu-summit/>.

⁵ Multiple articles and have commented on labelling Yanukovich as an authoritarian leader or describing the developments of Ukraine under Yanukovich to Autocratic tendencies: “Five More Years of Yanukovich,” Foreign Affairs, October 24, 2012, , accessed February 10, 2016, <https://www.foreignaffairs.com/articles/ukraine/2012-10-23/five-more-years-yanukovich>; David Horsey, “Yanukovich: PR Firms and Nice Suits Hide Authoritarian Intentions,” Los Angeles Times, October 1, accessed February 10, 2016 2012, <http://articles.latimes.com/2012/oct/01/nation/lat-na-tt-yanukovich-20120930>; James Marson, “Can Europe Tempt Ukraine Back to Democracy?,” Time, July 1, 2011, accessed February 10, 2016, <http://content.time.com/time/world/article/0,8599,2080689,00.html>; “Ukraine’s Autocratic New President,” Bloomberg View, May 27, 2014, accessed February 10, 2016, <http://www.bloombergview.com/articles/2014-05-27/ukraine-s-autocratic-new-president>.

⁶ It is increasingly difficult to find statistics on the exact number of individuals who were killed during the Euromaidan Revolution. Statistics vary from data on the early days of the Protests, to the events in January and February 2013 that saw an unprecedented use of violence by the Ukrainian Special Forces, an example can be seen via Oleg Musa, Data on 780 killed in Maidan – Lies and Provocations, Мусій: дані про 780 загиблих на Майдані – брехня і провокації, Українська правда, April 11th 2014, accessed March 19, 2016, <http://www.pravda.com.ua/news/2014/04/11/7022091/>.

The winter of 2013 brought Ukraine hot onto the European radar. This Revolution led to the deposing of the former President and the appointment of an Interim government. Under the 'new' Ukrainian Prime Minister Arseniy Yatseniuk, Ukraine signed the political provisions of the AA in Brussels on the 21st March 2014.⁷ In June 2014, after the May Presidential elections, newly elected Ukrainian President Petro Poroshenko signed the economic part of the EU-UA AA that included the DCFTA. Since the revolution and the signing of the EU-UA AA, Ukraine has been plunged into an economic crisis; a military conflict in Eastern Ukraine provoked by Russia, and experienced the Russian annexation of the Crimean peninsula. The fact remains that even post the revolution the country remains divided in its attitudes towards East or West. East in this reference is further association with Russia and West with the European Union. The internal divisions within the country have been a subject commented on by numerous scholars and although they are important, they are irrelevant for the scope of this research.⁸ These fractures in Ukraine are reflected on the international scale, with Russia clearly seeing the EU-UA AA as a provoking factor for its actions in Ukraine. Yet despite the actions of Russia in Ukraine, the EU has continued its work in the field of integration seemingly disregarding the current geopolitical environment.

Research Design:

With the recent developments in EU-UA relations, it is necessary to understand exactly what political motivations and interests lie in the background of EU-UA association, and thus the research question reads as follows: *How does an understanding of the Association Agreement between the EU and Ukraine reflect itself amongst EU integration theories?* As the DCFTA has only been adopted since January 2016, an

⁷ A document containing the list of signatures of the political provisions, accessed February 10, 2016, http://eeas.europa.eu/delegations/ukraine/documents/association_agreement/aa_en.pdf.

⁸ See Ivan Katchanovski, "Regional Political Divisions in Ukraine in 1991-2006," *Nationalities Papers* 34 (2006): 507-532; Paul Kubicek, "Regional Polarisation in Ukraine: Public Opinion, Voting and Legislative Behaviour," *Europe-Asia Studies* 52 (2000): 272-293; Stephen Shulman, "Cultural comparisons and their consequences for nationhood in Ukraine," *Communist and Post-Communist Studies* 39 (2006): 247-263.

assessment of the developments within Ukraine post 2013 is important in order to provide ample space for both analysis and reflection.

This thesis will explore the theory of neo-functionalism. Neo-functionalism as a basic theoretical framework explains the effect of growing economic interdependence between countries. The theory promotes that institutions use their organisational capacity to resolve disputes and build international legal regimes. At the same time a supranational market implements rules that replace national regulatory regimes. Neo-functionalism is a strong theoretical approach that highlights the role of the EU as a supranational organisation, emphasising the influential role the institution has on regional integration. Looking at the DCFTA through this framework helps to understand what the implications of further integration could realistically be.

The key concepts explored in this research are ‘functional spillover’ or the ‘spillover effect’, and the ‘geopolitical environment’. This thesis analyses the ‘functional spillover’ and hypothesise that the provisional implementation of the DCFTA as of January 2016 sparked further economic and political integration with the EU and Ukraine. The ‘spillover effect’ refers to the integration of one sector that leads to technical pressures pushing states to integrate other sectors. The ‘spillover effect’ belongs to the theoretical framework of ‘Neo-functionalism. The spillover effect shows how integration in one economic sector will incentivise in further sectors that reflect the benefits of integration in the initial sector. This relates to the benefits of the DCFTA and understanding how this development will contribute to integration in other sectors for Ukraine. Increased transactions and negotiation intensity occurs at the same time of increasing regional integration. This affects the creation of institutions that are apart from the local government. This policy convergence is what will emphasise the regional integration. The ‘geopolitical environment’ is a single country's political situation given their geographic realities. For this thesis, the geographic reality is the position of Ukraine as a Buffer Zone between the European Union and Russia. At the same time this is reflected

in scholarly literature, as discussed in Chapter 1 in reference to Ukraine culturally and historically being considered as belonging to the Russian sphere of influence.

This research adopts a Quantitative and Qualitative approach by combining data analysis with political rhetoric. The research focuses on using Ukraine as a Case Study to analyse the effects of an AA and DCFTA. The choice of looking at the AA and DCFTA is reflected on the fundamental values of the EU having been initially established as an economic union. As the principles of economic freedom are core to the EU, the logic of understanding the expansion of an economic union with Ukraine helps to re-theorise the nature of the European Union as a whole. The thesis is structured accordingly. It begins by introducing and contextualising the EU-Ukraine relations. This involves a process tracing method, in order to pinpoint the most essential and relevant developments between the two parties and at the same time providing the necessary context in order to problematize the research questions.

Chapter 1 entitled the ‘Scholarly Dimension’ provides an overall scholarly work on EU-UA relations. The chapter assess the theoretical framework of Neo-functionalism and concludes by addressing geostrategic and Intergovernmentalism as competing theories. However, it also proposes why they cannot be applied in this case to understand EU-UA relations. Chapter 2 focuses on the DCFTA, looking at the developments within Ukraine from the signing of the AA in 2014 up until the provisional implementation of the DCFTA in 2016. It traces the logic of DCFTA’s historically within the EU as a tool of regional integration, as well as contextualises the EU-UA AA and DCFTA within the field of other similar agreements. The section hypothesises that the rejection of the AA by former President Yanukovych was the ‘Critical Juncture’ that changed the nature of EU-UA relations. Chapter 3 moves on to look at the developments of the spillover established in chapter 2, concentrating on how the spillover has occurred in specific sectors of Ukraine. This focuses on the developments from January 2016 until April 2016. This limitation is based on a quarterly assessment of what impact has

occurred at the initial implementation phase of the DCFTA. Finally, in the conclusion, I complement the development of the thesis in showing how the EU-UA DCFTA is a prime tool of soft power in the hopes of the spillover for EU-UA integration, and comment on what could occur if further integration continues.

This thesis draws upon a host of material, each with their own respective limitations. The Research consults a multitude of EU Legal and Public Documents including the Association Agreement and the DCFTA, as well as speeches and reports from respective EU-UA officials and institutions. journals, books and articles are used in the Scholarly dimension of the thesis where it supplements the evidence obtained from the documents at hand. As well as this, this thesis analyses data concerning trade and development. This is an integral part of economic integration and a significant indicator of EU-Ukraine relations. The limitations of the Legal Documents is evident in that the application of the documents are based on the state of Ukraine and the EU in 2013/2014. As of 2016 there have been some significant development and changes in the Ukrainian economy and political situation, which affect the current geopolitical situation. Due to the scope of this thesis, the economic and political situation within the EU is touched upon, however it is not at the heart of the argument. This has to be controlled for and in fact, this transition period is where the majority of the data stems from.

To understand the ‘spillover’ effect, the thesis also looks at Government Reform initiatives that have been implemented since the signing of the Association Agreement. These reforms are key in providing evidence to justify where the spillover can and could possibly occur. The reason behind this is simple, in order for the Ukrainian government to align themselves with EU interests and policy, there is significant reform that needs to be done to implement the DCFTA. Thus, in the process of attempting to adapt and change the Ukrainian Institutions to fit into the European Model the Ukrainian model needs to change in various ways.

Driving force behind project – A personal touch

My interest in the development with Ukraine is rather personal. Having accidentally been in Kyiv on one of the early days of the Euromaidan, seeing the developments in the country throughout the revolution and the war in East Ukraine, the country has become my own personal muse and inspiration. I have seen the way in which people fight, believe and campaign for freedom and ‘Europeanisation’. This has pushed me to understand the nature of the situation in more detail, and truly understand the political situation in a country that I feel to personally have a strong connection to. I have also spent time in Luhansk in the past, and the political problem in that area is deeply troubling, and I want to dedicate myself to working towards helping somehow in changing the situation in Ukraine. This, as well as my pro-European interest, drives my own motivation to conduct this research

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CHAPTER 1

THE ‘SCHOLARLY’ DIMENSION

The following chapter introduces the scholarly debate surrounding the topic in multiple dimensions. It begins by looking at a general overview of literature dealing with the EU-Ukraine. This highlights the connection between the remarks in the early 1990s to the contemporary issues within EU-Ukraine relations. The second part of the chapter focuses heavily on the theoretical framework of the thesis, providing a concrete commentary on Neo-functionalism as a guiding source to the argument within the research. At the same time, it also briefly and concisely assesses the role of competing theories to neo-functionalism, highlighting the relevance of geostrategic theories and why intergovernmentalism is useful but not relevant in the case of EU-Ukraine relations.

1.1 Overview: EU-Ukraine Debate

Scholarly work on Ukraine has developed from the 1990s onwards, tracking the developments of post-Soviet Ukraine, to post-Orange Ukraine up until pro-EU Ukraine. The events of 2013 have dramatically reshaped the direction of the scholarly debate on the EU-Ukraine issue. Since the 2013 Euromaidan Revolutions, or rather the Revolution of Dignity as it later came to be known, much literature on the EU-Ukraine developments has involved itself with the legal and economic framework of the Association Agreement signed by the Poroshenko led Yatsenyuk Government of 2014.⁹

Amongst Scholars, Ukraine’s position within Europe in the 90s was understood as the country being ‘the cornerstone of the new European security architecture, resulting from the collapse of the Soviet Union and it seemed that the stability and prosperity within the country was important for both

⁹ See Roman Petrov, Guillaume Van der Loo, and Peter Van Elsuwege. ‘The EU-Ukraine Association Agreement: A New Legal Instrument of Integration Without Membership?’ *Kyiv-Mohyla Law and Politics Journal* 1 (2015): 1–19, and Roman Petrov and Peter Van Elsuwege. ‘What does the Association Agreement mean for Ukraine, the EU and its Member States? A Legal appraisal’ in in *Het eerste raadgevend referendum. Het EU-Oekraïne Associatieakkoord*, ed. Aalt W. Heringa; Montesquieu Institute: Den Haag, 2016.

