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UKRAINE'S ECONOMIC WOES: A THREAT TO EU COHESION

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The European Union's fast-tracking of Ukraine's membership amid ongoing war threatens the EU's legal integrity, economic stability, and long-term viability. Initially conceived as a peacekeeping and economic integration project, the EU now appears to be shifting toward militarization and conflict endorsement, with Ukraine at the center of this pivot. Ukraine fails to meet key EU benchmarks—such as trade openness, corruption control, and economic self-sufficiency—and is essentially being sustained by foreign aid and debt. Demographic decline and a deteriorating economic base further signal that Ukraine would likely become a permanent financial burden on the EU. Rather than promoting stability, integrating Ukraine could institutionalize conflict within the EU's framework, fundamentally altering its nature and potentially hastening its disintegration.

FROM ECONOMIC UNION TO WAR UNION

The European Union is an institution inextricably tied up with the prevention of war and conflict on the European continent. In its modern form, it was first proposed by the British economist John Maynard Keynes in his book The Economic Consequences of the Peace in the form of a free trade union for the Central European states that were split up after the First World War.[1] Keynes feared that if measures were not taken, Europe would slip back into economic chaos and war—it soon did. In 1949, when the Council of Europe was founded, it was done so explicitly to prevent conflict and economic dislocation. Finally, once the European Coal and Steel Community (ECSC) was eventually formed in 1952, the overall outline of what would become the European Union was finally in place. The idea behind the ECSC was to promote economic integration and stability, which would hopefully put the economic chaos of the interwar years behind Europe and lay out a path to lasting peace.

Since the beginning of the Ukraine war at the end of February 2022, all of this has been tossed aside. The role of the European Union as primarily an economic union has given way to a Europe that aspires to be a war union. This change has led to European leaders twisting and contorting the language associated with the common European project in ways that would make George Orwell blush. The underlying assumption seems to be that furthering war and promoting conflict is the only way for the union to hold together. The truth is exactly the opposite: Conflict will lead to political and economic destabilization, and this will in turn lead inevitably to the destruction of the EU. The war in Ukraine has unleashed the forces of violence and war that the European Union and its predecessors sought to contain.

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1 Day, Clive. (1920). Keynes' Economic Consequences of the Peace. *The American Economic Review, 10(2)*, 299–312.

In this paper, we will examine the most obvious point of destabilization: the fast-tracking of Ukraine's membership into the European Union. It is puzzling why European leaders cannot see the obvious: Ukraine does not qualify for membership on economic grounds, so fast-tracking its membership can only be understood as an attempt to integrate conflict and war into Europe's eastern borders. We will examine two aspects of this integration. First, we will examine the damage it will do to the economic and legal credibility of the European Union in the eyes of aspiring members. Secondly, we will look at the long-term economic consequences of importing the problems of a bankrupt country ruined by war.

UKRAINE VERSUS THE REST

Since it began with the ECSC, the European Union has always aspired to be a rules-based system. Its rules serve multiple purposes, but two stand out as being the most important. First, the rules allow for a sense of orderliness and fairness. When a country signs up for the European project, it knows what the rules are, and there is little room for them to complain about these after the fact. The rules also give aspiring countries a clear conception of what is required of them. This prevents them from feeling that membership is all about politics or favoritism, and this, in turn, prevents future conflicts on the European continent. Second, the rules ensure economic stability. So long as they are designed well, they promote stability, and any country that tries to inject instability into the system is penalized until they start following the rules. The 2011 Eurozone debt crisis showed that even when the system is poorly designed and starts to break down, having clear rules in place ensures that it remains intact.

To get a sense of how Ukraine measures up against the rules—formal and informal—that candidate countries are expected to follow, we will compare the country to other countries that have long expressed an interest in joining the European Union: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey.[2] Turkey began accession negotiations in 2005, followed by Montenegro in 2012, Serbia in 2014, both Albania and North Macedonia in 2020, and Bosnia and Herzegovina in 2024. Kosovo has yet to formally begin negotiations, but it too has long expressed interest. Table 1 below lays out the relevant indicators for each country.

2 We have excluded Moldova and Georgia due to very limited data. Moldova is also excluded because the country only entered negotiations in 2024 together with Ukraine.

Maastricht Critera	Albania	Bosnia & Herzogovina	Kosovo	Montenegro	North Macedonia	Serbia	Turkey	Ukraine
Deficit > -3%	-1.4	-2.7	0.2	0.2	-2.1	-1	-5.2	-20.3
Debt-to-GDP <60%	58.9	17.1	17.5	60.3	50	52	29.5	84.4
Other								
PPP-adjusted Per Capita GDP	21779	22611	17835	33620	28720	30909	41914	20575
Trade Openness (X+M/GDP)	82	100	110	119	149	114	66	78
Corruption Perceptions Index	42	33	44	46	40	35	34	35
Sources	World Bank, Transparency International, IMF							

Table 1. Comparison of Ukraine and Other Potential EU Members Using Maastricht Criteria and Other Indicators.

We will examine each of the criteria in detail, but it is already clear that Ukraine fails to meet both Maastricht criteria and performs extremely poorly on all the other metrics.

Maastricht Criteria

It is not technically required to meet the Maastricht criteria to join the European Union. Rather, the criteria are metrics used to decide if a country can join the single currency. But they are often also used as a rule of thumb to see whether a country is fit for EU membership from the perspective of fiscal stability. The Maastricht criteria state that a country must have a government deficit of less than 3 percent of GDP and an overall government debt load of less than 60 percent of GDP.

Interestingly, all countries except two— Montenegro and Turkey—meet the Maastricht criteria. Montenegro only fails on its overall debt load, but it is above the limit by just 0.3 percent of GDP. Turkey fails the criteria because it has a fiscal deficit that is significantly larger than the set limit, although it is conceivable that the Turkish government could get its deficit below the limit with some effort. Ukraine, on the other hand, fails both criteria. It seems highly unlikely that the Ukrainian government could get its deficit, which is above 20 percent of GDP, back under the 3 percent limit anytime soon. At 84.4 percent of GDP, its debt load is also far above the limit and growing rapidly. At the current rate, in two years, Ukraine's debt load will be double the limit set by the Maastricht criteria.

Societal Wealth

For a country to seamlessly integrate into the European Union, it helps if that country has a standard of living not too far behind that of the rest of the members. This ensures, for example, that enormous numbers of people do not immediately leave the country to move to the West in search of higher living standards. According to the International Monetary Fund (IMF), the current European Union average per capita PPP-adjusted GDP is $64,545, and the country with the lowest is Latvia with just $44,563. Many of the applicant countries are far behind—only Turkey, Serbia, and Montenegro look like they might be ready to join the EU based on the measure. It should be noted, however, that there are reasons to think that living standards in Ukraine are currently vastly overinflated because of access