European and regional security.¹⁰ Even in the 90s Ukraine's economic dependence on Russia and specifically in the energy field of Gazprom had seen disruptions that were arguably political motivated. These were similar to those gas disruptions of 2009.¹¹ European hesitation towards dealing with Ukraine was arguable fuelled by a fear of antagonising Russia. This was because Ukraine was commonly seen as belonging to the Russian sphere of influence.¹²

The gas crisis of 2009 in which European gas resources dwindled due to Moscow cutting off gas supplies to Ukraine, Ukraine has emerged in the forefront of both conceptualising and understanding European stability.¹³ This realisation of Ukraine's role in European stability highlights the key fact that the same strategic challenges that Ukraine has faced in the past bare striking similarities to the contemporary challenges of 2013 – 2016. Although this shows that the Ukrainian debate has been evolving due to different political events, each piece of the Ukrainian puzzle is rooted in the past.

Up until recently, EU-Ukraine literature has focused on the Membership Prospects of Ukraine in the EU.¹⁴ A range of scholars have commented on how the choice that Ukraine has between East and West is in fact a choice that may determine the very existence of Ukraine as a distinctive, sovereign, and free society.¹⁵ However, a limitation of the previous literature on EU-Ukraine relations tends to relate to its date. Due to the ongoing developments in Ukrainian Society, much of the literature is irrelevant. This is because work that was written pre-2004 showed that Ukraine received some

¹⁰ Stephen F. Larrabee, "Ukraine's Place in European and Regional Security," *Harvard Ukrainian Studies* 20 (1996), 249.

¹¹ Ibid., 251.

¹² Ibid., 257.

¹³ See Adrian Karatnycky, and Alexander J. Motyl, "The Key to Kiev: Ukraine's Security Means Europe's Stability", *Foreign Affairs* 88, no. 3 (2009): 106–20.

¹⁴ Piotr Kazmierkiewicz and Ágnes Bátory, eds. *EU Accession Prospects for Turkey and Ukraine: Debates in New Member States*, (Warszawa: Institute of Public Affairs), 2006; Andrzej Podraza, ed. *European Union Policy on Ukraine: Partnership or Membership?* (Lublin: John Paul II. Catholic University of Lublin), 2006; Anatol Lieven, and Dmitrii Trenin, eds. *Ambivalent Neighbors: The EU, NATO and the Price of Membership*, (Washington D.C: Carnegie Endowment for International Peace), 2003; Lutz Hoffman, and Felicitas Mèollers, eds. *Ukraine on the Road to Europe*, (New York: Physica-Verlag), 2001.

¹⁵ Bohdan Hawrylshyn, Ukraine between East and West, North and South: Geopolitical Options and Constraints, in Hoffmann and Mèollers, 2001, 11.

attention from the EU prior to the 2004 enlargement as the country would share a border with four new member states.¹⁶ Thus, EU Integration literature tended to focus on the developments with countries that would accede in 2004, and only after the enlargement would it the role of Ukraine in EU and Russian expansion become more prevalent,.

Stephen Larrabee contended that the role Ukraine would play in its relationships between the EU and Russia would determine the geopolitics of Europe. Considering the Russian viewpoint, with the Eurasian Union high on the Russian agenda, the turning point of former President Yanukovich, the question that must be asked is why is Ukraine also so important to Russia? This itself is not within the scope of this research to answer, but it is key to understand that with Ukraine being considered more European than Asian, without Ukraine there is no worth of the Union itself.¹⁷ At the same time for Ukraine, the internal and central challenges that exist around the need to create a stable democratic political system and a viable market economy post the Soviet Union, are exactly those that 2016 Ukraine needs to achieve.

1.2 Neo-functionalism and the ‘Spillover’ Effect

The theory itself has long held a tradition within the European framework having been established and developed in the late 1950s and early 1960s by Ernst Hass and Leon Lindberg who responded to the establishment of the European Coal and Steel Community and the European Economic Community.¹⁸ This was in order to understand the reason for state cooperation and the willingness of states to relinquish sovereignty in certain policy aspects in order to reduce conflict. Considering the lack of EU expansion in the 1970s, the theory was then declared as obsolete and no

¹⁶ Kazmierkiewicz and Batory, 2006, 197.

¹⁷ Reid Standish, Putin’s Eurasian Dream is over before it began, *Foreign Policy*, 01.06.2015, accessed May 1, 2016, <http://foreignpolicy.com/2015/01/06/putins-urasian-dream-is-over-before-it-began/>.

¹⁸ See Ernst B. Haas, *Beyond the Nation-State: Functionalism and International organization*. Stanford, CA: Stanford University Press, 1968; and Ernst B. Haas, *When Knowledge Is Power: Three Models of Change in International Organizations*. Studies in International Political Economy. Berkeley: University of California Press, 1990.

longer relevant. However in the midst of the 1980s, with the accession of Greece, Spain and Portugal; the developments post the fall of the Soviet Union seeing the reunification of East and West Germany and East Germany as a Member; the establishment of the European Economic Area in 1993; the accession of Austria, Finland and Sweden in 1995; as well as the 2004 and 2007 Eastern enlargement; and finally with the accession of Croatia into the European Union in 2013, Neo-functionalism has been revived to understand the behaviour of the Union.¹⁹

The majority of scholarly work on EU policy and interest in Eastern Europe concerns itself with EU Enlargement and Integration theories. These theoretical approaches look at how the EU has acted in accordance with the ‘spillover’ principle in seeking economic agreements with prospective partners as a way of bringing countries closer to the EU framework. This approach primarily dealt with the multiple enlargement phases in seeing the evolution of the Neo-functionalist European Community. Olga Shumylo commented that by becoming closer to the EU, Ukraine is losing its economic ties with Russia.²⁰ This is evident considering as of 2016 the economic markets are provisionally open between the EU and Ukraine, Ukraine has actively looked at reducing its trade in goods and relations with the Russian Federation. With the growing change in UA-Russian relations impacting on EU-UA relations, it then is clear to look at the role of Neo-functionalism in driving EU-UA integration. Table 1 below summarises the change in Ukraine’s Foreign Trade in Goods with the Russian Federation from 2012 – 2015 to highlights the reduction in exports.

Table 1: Ukraine’s Foreign Trade in Goods with the Russian Federation

Year	Exports in % to Previous Year	Imports in % to Previous Year
2015	49,3	58,9
2014	66,3	55,0
2013	85,4	84,7
2012	89,0	94,1
Data collated from the State Statistics Service of Ukraine from the years 2015, 2014, 2013, and 2012. https://ukrstat.org/en/operativ/operativ2016/zd/ztt/ztt_e/ztt0116_e.htm		

¹⁹ Kazmierkiewicz and Batory, 2006, 45.

²⁰ Ibid., 211.

Neo-functionalism as an approach looked to build upon functionalist theories and move away from a focus on the concept of the ‘anarchic state system’ towards supranationalist ideas and institutional building.²¹ The focus shifted into examining the ‘functional interconnectedness of policy areas’. Within these areas it was seen that the policies of ‘low politics’ were the areas which had the potential to ‘spill over’ into other policy areas.²² This spillover area would primarily be in the market economy, but were not restricted to it as such. The continuous affect is the concept of ‘functional spillover’ that is the core theoretical framework of the thesis. The concept of a ‘Spillover’ was first applied in two distinctive manners, it was used primarily as a shorthand to describe the occurrence of further integration and a term to identify the driving force and inherent logic of integration via increased economic and functional interdependence, of which integration in one sector leads to apparent pressures that encourage states to integrate in other areas.²³

However, that is not to say that Neo-functionalism provides a clear and coherent answer to the process of European Integration. The theory itself has been criticised as only being a ‘partial’ theory in the social sciences, of which it can only be applicable to research questions that are orientated towards examining and explaining EU decision outcomes.²⁴

Criticism towards the theory of Neo-functionalism is vast and concise. The problematic nature of the spill-over implying an automatic nature of integration is heavily criticised. As the theory is primarily used and applied to the European Union, the application of the theory to other regional or Supranational organisations is limited and difficult. This is because of the assumption that states are

²¹ Arne Niemann and Phillipe Schmitter, ‘Neo-functionalism’, in *European Integration Theory*, ed. Antje Wiener, and Thomas Diez, (Oxford: Oxford University Press), 2009.

²² Robert H. Jackson and Georg Sørensen, *Introduction to International Relations: Theories and approaches*, (Oxford; New York: Oxford University Press, 2007), 106.

²³ Niemann and Schmitter, 2009, 49.

²⁴ Ibid, 63.

willing to give up a significant degree of sovereignty.²⁵ Even within the EU, high politics such as security and defence as well as foreign policy remains an issue of the Nation State and not a EU Supranationalist competency. Critics heavily draw on this fact in order to refute the theory. This is due to the lack of recent expansion, which questions the limits of the EU expansion power. Consequently, the impact of expansion on any chance of a common foreign policy is significant, thus the idea of the theory being relevant is called into the spotlight.²⁶ The enlargement problem is evident, as it was one of the key problems in the mid 1960s when Intergovernmentalism revealed itself to be a competing theory. This was in light of the ‘empty chair’ crisis, in which the nature of national interest revealed itself to supersede the general Supranational functionalist benefit.²⁷

Yet, despite the pitfalls of Neo-functionalism as a theoretical framework, the application of the events that are occurring between the EU and Ukraine do provide ample room to assess how the situation is reflecting a new era of neo-functionalist behaviour. One clear reason is that Intergovernmentalism as a competing theory can also not explain the behaviour of the EU in this case.

1.3 Alternative Theories

The following section introduces two alternative approaches to contextualising the Ukrainian case. This is Intergovernmentalism and an overview of Geostrategic theories, in particular the Heartland Theory as proposed by Sir Halford Mackinder and the Tripwire Pivot Corridor proposed

²⁵ Stanley Hoffmann, ‘Obstinate or obsolete? The fate of the nation-state and the case of Western Europe’, *Daedalus*, Vol. 95, No. 3, (1966), 882.

²⁶ Adrian Pabst, The EU as a Security/Defence Community?, *Luxembourg Institute for European and International Studies*, 2/3 (July 2004).

²⁷ The Empty Chair Crisis occurred in 1965 when the European Commission proposed the development of the European Economic Communities’ own financial resources, independently of the Member States. This brought greater budgetary powers to the European Parliament and gave a greater role to the Commission. France vetoed the decision and refused to take their Seat in Brussels. This was the first event to highlight how the workings of the European Economic Community could be hindered by a Member State.

by Nayef R.F Al-Rodhan. The commentary examines the theories themselves before moving on to understanding their use or non-applicability in the EU-Ukraine AA and DCFTA case.

1.3.1 Intergovernmentalism and its irrelevance

Intergovernmentalism as a theoretical approach is another theory that could explain the EU-UA relationship. Belonging to the same umbrella family of Neo-functionalism, Intergovernmentalism as a theory is used as an alternative approach. Primarily based on the ideas of Realism and the State, Stanley Hoffman contends that regional integration is a part of a global system and that national interest could push and drive integration between governments. However, he also contends that the limits of integration are found at the level of national security and ‘higher politics’, as there is a strong degree of sovereignty amongst states that they wish to retain.²⁸

What is more interesting is the developments within Intergovernmentalism that Andrew Moravcsik proposed in his Liberal theories, seeing that one principle of international negotiations between governments is based on ‘economic interests’ within the nation’s interior. In his contribution Moravcsik provides the example of the European Central Bank, in which he contends that not knowing the aims of the ECB it would be unfeasible to understand negotiations.²⁹ The example of the ECB allows us to also contend that not knowing the aims of the European Union would also make it illogical to further explore their negotiations. This is exactly what this research intends to shed light on.

He concluded that national interests were connected to economic interests. This itself is relevant for an understanding of the EU-UA AA and DCFTA and can allow us to contend that the individual interests of each EU Member State is what drives and determines the application and the reasons

²⁸ Ian Bache and Stephen George, *Politics in the European Union*, (United States: Oxford University Press), 2006, 13.

²⁹ Andrew Moravcsik and Frank Schimmelfennig, Liberal Intergovernmentalism, in *European Integration Theory*, eds. Thomas Diez and Arne Wiener, (Oxford: Oxford University Press, 2009), 21-22.

behind the agreement. However, at the same time Movaravcsik contends that the negotiations are driven by national governments and not supranational governments. This in the case of EU-Ukraine is not present, however at the same time with the pressure received from the Dutch Referendum one can contend that there are some aspects of negotiation prospects that are inherently driven by the national governments.

However, to conclude with Intergovernmentalism, considering that the DCFTA is part of an agreement as a whole that is between a State of Ukraine and a Supranational Government that is the EU, we cannot look to apply Intergovernmentalism as a theoretical framework. This is because the DCFTA is not a Multilateral Agreement with each Member State, but rather a Bilateral Agreement between the two respective parties. At the same time, we must address the impact of the Nation state to an extent on the developments between EU-Ukraine negotiations. The Dutch consultative referendum in April 2016, showed a difference in European unity towards the EU-Ukraine Association agenda. However, despite the negative result of the referendum for Ukraine, the Free trade agreement between the EU and Ukraine still came into effect. This is because the AA is under the competency of the supranational bodies of the EU and not the Member State government. This statement by the Dutch people against the ratification, does not stop the implementation of the agreement, and shows in this sense how although the Member States can play a role, the connection between the Supranationalist entity and Ukraine trumps over any blockage. Thus, the theory is not entirely irrelevant, but not applicable in the framework of this thesis.

1.3.2 Geopolitics and its criticisms

All political action occurs in a geographical context and spatial relationships, which are keyed to the facts of relative location, are almost invariably of significance.³⁰ In other words, all political behaviour necessarily is geopolitical. Considering this statement made by Colin S. Gray one has to think of the geopolitical situation that the EU is working within. It has also been noted that at the broader European regional level, there exists something of a competitive geopolitical environment as there is a crude bipolar power distribution between the EU and Russia.³¹ As mentioned previously, the position of Ukraine allows Russia to hold an anchor in the 'European' sphere. For the EU, Ukraine not only allows a natural buffer zone between the East and West, but it becomes interesting to conceptualise the actual ideas of what east and what west is. For Europe, Ukraine is East; for Ukraine, Russia is East and Europe is West; and for Russia, both Europe and Ukraine are East. While this may seem irrelevant, it reflects the questions that revolve around EU expansion and relations as well as NATO involvement. This confusing mix of boundaries and labels contributes to an extent to the volatility of the area, which is conceptualised by Nayef R.F Al-Rodhan.

Al-Rodhan proposed the concept of a 'Tripwire Pivot Corridor', an area that is prone to international geopolitical significance and volatility, in which no powerful nation can afford to neglect this corridor if it wants to maintain an influential geostrategic position in the world.³² According to the author, Ukraine lies within this Corridor. Thus, the conflict in Eastern Ukraine and Crimea has resulted in a geopolitical stand-off between Russia and Western actors such as the United States, the European Union and NATO as they were introduced earlier in the section.

³⁰ Colin S. Gray, 'In Defence of the Heartland: Sir Halford Mackinder and his critics a hundred years on' in *Global Geostrategy: Mackinder and the Defence of the West*, ed. Brian W. Blouet, (New York: Routledge, 2005), 27.

³¹ Nicholas Ross Smith, "The Underpinning Realpolitik of the EU's Policies towards Ukraine: An Analysis of Interests and Norms in the EU-Ukraine Association Agreement." *European Foreign Affairs Review* 19, no 4, 2014, 581-596.

³² Nayef R.F. Al-Rodhan, *Neo-Statecraft and Meta-Geopolitics: Reconciliation Of Power, Interests And Justice In The 21st Century*, (Zurich: LIT Verlag), 2009.

The concept of the Pivot stems from MacKinder's 'Heartland Theory'.³³ The Heartland Theory is a geostrategic theory that includes an area at the centre of the world that is key to controlling the world. Within this theory Mackinder also summarises the importance of Eastern Europe and although the Heartland area was controlled by the Russian Empire at the time, the comments by Mackinder reflect the Western European attempt to control Russian expansion, and can further be analysed when looking at the East-West actions with Ukraine.

The Heartland Theory as well as geopolitics as a theoretical framework has received a mixture of positive remarks and heavy criticism. Although the theory has been alluded to in understanding regime preferences, Nicholas Ross Smith remarks that the altering geopolitical environment that generated after the Eastern Enlargement and Russia's regional revival under Putin has placed Ukraine as a vulnerable state between two powers.³⁴ Since the enlargement, this area that is referenced under the Pivot is also referred to as the shared neighbourhood where the spheres of influence of the EU and Russia overlap.³⁵ In both practical and political discourse, we can see the realities and truths of applying geostrategic theories to the current EU-Ukraine-Russia triangle situation. The EU is actively trying to prevent Russian expansion and Russia is trying to prevent EU and NATO expansion. Granted, EU integration with Ukraine does not automatically mean a twin enlargement of both the organisation, however this fear or hope exist with the fact that the two organisations share 22 members.

In regards to how geostrategic theories and geopolitics has been utilised amongst Eastern European Scholars, critics point to the current and prospective weakness of the Russian Federation; to the integration of Germany into a fully united Europe; to the unmatched strength of the US as

³³ Harold J. Mackinder, "The Geographical Pivot of History", *The Geographical Society*, Vol. 23, No.4, (April 1904), 421-437.

³⁴ Nicholas Ross Smith, 2014, 585.

³⁵ Ibid, 528.

arguments against the Heartland Theory of Mackinder.³⁶ At the same time, they remark that peacemakers need to recognise geographical realities and take account of them in their deliberations, calculations, and policies. The debate between scholars that stems from geostrategic theory draws from the developments with the hegemonic geopolitical power of the US, EU and Russia post the break up of the Soviet Union. Scholars perceive that the Russian approach policy of the early 1990s, that directed at strengthening links with the west seemingly at any price, is condemned as precipitating the loss of Russian influence in eastern Europe, with no reciprocal concessions being gained.³⁷ However, considering that the Russian Federation's made considerable gains in the conflicts in Georgia, Moldova and Ukraine, there emerges a gap in the literature needing to address this.³⁸ The gap is that no work currently addresses the changing geopolitical environment and motivating factors behind EU-Russian influence in the so called 'Heartland'. With the Eurasian union as a focal point in Russian intervention and control, the theory allows us to understand how economic integration can be seen as a way of controlling Ukraine in a sense, opening up the EU's regional dominance.

While this thesis does not inherent implore geostrategic theories, what it does is recognise their importance and relevance in understanding different aspects of European integration and complements the role that Neo-functionalism and geostrategic theories can bring to each other.

1.4 Concluding Remarks:

This chapter has introduced and expanded on Neo-functionalism, Geopolitics and Intergovernmentalism as approaches to understanding the EU-UA integration issue. What it has helped to do is highlight the way in which Neo-functionalism and Geopolitics can complement each

³⁶ Gray, 2005, 30.

³⁷ Paul Coones, 'The Heartland in Russian History', in *Global Geostrategy: Mackinder and the Defence of the West*, ed, Brian W. Blouet, (New York: Routledge), 2005, 25.

³⁸ Frank Schimmelfennig, Russia vs. the EU: The Competition for influence in Post-Soviet States (by Jakob Tolstrup), *Slavic Review* 75, no. 1 (2015): 219-20.

other when analysing the EU's desires of regional integration. At the same time, it has shown why Intergovernmentalism as an approach cannot be used in this research. The following chapters then comment through analysis on the DCFTA and the AA how the trademark of Neo-functionalism can be seen in the EU's dealings with Ukraine.

CHAPTER 2

THE ECONOMIC DIMENSION: DEEP AND COMPREHENSIVE FREE TRADE AGREEMENT

Chapter 2 focuses on the DCFTA, looking at the developments within Ukraine from the signing of the AA in 2014 up until the provisional implementation of the DCFTA in 2016. The section includes an assessment of the reforms within this transition period, and hypothesises that the rejection of the AA by former President Yanukovich was the ‘critical juncture’ that changed the nature of EU-UA relations.

The chapter includes an analysis on EU-UA trade relations to understand the effect of the FTA on the Ukrainian economy. This trade analysis is then complemented with a comparison of the fiscal years of the Ukrainian economy from 2013-2016. Although 2013 is picked as a starting point for the analysis, data from 2010 is given where relevant in order to understand general patterns and trends in the economic situation. The focal analysis is from 2013 as the Ukrainian government was still under Former President Yanukovich’s rule, whereas 2014 and 2015 represent the new interim government and the then elected Yatsenyuk government under President Poroshenko. It is important then to understand the economic conditions that the new pro-EU government found themselves in.

2.1 Tracing DCFTA logic

DCFTAs in their entirety have developed alongside the EU’s Eastern Neighbourhood Policy and have been further strengthened by the Eastern Partnership. According to Panagiota Manoli, this shows how ‘political considerations underlie the EU’s trade policy in its neighbourhood’.³⁹ As part of the goals behind the EaP, the DCFTA is clearly seen as a method to achieve ‘further economic integration between the European Union and interested partner countries’⁴⁰. This is in line with the main goal to

³⁹ Panagiota Manoli, “Political Economy Aspects of Deep and Comprehensive Free Trade Agreements”, *Eastern Journal of European Studies* 4, no. 2 (December 2013), 52.

⁴⁰ Council of the European Union, Joint Declaration of the Prague Partnership Summit, Prague, 7 May, 2009. Point 2.

accelerate political association. DCFTAs have also been considered as part of a commitment to the Mediterranean Partnership states. It is important to note that despite the amendments incurred through DCFTAs in the run up to the 2004 enlargement, the modern DCFTAs do not include prospects of European Membership. Rather their use of the DCFTA within the New Association Agreements are clearly defined through the Council of Europe:

New Association Agreements, beyond existing opportunities for trade and investment, will provide for the establishment or the objective of establishing deep and comprehensive free trade areas, where the positive effects of trade and investment liberalization will be strengthened by regulatory approximation leading to convergence with EU laws and standards. Open markets and economic integration are essential to the sustainable economic development of the partner countries and to underpin political stabilisation. Establishing bilateral deep and comprehensive free trade areas between the EU and partner countries could in the long-term perspective grow into a network of deep and comprehensive free trade areas.⁴¹

The AA and DCFTA with Ukraine is no different. The Agreement consists of two main parts. The first is Part I on Tariff Reduction and the second is Part II on the Adoption of EU trade acquis. The relevance of Ukraine is key in its contextual relations with the EU. Amongst EaP Countries, Ukraine was the first to enter trade negotiations after joining the World Trade Organisation in 2008. Although the Association Agreement was not signed in November 2013, the EU continued to express its commitment towards achieving this goal and consolidating a pact. In December 2013, High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton affirmed that "Ministers confirmed again today the European Union's readiness to sign the Association Agreement, with its Deep and Comprehensive Free Trade Area part, as soon as Ukraine is ready and the relevant conditions are met."⁴² Arguably in 2014, the conditions were met and Ukraine signed the agreement,

⁴¹ Council of the European Union, Joint Declaration of the Prague Partnership Summit, Prague, 7 May, 2009. Point 5.

⁴² Council of the European Union, Press Release, 3286th Council Meeting, Foreign Affairs, Brussels, 16 December, 2013.

and fulfilled its requirements in 2016 with the provisional implementation of the DCFTA. The interest here is what actually occurred with the Ukrainian State from 2014 until the start of 2016.

2.1.1 The Critical Juncture: Customs Union vs DCFTA

The concept of ‘Critical Juncture’ is taken from Capoccia and Keleman, who define it as ‘moments in which uncertainty as to the future of an institutional arrangement allows for political agency and choice to play a decisive causal role in setting an institution on a certain path of development’. The turning point of EU-UA relations came with the non-signing of the AA in 2013. This decision to move towards the Russian Led Customs Union as previously mentioned sparked a wave of change in Ukraine. The question as to why it became so pivotal lies in the fact that the decision to go for one of the two Unions has commonly been referred to as the ‘choice’. This choice has then prompted numerous scholars and policy analysts to examine the benefits and challenges of both options.⁴³ The choice has been seen as an aspect of regional integration on both the European and Russian side. The comments highlight the degree of resulting political, economic and social integration that lie at the heart of integration into either the Customs Union or the Free Trade Area. Thus, the choice of Yanukovich to move into the Russian Union caused huge uproar because critiques aware of the prospects of what the EU area could bring to the Ukrainian economy.

According to Movchan and Giucci, what the decision essentially boiled down to was that ‘in order to increase foreign trade and thus the welfare of Ukrainian people, policy makers should go for the conclusion of the DCFTA with the EU. At the same time, joining the customs union with former

⁴³ Rilka Dragneva and Kataryna Wolczuk, “Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?” *Briefing Paper, Russia and Eurasia Programme*, 2012; Chatham House, “EU Ukraine DCFTA vs Eurasian Customs Union: Flexibilities on Technical Standards Implementation in Sight,” *Borderlex*, August 29th 2014; Guillaume Van der Loo, *The EU-Ukraine Association Agreement and Deep and Comprehensive Free Trade Area: A New Legal Instrument for EU Integration Without Membership*, (Brill & Nijhof: Leiden), 2016; Olga Shumylo, “Ukraine at the Crossroads: Between the EU DCFTA & Customs Union.” *11. Russia.Nei.Reports*. (Paris: Russia/NIS Center), 2012.

Soviet republics would cause trade diversion and thus make the Ukrainian population poorer.’⁴⁴ Thus the choice for the latter by Yanukovych denied the Ukrainian state the better opportunity, which has generally been assumed to be so by the selection of aforementioned scholars. This is why the decision has been so heavily commented on and continuously been a conflict between the two choices. What is more, is that even on the EU institutional level, the matter had been forced as a decision for the choice between either two. Štefan Füle, former European Commissioner for Enlargement and Neighbourhood Policy stated in 2013 that ‘it is true that the Customs Union membership is not compatible with the DCFTAs which we have negotiated with Ukraine’.⁴⁵ This inherently implies that one cannot exist with the other, forcing Ukraine to make a choice. However, that choice was then the wrong one for the Presidential administration, and the developments since have shown why that moment was inherently a critical juncture for EU-UA relations.

2.1.2 Developments of the EU-UA DCFTA 2014-2016

The EU-UA DCFTA comprises of three major pillars that constitute the opening of markets, ensuring fair competition between EU and Ukrainian firms, and laying the groundwork for gradual alignment of norms and standards. The long term strategy is that the DCFTA will contribute to better market access and regulatory harmonisation. With those benefits, the DCFTA allows opportunities for export and investment that contributes to a greater demand for EU products and services. This demand would lead to economic growth and jobs, meaning that the goal of supporting Ukraine’s economic development and generating a higher demand for European products and services would

⁴⁴ Veronika Movchan and Ricardo Giucci, “Quantitative Assessment of Ukraine’s Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan.” *Policy Paper Series [PP/05/2011]*, (Berlin/Kyiv: German Advisory Group: Institute for Economic Research and Policy Consulting), 2011.

⁴⁵ Štefan Füle, Statement on the pressure exercised by Russia on countries of the Eastern Partnership, European Parliament Plenary, Strasbourg, 11th September 2013.

be achieved. Table 2 summarises the economic climate within Ukraine that the EU was investing itself in.

Table 2: Assessment of Ukraine's Economic Situation

Year	GDP Total (mln.UAH)	GDP Total (at prices of the previous year; mln. UAH)	Change of GDP Volume (Percent over previous year at 2010 constant prices)	Foreign Currency Reserves (Includes gold, current US\$)⁽²⁾
2015	1 979 458	1 430 290	-9,9	12,368,120,761
2014	1 586 915	1 369 190	-6,6	7,538,804,525
2013	1 465 198	1 404 293	0,0	20,413,622,008
2012	1 404 669	1 303 094	0,2	24,552,796,497
(1) Data collated from the State Statistics Service of Ukraine from the years 2015, 2014, 2013, and 2012. https://ukrstat.org/en/operativ/operativ2016/zd/ztt/ztt_e/ztt0116_e.htm .				
(2) Data sourced from Foreign Currency Reserves from the National Bank of Ukraine, Official Reserve Assets, accessed May 5, 2016, http://www.bank.gov.ua/control/en/publish/category?cat_id=7693073 .				

From the above table a number of conclusions can be drawn out. The most significant fact is the evidence of a deep and accelerated recession during 2014 and 2015. This is highlighted by the change in GDP to almost 10% by the end of 2015. At the same time, the rapid depleting of foreign currency reserves in efforts to stabilise the economy in 2014, coincides with the need for a rescue package that was achieved in 2014. Thus, it is then logical why the Foreign Currency Reserves increased by the end of 2015. The stabilisation of the economy was necessary in order to continue the progress that the Ukrainian government was making with fulfilling the requirements of the AA and the planned DCFTA. The financial support package that came from the EU, helped to ameliorate the Ukrainian economy and assist in the reform progress in different sectors.

As part of a commitment to support Ukraine, the European Commission put forward measures to provide Ukraine with at least €11 billion (euro) between 2014 and 2020.⁴⁶ The reasoning behind such was as part of the EU's effort to support Ukraine on its path towards political and economic reform, including those goals that were set out in the AA and DCFTA. The financial support package covered economic and financial assistance, trade and investment as well as energy and transport. On the EU's side, this saw economic support being transferred into different institutions and sectors, symbolising not only the EU acting in accordance to Neo-functionalist logic, but also pushing regional integration.

On 14th April 2016, the Directorate-General for Trade published a document highlighting the statistics for European Union trade in goods with Ukraine.⁴⁷ The report reveals that Ukraine has remained in a low position for EU trading partners in the categories of Imports (28), Exports (25) and even Total Trade (29), with no significant change throughout the years. This shows that Ukraine even prior to 2014 was not a significant addition to the EU economy. Yet, the EU has remained interested in integration with Ukraine, which has been emphasised by the financial assistance provided during the years 2014 to 2016. The strategic focus of financial assistance towards small and medium-sized enterprises, investment projects in infrastructure, technical assistance to create the conditions for economic development. All of these investments work in moving Ukraine towards European technical regulations and standards, allowing integration to, of course, be simpler. However, it demonstrates that despite Ukraine not being a high priority or significant trading partner for the EU there is evidence to suggest integration and geostrategic theory into the equation due to the EU's continued investment into Ukrainian stabilisation and restructure. This connection between geostrategic theories and neo-

⁴⁶ Press Release, European Commission's support to Ukraine, Brussels, 5 March 2014, accessed May 5, 2016, http://europa.eu/rapid/press-release_MEMO-14-159_en.htm.

⁴⁷ European Commission, Directorate-General for Trade, European Union Trade in goods with Ukraine, 2015, available via: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113459.pdf.

functionalism highlights the political agenda that can be achieved through economic integration, and further explains why Moscow has been so ambivalent to the prospects of enhanced EU-UA association.

2.2 Ukrainian Reforms: Interim Government to Petro Poroshenko

With the previous section contextualising the economic climate within Ukraine, this subsection tracks the reform implementation from the Interim Government of Yatsenyuk in March 2014 to the end of 2015. However, what is initially important to note is that up until the Presidential elections, the situation in Ukraine was to stabilise the economic situation, especially in regards to the devaluation of the Ukraine currency. The problem that the country faced at this point also played a significant role, with the political unrest in eastern Ukraine during April and May 2014 where large areas of the two oblasts Luhansk and Donetsk taken over by pro-Russian rebels. All of this dramatically affected the macroeconomic situation in the country. The Interim Government in power had successfully agreed a \$17 billion USD loan with the IMF and \$3.2 billion USD given to Ukraine at the end of April 2014.⁴⁸ Following the agreement with the IMF, the European Union complemented the IMF's stand-by arrangement with its macro-financial assistance of €1.6 billion Euro.⁴⁹

In order to adhere to the requirements of the IMF the Government implemented a new Law on April 1st 2014. The Law 'On Preventing Financial Catastrophe and Creating Prerequisites for Economic Growth in Ukraine' focussed on restoring macroeconomic stability, strengthening

⁴⁸ Full details on the Stand-By Arrangement for Ukraine by the IMF can be found here: Press Release, IMF Executive Board Approves 2-Year US\$17.01 Billion Stand-By Arrangement for Ukraine, US\$3.19 Billion for immediate Disbursement, No. 14/189 April 30, 2014, accessed May 5, 2016, <https://www.imf.org/external/np/sec/pr/2014/pr14189.htm>.

⁴⁹ Decision (EU) 2016/601 Of the European Parliament and the Council of 15 April 2015 providing macro-financial assistance to Ukraine, Official Journal of the European Union, Brussels, 17.4.2015.

economic governance and transparency, and launching sustainable economic growth.⁵⁰ Reza Moghadam, Former-Director of the IMF's European Department identified that the programme itself, targeted at fiscal austerity, reducing the fiscal deficit, energy sector changed and corruption, is ambitious but designed to address Ukraine's macroeconomic imbalances and structural weaknesses.⁵¹ It is clear that the financial assistance helped to tackle structural changes in different sectors, and with this, it is also important to note that Ukraine had yet to sign the DCFTA part of the AA at this point. Yet Ukraine was already on the path of economic integration coupled with structural spill over reforms in order to achieve long term goals.

The DCFTA part of the AA was signed in the background of a macroeconomic environment that was hindered by military clashes in the East, a decline in GDP, weak export performance, fiscal austerity and low bank lending activity. In the other sectors and the state budget, tariff increases in gas worsened the fiscal deficit due to the prices not reflecting the currency devaluation. At the same time, Moscow cut the gas supply to Kyiv on June 16th 2014. Politically the non-recognized referendums saw the creation of 'independent' Luhansk and Donetsk. From the interim government until early September, Ukraine introduced 74 Laws or amendments all designed to not only improve the situation in the country, but categorically align themselves in accordance with the provisions of the prospective AA. These Laws ranged from Civil Rights and Freedoms, State Registration of Property Rights, Public Television and Broadcasting, Investor Rights as examples.⁵² All the introductions had categorical motivations behind them that not only reflected the aspirations of Ukraine to move towards the European values that had been expressed during the Euromaidan, but also of the Western desire for

⁵⁰ The Law of Ukraine On Preventing Financial Catastrophe and Creating Prerequisites for Economic Growth in Ukraine, Verkhovna Rada of Ukraine; Law on March 27, 2014 № 1166-VII, available via: <http://zakon3.rada.gov.ua/laws/anot/en/1166-18>.

⁵¹ Interview with Reza Moghadam, Ukraine Unveils Reform Program with IMF Support, IMF Survey, April 30, 2014, available via: <http://www.imf.org/external/pubs/ft/survey/so/2014/NEW043014A.htm>

⁵² Laws of Ukraine, Verkhovna Rada Ukraine, available via: <http://zakon3.rada.gov.ua/laws/main/en/annot>.

Ukraine to ‘democratise’ itself and align strategically with European and International norms. This democratisation became increasingly evident with the election of President Poroshenko. His election brought the signing and completion of the Association Agreement on June 27th bringing Ukraine closer to Europe.

2.2.1 Poroshenko and the Strategy of reforms 2020

In September 2014, newly elected President Petro Poroshenko presented his reform plan entitled the ‘Strategy of reforms 2020’, which was approved at the National Council reform meeting on 24th December 2014. The strategy according to the President was designed to ‘achieve European standards of life and prepare for the application for the EU membership in 2020.’⁵³ His strategy was targeted at the availability of work, decent salary, pension, scholarship and successful business. The fact that the reforms were targeted at the eventual goal of EU membership, the importance of the financial assistance and driving force of the EU and IMF loans in consolidating the reform programme cannot be ignored. The strategy consists of 62 reforms, numerous special activities and state programmes that were and are currently designed to push Ukraine into the top 20 countries of the World Bank’s ‘ease of doing business’. The reforms are designed to be implemented within the next six years, and on an economic standpoint will look to increase the GDP per capita by \$16,000 USD, and push towards an inflow of foreign direct investment.⁵⁴

An interesting point to note about the reforms is the overlap, or ‘functional spillover’ in programme activity, area and competences. The reform programmes show evidence for the functional spillover of neo-functionalism. If we consider the economic and monetary policy reform, the

⁵³ Petro Poroshenko, Our Goal Is European Standards and EU Membership, Official Website of the President of Ukraine, accessed May 9, 2016, <http://www.president.gov.ua/en/news/nasha-meta-yevropejski-standarti-zhittya-ta-chlenstvo-v-yes-33842>.

⁵⁴ See the following for further details and the complete strategy: Ukraine 2020 Strategy, available via: reforms.in.ua/sites/default/files/imce/2020booklet21_11engpreview.pdf

programme itself also includes initiatives on tax reform, deregulation and corporate rights reform as an example. The fact remains that the reform initiatives spill over into various sectors and bring together the entire project. With the end goal being eventual EU membership application from the Ukrainian state, it is hard to deny the initiatives reflecting the programme as inherently Neo-functionalist in character. However, it is important to note that the presence of Crimea or the Luhansk and Donetsk Oblasts is missing from the strategy. This is a geopolitical situation that needs to be resolved, but the reform strategy seems to put forward the understanding that the problem of the breakaway regions would be dealt with in hand with the implementation of the reforms. Unfortunately as of 2016, this is still not the case, and is definitely a marker that the reforms themselves need to address the current situation in the East. A full analysis of the 2020 Strategy is beyond the scope of this thesis, however, it is definitely a perspective that needs further research on.

2.2.2 Reanimation Package of Reforms

Although not specifically a Government led initiative, the Reanimation Package of Reforms owes its birth-right to the Euromaidan. The coalition of civil society organisations, think tanks and analytical centers that work together to enhance reform work in Ukraine. The role of the Package is actively drafting, advocating and monitoring the implementation of reform legislation. The expert groups that concentrate on reforms range from legislation, judicial protection, civic initiatives, anticorruption, consultations, education and analytics. Specifically in its work towards the DCFTA the Package has assisted in expanding the access of Ukrainian goods to the European market, assisted in the transparency of public procurement and public finance. The Package has been key in the intellectual merit that it has provided in opening up the framework of the DCFTA.

2.3 DCFTA till January 2016

The following section takes an in-depth look at developments associated with DCFTA provisions up until 2016. The section analyses EU-Ukraine Trade in Goods (TiG), Trade in Services (TiS), and Foreign Direct Investment (FDI). However, the focus is on TiG, understanding that TiG is one of the most influential factors and areas affected by the DCFTA. The most obvious indicator of economic integration and openness is that TiG, TiS and FDI would rise. Thus, the section looks at the developments in all three aspects from 2014-2016 in order to understand if the prospect of the FTA with Ukraine altered economic activity, despite the political situation in the country.

2.3.1 EU-Ukraine “Trade in goods”

TiG is a recognised measure of commercial market strategy. The EU uses TiG statistics in order to develop their own trade negotiations, understand their macroeconomic policies, as well as evaluate the integration of European economics. Table 3 below summarises the TiG data between the EU and Ukraine:

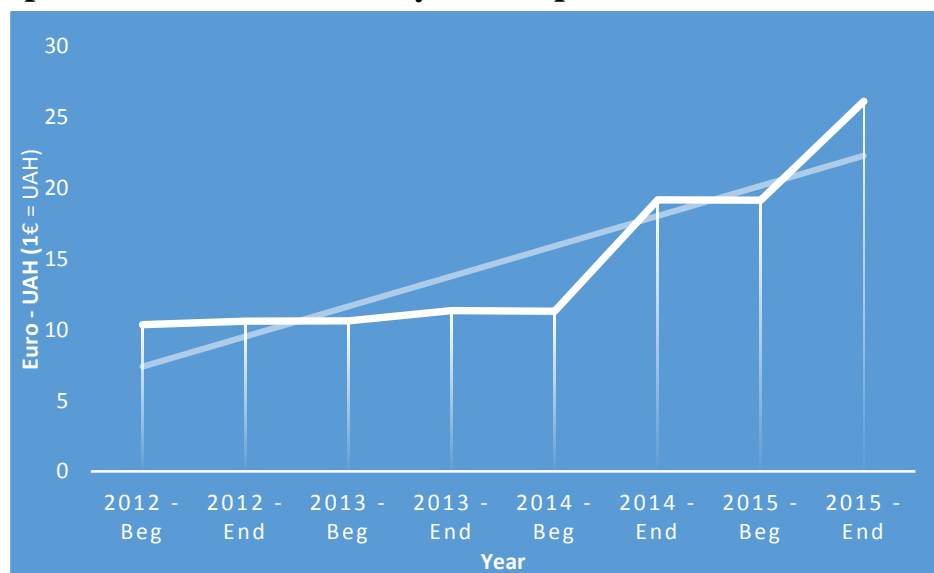
Table 3: EU-Ukraine “Trade in goods” (Million USD)

Year	EU Imports	EU Exports	Balance
2015*	14,432	13,924	-1,154
2014**	17,002	21,069	+4,066
2013	16,758	27,046	+10,287
2012	17,081	26,156	+9,075
2011	17,969	25,752	+7,782
2010	13,051	19,101	+6,049

* European Commission, Directorate-General for Trade, European Union Trade in goods with Ukraine, 2015, available via: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113459.pdf.
**Data collated from the State Statistics Service of Ukraine from the years 2014 and 2015. http://www.ukrstat.gov.ua/operativ/operativ2009/zd/ztp_ES/ztp_ES_e/arh_ztp_ES_e.html.

Table 3 on the previous page not only helps to understand the dynamics of EU-UA TiG, but also draw conclusions on the nature of the trade relations. Despite the continued trade surplus that can be traced all the way back to 2010, the recession economy of Ukraine in 2013 and 2014 meant that significant changes occurred in the value of export goods to Ukraine. This can be attributed to the drop of purchasing power of the country considering the extreme devaluation of the Ukrainian currency (Hryvnia UAH) in 2014. Eventually the stabilised inflation but weak macro economy has led to a trade deficit for the EU. The existence of the trade deficit between the EU and Ukraine is intriguing. The EU's continued efforts into Ukraine, show the Union acting in accordance to a 'country' experiencing strong expansion within their economy. As the nature of internal EU finances is beyond the scope of this thesis, it can only be stated that the relationship between the EU and Ukraine indeed seems heavily skewed to favour Ukraine. With the balance for the EU shifting in its favour only as of 2015, it is important to understand if the prospect of the FTA is what drove the change. Graph 1 below highlights the depreciation of the UAH to understand a probable factor of decreased EU export. The graph tracks the value of the currency at the beginning and end of each fiscal year from 2012 – 2015.

Graph 1: Euro-Ukrainian Hryvnia Depreciation 2012 – 2015



Graph 1 highlights the significant depreciation of the currency, which can be directly traced to the political crisis at the end of 2013. By the end of 2015 the currency had lost over half its value. The linear trend line in the graph points out the continued depreciation present since 2012. The decline of the Ukrainian Hryvnia directly affects the demand for exports, as the exports themselves appear cheaper to foreign buyers. However, noted in Table 3, Ukraine was still importing much more than it was capable of exporting with the EU, this is largely as a product of the Trade relation circumstances. Thus the change that occurred in 2015, and the possibility of a change in 2016 can only be seen by breaking down the Trade flows. Table 4 on the following page presents the breakdown of goods according to Standard International Trade Classification (SITC). The table tracks the percentage in accordance to the previous year to identify key changes and patterns.

Table 4: EU-Ukraine Trade flows by SITC section 2012-2015

		Imports				Exports			
		% Compared to Previous year				% Compared to Previous year			
		2012 OG	2013 OG	2014 IG	2015 NG	2012 OG	2013 OG	2014 IG	2015 NG
Total		-3.36	-5.20	-1.14	-6.95	12.13	0.14	-28.93	-18.03
0	Food and live animals	82.86	-7.64	14.08	16.07	20.48	-0.79	-19.59	-25.74
1	Beverages and tobacco	-5.00	10.53	-	61.11	20.10	0.86	-20.43	-5.88
2	Crude materials, inedible, except fuels	0.90	2.08	-	-8.29	14.03	7.23	-24.04	-3.36
3	Mineral fuels, lubricants and related materials	-20.11	-24.97	-	-48.00	23.59	39.64	-24.81	-30.05
4	Animal and vegetable oils, fats and waxes	29.18	-27.73	32.76	0.97	53.49	-13.64	-5.26	-29.63
5	Chemicals and related prod, n.e.s.	-21.53	-18.98	-0.72	-8.35	16.06	-0.76	-19.92	-15.51
6	Manufactured goods classified chiefly by material	-25.00	2.73	-1.76	-8.92	0.38	-0.75	-24.09	-16.35
7	Machinery and transport equipment	12.84	-10.92	2.83	-0.35	13.90	2.88	-46.12	-13.71
8	Miscellaneous manufactured articles	-6.90	2.12	8.81	3.49	10.44	1.44	-27.99	-22.48
9	Commodities and transactions n.c.e	2.94	-2.86	-2.94	-6.06	-8.22	17.16	-47.13	0.00
Other		-12.03	19.96	-3.55	-0.97	-29.75	23.79	-37.79	-38.74
OG – Old Government (Yanukovich), IG – Interim Government (Yatsenyuk/Poroshenko), NG – New Government (Poroshenko) Data self-compiled. Formula for percentage ((New Year – Previous Year)/Previous Year)*100 Data source: http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/									

There are a few significant observations that are relevant to this thesis from the above table. The first to note is the significant differences between the number of exports in 2014 and 2015 in comparison to that under the old government of Yanukovich. Despite the signed AA in June 2014, by the end of 2014 there was a significant decrease in EU export products to Ukraine in all categories. The same fluctuations were present in 2015; however, there were seemingly noticeable improvements in Category 9 with no change in the amount of Commodities and transactions. This data can be further interpreted and analysed, however due to my own limitation, the purpose of the information is to

clearly establish the economic and trade environment in general. The situation in 2014 can be attributed largely due to the war; however the improvement of the situation is key at understanding the benefits of the FTA. By the end of 2014 and during 2015, it can be assumed that businesses, traders and investors were aware that the application of the delayed DCFTA provisional application until 31st December 2015, but at the same time the EU promised to continue autonomous trade measures to the benefit of Ukraine.⁵⁵ This continued rhetoric identifies a driving force for sustained trade relations between the two entities in this case.

This brief analysis of the TiG situation between the EU and Ukraine has shed light on the fact that the economic situation within the country was not favourable to continued EU-UA trading. The export value of products going to Ukraine during 2014 and 2015 was significantly lower than that even under the Yanukovich government. From Table 4 it is clear that the economic situation was unfavourable to the EU in the year following the Association Agreement, yet the provisions still went into place.

2.3.2 EU-Ukraine “Trade in services”

For the EU the provision of services has a direct impact on the Unions economic wealth. At the same time TiS accounts for approximately 50% of the GDP within member states.

Table 5: EU-Ukraine “Trade in services” (Billion USD)

Year	EU Imports	EU Exports	Balance
2015	2.8592	2.616	-0.2427
2014	3.9916	3.1488	-0.8428
2013	4.1957	4.2120	+0.0163
2012	3.7449	3.6303	-0.1146
2011	3.5254	3.3633	-0.1621
2010	3.1170	2.9944	-0.1226
* European Commission, Directorate-General for Trade, European Union Trade in goods with Ukraine, 2015.			

⁵⁵ European Commission Statement, Joint Ministerial Statement on the Implementation of the EU-Ukraine AA AND DCFTA, Brussels, 12th September 2014, available via: http://europa.eu/rapid/press-release_STATEMENT-14-276_en.htm.

Much like the situation with TiG, TiS has yet to be a successful factor in EU-UA relations. However, what is noticeable from the above table is not only a reduction in the amount of TiS from 2013, but also in a gradual reduction of the current trade deficit. This table also helps in highlighting 2013 as the pivotal year of change in EU-UA relations.

2.3.3 EU-Ukraine ‘Foreign direct Investment’

According to Article 145:1 of the DCFTA, ‘with regard to transactions on the capital and financial account of balance of payments, from the entry into force of this Agreement, the Parties shall ensure the free movement of capital relating to direct investments made in accordance with the laws of the host country’.⁵⁶ This article is particularly important in order to understand the reforms that took place in order to make FDI more attractive, and at the same time address concerns that were risen in the Global market in respect to the problems with the Ukrainian economy. In July 2015, Bloomberg economists forecasted that Ukraine will end 2015 as the ‘biggest loser in global growth’.⁵⁷ Table 6 summarises the change in FDI since 2010.

Table 6: EU-Ukraine “Foreign direct investment” (Billion USD)

Year	Volume of direct investment (Inflow)	Change to Previous Year (%)
2015	33,0423	-7,18455056
2014	35,6	-19,8623331
2013	44,4230	+3,359059
2012	42,9793	+14,043984
2011	37,6866	+6,9867
2010	35,2255	+12,360249
Data compiled from the State Statistics Service of Ukraine from the years 2015-2010. https://ukrstat.org/en/operativ/operativ2016/zd/ztt/ztt_e/ztt0116_e.htm .		

⁵⁶ Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part, Official Journal of the European Union, 29.05.2014

⁵⁷ Michelle Jamrisko and Catarina Saraiva. ‘These 10 Economies Will Be the World’s Worst Performers’. *Bloomberg.com*. Accessed May 11, 2016, <http://www.bloomberg.com/news/articles/2015-07-01/these-10-economies-will-be-the-world-s-worst-performers-by-the-end-of-2015>.

Once again, concerning is the fact that FDI from the EU has certainly decreased since the onset of the crisis in Ukraine. However at the same time the changes have not been that drastic since 2015, and with this data and the fact that governments were anticipating that DCFTA implementation will involve additional business friendly reforms such as harmonization of standards to meet EU norms, the amount of FDI at the end of 2016 will show whether the reforms have been successful in encouraging FDI.

2.4 Concluding Remarks

This chapter has highlighted and explained the economic climate of 2014 and 2015 in regards to its relevance for the provisional application of the DCFTA as of January 2016. It has also conceptualised the nature of a DCFTA as a document in understanding the impact that it had on changing the nature of reforms within the Ukrainian government. By commenting on both the economic climate and trade status between the EU and Ukraine it is clear that the behaviour and actions of the EU in investing into Ukraine is against the fundamental principles of how an entity should conduct itself when experiencing a trade deficit with the other party. In highlighting this fact, it is clear that there is much more to the AA and DCFTA than economic integration and political motivations must be considered. This is clear in that the economic climate within Ukraine was unfavourable for EU investment.

In understanding this fact, it gives evidence to the theoretical notion of the EU acting as a Neo-functionalist character for the following reasons. Despite the unfavourable economic climate in Ukraine, the EU insisted on continuing trade relations and pushing forward with an AA and DCFTA. By understanding the data analysed in the chapter and complementing this with the continued repeated rhetoric of the EU in committing themselves to assisting in the stability and reform of Ukraine, it is clear that the motivations driving the EU are more political than economic. The changes

adopted by the reforms were inherently a demand of financial assistance in order to assist in integration. However, it is also clear that the reforms are designed to shift Ukraine towards European standards. In doing so it eases the prospects of European integration.

This chapter identified the key conflict between EU-UA interest in identifying the nature of poor economic environment and continued investment. It is built on in the next chapter in order to understand whether or not there has been any improvement since the provisional application in January 2016, as well as understand how far the movement towards economic integration has affected other sectors.

CHAPTER 3

THE ‘SPILLOVER’ DIMENSION: PROJECTIONS OF EU INTERESTS

The following chapter focuses on the ‘Spillover’ concept and builds on the developments of the DCFTA tracked in the previous chapter, as well as its impact within Ukraine from January 2016-April 2016. This section looks to identify patterns, trends and provide evidence for the effective ‘Spillover’. April 2016 is the end of the 1st financial quarter of the Ukrainian fiscal year, which allows us to assess not only the change in the economic situation, but also where key changes and developments have occurred.

3.1 A Government of Reforms: January – April 2016

On the 31st December 2015, the day before the provisional implementation of the EU-UA DCFTA, European Commissioner for Trade Celia Malmström in a press release summarised the EU discourse behind the DCFTA in Ukraine. She stated that,

[t]he ambitious goals of approximation to EU legislation in areas such as competition, government procurement, and protection of intellectual property rights, the agreement will contribute to the modernisation and diversification of the Ukrainian economy and will create additional incentives for reform, notably in the fight against corruption.⁵⁸

The statement above does not only provide the logic for understanding how the DCFTA will inevitably spill over into other areas, but also provides a focus point to assess where spillover could have occurred in the last four months. On the 21st January 2016, the EU released a joint motion for a resolution on Association Agreements and Deep and Comprehensive Free Trade Areas with Georgia, Moldova and Ukraine.⁵⁹ This resolution not only recognised the values, principles and

⁵⁸ Press Release, European Commission, The trade part of the EU-Ukraine Association Agreement becomes operational on 1 January 2016, Brussels, 31.12.2015, available via: http://europa.eu/rapid/press-release_IP-15-6398_en.htm.

⁵⁹ See Operative Clause 39, European Parliament, Plenary Sitting, Joint Motion for a Resolution on Association Agreements and Deep and Comprehensive Free Trade Areas with Georgia, Moldova and Ukraine, Brussels, 20.01.2016, available via: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+MOTION+P8-RC-2016-0068+0+DOC+PDF+V0//EN>.

struggles of the implementation of AA and DCFTA with the relevant parties, but also at the same time condemned the political situation in Ukraine and identified the role the political situation plays in developments towards Ukrainian stability. The question of focusing on the reforms during this period is key in understanding the spillover, due to the inherent discourse promoted by the EU. Not only are the reforms directly connected to the AA and DCFTA in Ukraine as we have seen already, but they also provide an insight into the overall spillover effect of the economic agreement.

From the discourse of the EU, the priorities of the DCFTA align with political, judicial and economic reform. In February 2016 and April 2016, the Carnegie Endowment for International Peace as part of their Ukraine Reform Monitor Team released two documents tracking reform developments within Ukraine.⁶⁰ The documents provide detail on the scope of reforms within Ukraine. This chapter then looks at Political, Judicial, Gas and Energy reforms. These categories reflect the cases in which markers of functional spillover is most evident.

3.1.1 Political and Judicial Reform

Corruption was the biggest problem that plagued the Ukrainian government in the 1st Quarter of 2016. At the same time, it had already been addressed as a concern for the EU. The corruption allegations at the beginning of February 2016 had a dramatic effect on economic growth, stalling IMF assistance. The impact of these allegations and changes are key in understanding the support needed to restructure the government. In February, Managing Director of the IMG, Ms. Christine Lagarde released a statement in which the connection between IMF support, anti-corruption and reform were established and emphasised.

Without a substantial new effort to invigorate governance reforms and fight corruption, it is hard to see how the IMF-supported programme can continue and be successful. Ukraine risks a return to the pattern of failed economic policies that

⁶⁰ Ukraine Reform Monitor, February 2016, April 2016, Carnegie Endowment for International Peace, 19.02.2016, 28.04.2016, available via: <http://carnegieendowment.org/2016/02/19/ukraine-reform-monitor-february-2016/iuri> and <http://carnegieendowment.org/2016/04/28/ukraine-reform-monitor-april-2016/ixqm>.

has plagued its recent history. It is vital that Ukraine's leadership acts now to put the country back on a promising path of reform.⁶¹

The allegations of corruption were resolved in April 2016 with a shakedown of the General Prosecutor of Ukraine, in which Viktor Shokin was removed and Yuriy Lutsenko appointed. This attempt at targeting corruption within the country plays a huge significance in what the move represents for the country. Shokin was infamous in that he did not prosecute a single member of the deposed Yanukovych government, and his position in power was arguably stalling the reform process.⁶² With this, it seems that he had a significant role in delaying the restructuring of the prosecutor's system.⁶³ The appointment of Lutsenko has been lauded as a positive move towards the restructuring of the Ukrainian government.

The stabilisation of the economy is key to European integration. This is because economic stability leads directly to an enhanced relationship with the EU. This relationship for Ukraine has been established through the implementation of the DCFTA. The process of Reforms in the field of corruption connect with the opportunity for increased integration, and thus reflect the spillover principle of neo-functionalism. Financial support leads to economic stability and economic stability leads to increased transactions between the EU and Ukraine. If corruption or political processes hinder one of those factors, there is a strong need to address those issues. Thus, the actuality of economic integration branches out into different sectors. According to a Josh Robinson, Global Manager of Bloomberg Economic Surveys, as of April 6th 2016 it seems that Ukraine is back on track to receive IMF funding.⁶⁴ In this case, although there has been little done in the four-month period, the

⁶¹ Press Release, Statement by the Managing Director On Ukraine, No.16/50, February 10th 2016

⁶² The Editorial Board, Ukraine's Unyielding Corruption, The New York Times, March 31st 2016. Accessed May 16, 2016. http://www.nytimes.com/2016/04/01/opinion/ukraines-unyielding-corruption.html?_r=0

⁶³ Halya Coynash, How Ukraine's Prosecutor General Sabotages the Reform Process, Atlantic Council, January 6th 2016. Accessed May 16, 2016. <http://www.atlanticcouncil.org/blogs/new-atlanticist/how-ukraine-s-prosecutor-general-sabotaged-the-reform-process>.

⁶⁴ Josh Robinson and Daryna Krasnolutska, Ukraine seen resuming IMF Loan in Summer as Graft Ranking stuck, Bloomberg, April 6th 2016. Accessed May 16, 2016. <http://www.bloomberg.com/news/articles/2016-04-06/ukraine-seen-resuming-imf-loan-in-summer-as-graft-ranking-stuck>.

significant change of leadership in order to address IMF concerns is evidence enough to back the contribution of this project in highlighting renewed Neofunctionalist EU. This is because the connection between reforms, economic stability and financial support has been established and identified.

3.1.2 Gas and Energy Reform

Following the implementation of the 'Law of Ukraine on the Natural Gas Market', 2016 saw the most extensive restructure of the state owned company Naftogaz. The reform changes the governance of Naftogaz and looks to modernise gas pipelines within the country.⁶⁵ The importance of these reforms are highlighted in the actual FTA. The EU-UA AA and DCFTA is the first agreement that includes specific provisions that are designed to deal with trade related energy issues. In order to adhere to the principles within Chapter 11 of the AA, the reforms are inherently formulated on achieving integration goals. At the same time economic stability is inherently bounded by the reform process. The reforms in the energy sector are the direct result and product of requirements of financial assistance.

The reforms are a result of a contract with the European Bank of Reconstruction and Development and the European Investment Bank.⁶⁶ Although the financial assistance is aimed at securing energy demands for the upcoming winter, the relevance of this is crucial to economic growth, stability and the overall political relationship between the EU-Ukraine and Russia Energy Triangle.⁶⁷

⁶⁵ Restructuring plan of NJSC Naftogaz of Ukraine aimed at separation of the natural gas transmission activities in accordance with the Law of Ukraine "On the Natural Gas Market", Verkhovna Rada of Ukraine, 19.01.2016, http://www.naftogaz.com/files/Information/NAK_Restructuring_Plan_en.pdf.

⁶⁶ Svitlana Pyrkalo, EBRD, Ukraine agree Naftogaz reform, sign US \$300 million loan for winter gas purchases, European Bank for Reconstruction and Development, 23.10.2015, accessed May 9, 2016, <http://www.ebrd.com/news/2015/ebd-ukraine-agree-naftogaz-reform-sign-us-300-million-loan-for-winter-gas-purchases.html>.

⁶⁷ The concept of the Energy Triangle has been commented on by a number of scholars such as Olesia Ogryzko, The energy triangle: the EU, Ukraine and Russia, *World Commerce Review*, (June 2014); Michael Emerson, The EU-Ukraine-Russia Sanctions Triangle, *Center for European Policy Studies*, (October 2014); Andreas Umland, The State and Prospects of the Russia-EU-Ukraine Triangle, *Foreign Policy Journal*, (September 2011); Oleg Gorbunov, Ukraine-Russia-Europe: The Triangle of Problems, *European Dialogue*, (November 2010).

This link to the political situation is in response to the nature of the cross-sanctions between both Russia and Ukraine. The situation in the winter of 2014 and 2015 meant that Ukraine was struggling to supply its consumers with the appropriate energy demand. Coupled with the economic situation, it was by no means beneficial to the country. In securing the energy demands for the winter of 2016, and consolidating the reforms, the government was moving on track to successful economic development.

The reforms within the energy sector are vital for not only the security but also the stability of Ukraine. Currently the government has successfully achieved a degree of diversification in gas supplies, as well as implemented the provision related to natural gas as part of the EU's Third Energy Package.⁶⁸ Economic growth and energy demand are inherently linked. In order for individuals to maintain an appropriate living standard, in a successful economy the per capita energy use is generally stable and at a relative price. The reforms in the energy sector to move in line with the package help to assist Ukraine in transforming itself into a developed economy. The goal of energy security for both Ukraine and the EU has driven the reform process. Within these changes, Ukraine has distanced itself from Russia and reoriented itself into the European sphere. The fact that Energy and Trade was unique to this DCFTA reflect the very nature of what the agreement is and should be seen as. This is a tool of neo-functionalism, and the developments within the Energy sector that are driving multiple reforms and changes further emphasise the spillover effect.

⁶⁸ The EU's Third Energy Package of Legislation consists of two directives and three regulations. These documents can be found in OJ L 211 (14 August 2009), accessed at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2009:211:TOC> on 8 April 2016.

3.1.3 Spillover and Foreign Policy

The political, judicial, gas and energy reforms have been highlighted as some examples of spillover that has occurred in the view of the DCFTA implementation. Developments in the aforementioned sectors have been driven by economic integration and the prospect as well implementation of the FTA. Considering that the core function of the FTA was designed to change the market, it is clear that the agreement itself goes deeper than trade cooperation. The integration of the energy sector by European standards will most likely contribute to integration in other sectors. John Ruggie commented that,

[o]nly a common energy policy and certain aspects of transport infrastructure seem capable of igniting latent functional linkages and generating the unintended consequences on which Neo-functionalism thrived.⁶⁹

Although the energy sector has yet to move towards a concrete common policy, the developments under the FTA have undoubtedly shaped towards a unified European policy between the EU and Ukraine, provided an extensive guide to deciphering the policy behaviour, reforms and changes under the AA and FTA. The EU's Third Energy Package is an important maker of the creation of an energy markets in Ukraine. The requirement to establish a natural gas market, create an electricity market, and to this end ensure the functional and political independence of the regulatory body is designed to move the regulation framework into the same area as European policies. Efforts to diversify the market in reference to natural gas has already been implemented by the Ukrainian government. The developments then within the energy sector, which are heavily supported and dependent on IMF loans support Ruggie's statement, and show how the EU-Ukrainian energy reform highlights how Ukraine is a renewed case of neo-functionalist European behaviour.⁷⁰

⁶⁹ John G. Ruggie et al, Transformation in World Politics: The Intellectual Contributions of Ernst B. Haas, *Annual Review of Political Science*, (2005), 281.

⁷⁰ The Law of Ukraine on Stimulating the Production of Electricity from Renewable Sources (Law # 5485-VI)], accessed April 8, 2016, <http://zakon3.rada.gov.ua/laws/show/5485-17>.

The energy sector reform has had a significant impact on both European and Ukrainian foreign policy. In light of the DCFTA, Russian tariffs have been imposed on Ukrainian goods and Ukraine has in response placed a trade embargo on Russia.⁷¹ Relationships have also changed in the aviation industry as an example, with a ban on direct flights and closing of the airspace for aircraft belonging to either the Russian or Ukrainian Civil and Military authorities.⁷² These foreign policy decisions have been replicated on the EU side with numerous diplomatic and restricted measures between the EU and Russia.⁷³ Foreign policy has long been seen as a policy area in which Neo-functionalism cannot be applied successfully, however, the changing relationship between the EU, Russia and Ukraine under the AA and DCFTA seemingly shed light on a new understanding of the spillover and Neo-functionalism as a whole.⁷⁴ The impact on the Russian side of Foreign relations is explored in the next section. What is however clear from the spillover into foreign policy is that there is less of a divergence and a renewed convergence that highlights how the spillover can both be seen and identified.

3.2 The Bigger Picture

The following section addresses two elements of the DCFTA with the EU and Ukraine. The first is the politico-economic effect that the DCFTA has had on Russian relations. This is done through a mini assessment of the Russian FTA. The second part addresses evidence for an ameliorating Ukrainian economy. As data on TiG, TiS and FDI is due to be published by the Ukrainian government in June 2016 for the 1st Quarter, the data available on the Industrial Production Index is

⁷¹ Valentina Pop, Russia Hits Ukraine With Tariffs Over Imminent Trade Deal With EU. The Wall Street Journal. Dec. 21, 2015, accessed May 9, 2016, <http://www.wsj.com/articles/russia-penalizes-ukraine-because-of-its-imminent-trade-deal-with-eu-1450725567>.

⁷² Ukraine closes airspace to all Russian planes, BBC News, 25th December 2015, accessed February 10, 2016, <http://www.bbc.com/news/world-europe-34920207>.

⁷³ See EU sanctions against Russia over Ukraine crisis, https://europa.eu/newsroom/highlights/special-coverage/eu_sanctions_en.

⁷⁴ Ruggie, 2005, 281.

analysed. This section traces key developments that are linked to the DCFTA on the Ukrainian perspective in order to comprehend the bigger picture of the spillover as a result of the AA.

3.2.1 Russian FTA – The Politico-Economic Effect

As of December 2015, the prospect of the FTA with the EU changed the very nature of Russian attitudes towards Ukraine, prompting President Putin to suspend its own free-trade zone with Ukraine.⁷⁵ This suspension came into play on January 1st, thus shifting the balance onto the European zone in regards to trade relations. Bilateral trade with the Russian Federation had already fallen as established in the introduction of this thesis; however, the impact of this is not only economically but also politically interesting.

It is increasingly evident that the Ukrainian ‘choice’ has been an apparent European direction. The political drama that stemmed from Yanukovych’s decision to align towards the Customs Union over the DCFTA and the suspension of the CIS FTA with Ukraine by Moscow, highlights the incompatibility of the two parties, both economically and politically. To reemphasise what Hawrylshyn stated, the apparent choice of Ukraine to push East or West would affect the sovereignty of the country.⁷⁶ This is undoubtedly still apparent. The European choice of the Ukrainian authorities has not changed anything in regards to the situation in Eastern Ukraine. It has not affected apparent Russian support towards the conflict and gives weight to the predictions and forecasts of both pre and post Orange Revolution scholars. As President Poroshenko stated, Kyiv was ready to pay the price for [its] freedom and European choice.⁷⁷

⁷⁵ Jack Farchy and Roman Olearchyk, Moscow votes to suspend free-trade zone with Ukraine, *Financial Times*, December 22nd 2015, accessed May 10, 2016, <http://www.ft.com/cms/s/0/d799d1a0-a8c8-11e5-9700-2b669a5aeb83.html#axzz49xd0Ln3H>.

⁷⁶ Hawrylshyn, 2001, 11.

⁷⁷ UNIAN, Ukraine ready to pay price for freedom, European choice: Poroshenko, Politics, 16.12.2015, accessed April 12, 2016, <http://www.unian.info/politics/1214472-ukraine-ready-to-pay-price-for-freedom-european-choice-poroshenko.html>.

Under the previous FTA with Russia, the tariff for all Ukrainian imports amounted to 0%. This effective FTA was highly beneficial, and now with the cancelation of the FTA for Ukraine, the situation changes.⁷⁸ The most significant fact is not that the situation has changed, but Moscow has indirectly reversed the relationship. The actions of Russia have now effectively created a beneficial trading environment for Ukraine and the EU. This FTA reversal allows the Ukrainian economy to integrated closer with the European one and break away from the Russian monopoly in Ukraine. Considering the new trading bloc that Ukraine is now part of, the political game of Russia has essentially backfired. The question that this thesis cannot answer is what would happen if all the Commonwealth of Independent States changed their bilateral trading relations with Ukraine? As the CIS gave been greatly affected by the economic downturn in Russia as a product of the US and European sanctions, and with trade figures from Ukraine to Russia dropping, the viability of the CIS to move in line with Russia is rather low.⁷⁹ At the same time, as trade to the Eastern Partners for Ukraine has dropped in recent year, one can only conclude that the benefits of the DCFTA with the EU outweigh any possibly drawbacks of the changing nature of Ukrainian-CIS relations.

Although the sanctions by the EU were the prime tool of dealing with the political implications of Russian behaviour towards Ukraine, at the same time they have changed the notion of EU-Russian relations. From these events, it is clear that the politico-economic effect of the DCFTA has altered the triangle connection. What was once equilateral to an extent has now become acute, and it is the Russian side that has the smallest degree of influence on the EU-Ukrainian relations.

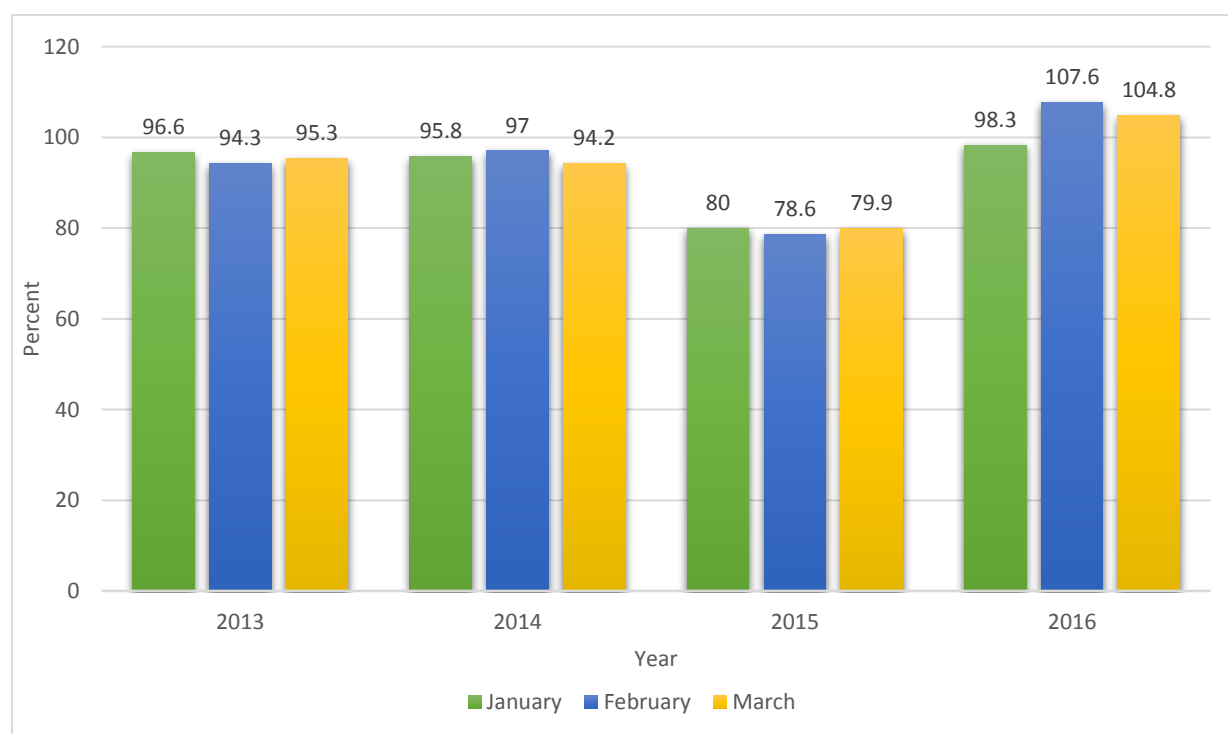
⁷⁸ See Ricard Giucci, et al, Cancellation of FTA between Ukraine and Russia? Estimation of Impact on Ukrainian exports, *German Advisory Group in cooperation with the IER Kyiv*, (Berlin/Kyiv: October 2015).

⁷⁹ Ricardo Aceves, Economic Snapshot for the CIS Countries, *Focus Economics*, (May 11th 2016), accessed May 29, 2016, <http://www.focus-economics.com/regions/cis-countries>.

3.2.2 Industrial Production Index

According to data from the EU in 2014, in which the EU undertook an assessment to understand how closely the EU-UA economies were integrated, Ukrainian exports to the EU were mainly commodities of iron, steel, mining products and agricultural goods. For the EU to Ukraine they were machinery, appliances and other industrial products. The focus on industrial products and industrial production then allows a good marker of economic prosperity. Graph 2 shows the Index of Industrial Production in Ukraine from 2013 – 2016 for the respective months of January, February and March.

Graph 2: Index of Industrial Production in Ukraine 2013-2016⁸⁰
% Month over the corresponding month of the previous year



⁸⁰ Graph compiled from the data of the Ukrainian State Statistics Service:
https://ukrstat.org/en/operativ/operativ2014/pr/ipp/ipp_e/ipp_e14.htm

What is significant to note from the graph is not only the apparent decline in the early months of 2015, but the increase of production in 2016. The significant growth in the early months of 2016 can be attributed to the developments with the implementation of the DCFTA. Considering this significant growth in Industrial production compared to the situation in 2013 and 2014, the 2016 figures represent a successful picture of a boost for Ukrainian industry. The increased production reflects the possible benefits of the DCFTA, however it would be further supported by more statistics on a breakdown of the categories and destinations, in order to assess the impact of the Industrial production on EU-UA relations.

3.3 Concluding Remarks

This chapter has identified where spillover has occurred within Ukraine, focusing on the political, judicial and energy reforms. These three examples highlight the success of the AA and DCFTA in realigning Ukrainian policy and practices towards those of the European equivalent. The reforms that have taken place in the first quarter of 2016 and the significant changes with the economic situation in Ukraine and the political relationship with Russia highlights the political impact of the AA and DCFTA on the Ukrainian state.

CONCLUSION

This thesis has tracked the elements of neo-functionalism that seemingly guide EU-Ukraine Integration. However, this research has drawn attention to the idea of a renewed neo-functionalist Europe. Considering that the European Union is currently not undergoing any enlargement phase, the idea of neo-functionalism is not entirely on the agenda, much like the situation in the 1960s and 1970s when neo-functionalism was discarded as an irrelevant theory. This research has put forward a case to call upon a renewed understanding of neo-functionalism in explaining EU behaviour and policy. It highlights that neo-functionalism is not just a theory to understand European integration, but also European policy behaviour and forecast the possible strategy and direction of the European Union.

The economic environment and relationship between the EU and Ukraine was extremely unfavourable for the former, and the developments within Ukraine from 2014 to 2016 were fundamentally driven to better that environment. All financial assistance that Ukraine received from the IMF and the EU were contingent on reforms being implemented. These reforms driven by economic stability highlight the spillover effect, thus categorically showing how Ukraine is a key example of neo-functionalist behaviour. This behaviour was highlighted by the analysis of the political, judicial, gas and energy reforms that the government pushed forward in the first quarter of 2016. At the same time, what was increasingly significant was the rise of the industrial production index for 2016, showing the benefits of the EU-DCFTA as industrial production was the key indicator of EU-Ukraine relations. These changes and movements towards the EU for Ukraine have had its political toll on Russian affairs, changing the very nature of EU-Ukrainian and Russian relations.

What became clear between the older AA's and their DCFTA provisions, such as those with Poland and Hungary during their accession phase and the current one with Ukraine is the addition of

multiple provisions designed to enhance aspects of integration. As mentioned in the Introduction, the EU-UA AA and DCFTA was one of the first agreements to include separate provisions on Trade Related Energy Matters. The EU took the opportunity not only to develop on core issues that were missing from previous Agreements, but also address institutional challenges that occurred through previous Agreement. The Eastern Enlargement of 2004, and the subsequent 2007 and 2013 Enlargement involved Association Agreements and DCFTA's that were largely the same. However, if we take the political shifts in Poland and Hungary that have been developing within both countries, they have highlighted the necessity for a different approach due to the institutional challenges that they now pose towards the EU.

In May 2016, former US President Bill Clinton at a support rally for his wife's Presidential campaign commented on the current position of Poland and Hungary within the European Union, stating that the countries "want Putin-like dictatorships."⁸¹ This criticism is based on the moves of the elected Law and Justice Party who won in 2015. Their move to reform the Constitutional Court and reappoint judges was deemed as inherently unconstitutional. The essential lesson learned is to reduce the possibility of national divergence of the EU guiding vision. As the reform process is a competency of the Member State, which according to EU principles the EU has no right to intervene on, in the Ukrainian case, the EU has strategically aligned all of its reforms demanded through the Association Agreement to achieve the most adequate cohesion with the European model, and prevent a similar situation from occurring. Taking into account that the reforms and the Governments Strategy for Reforms are based with the idea of eventual European Integration, there is clear understanding that the move of the European Union into the Eastern Partnership countries marked a new era in understanding the European sphere of influence. Since the 90s Ukraine has been supported by Poland

⁸¹ Reactions to Bill Clinton's comments can be accessed here: <http://www.politico.eu/article/us-democracy-putin-like-not-us-say-poland-and-hungary-in-response-to-bill-clinton/>.

and considered an ‘Central European’ country, it is important to tighten the connection between Poland and Ukraine within the EU and understand that the way in which the Polish government acts, can reflect the possibilities of how things could develop in Ukraine.⁸² The naive approach of what worked before will work now is no longer present within the European strategy of integration, and this new phase of Association Agreements and DCFTA’s marks a renewed understanding and need to see neo-functionalism as one of the core guiding theories to understand EU Interest.

The nature of geostrategic theories and geopolitics has also been touched upon in this thesis. The EU-UA DCFTA is by far a tool of soft power for the European Union. The territory of Ukraine has always historically, culturally and politically been seen as the Russian Sphere of Influence, and the new developments between the EU and Russia in this field have opened up the Chess board where Ukraine now has its own piece to play. The importance of Ukraine for Russia allows the Putin government to fully lay claim to an Eurasian Union, whereas the alignment of Ukraine now towards the European Union, not only significantly impacts the Eastern Relations, but brings into question the motivations of the EU to go East. The events in Eastern Ukraine as well as Russian support to other de-facto regions in Post-Soviet States, has caused great alarm in the European realm. Now the EU has moved to the next phase of dealing and at the same time understanding the role that those countries play in European and Russian balance of power. This geopolitical game that is shifting EU influence in previously Russian hegemonic territory is a point that not only merits further research, but further understanding as to how geostrategic theory is rooted into almost all political decisions.

What next?

This thesis has helped to highlight the complications between understanding EU interest in Ukraine. Bearing in mind the lack of major economic benefit of Ukraine to the EU, the question as

⁸² Larrabee, 1996, 261.

to why the EU has consistently pushed for further integration has a very clear answer that is connected to geopolitics and the principles of neo-functionalism. There are two significant fields in which further research can go. The first is designed at understanding European Integration motivation and theories based on neo-functionalism, the second would be the further political effects of Eastern integration on the FTA with the Customs Union.

Seeing the renewed approach of neo-functionalism as an understanding of European and regional integration, it would be viable for further research to be undertaken in the dimension analysing the AA AND DCFTA with Georgia and Moldova. Although the contextual events in both countries differ from that in Ukraine, the similarities of the agreement, and the work of the EU in having implemented the DCFTA with both countries since 2014. This gives ample time to understand and examine how spillover has occurred within both countries, and assess the similarities with the Ukrainian case. This would help to understand the role of the AA AND DCFTA within Eastern Partnership countries and the European agenda in this environment.

In reference to the impact on the Customs Union, considering the loss of Ukraine from the Russian sphere, and the effect of the EU-UA DCFTA on Trade relations with Russia, it would be increasingly interesting to look further into the impact of the DCFTA on Ukrainian Eastern relations. This would highlight if the European connection has further isolated Ukraine from other trading and political parties who are part of the Commonwealth of Independent States. At the same time it would allow the connection between geostrategic theories and neo-functionalism to be strengthened. This has only been touched upon in this research, and is categorically the next stage of understanding the true political impact of trade relations, highlighting the impact of economic integration onto the political sphere.

From this research, the fact remains that Ukraine has not been of a major significance economically for the European Union. The political impact of the prospect of integration in an

economic area has shown considerably the level of politics that is inherently embedded in any decision. The EU-Ukraine Association Agreement and Deep and Comprehensive Free Trade Area is by far a political tool of integration, and how Ukraine develops from this, as well as the global political situation between the EU and Russia, will be interesting to follow in the upcoming years.

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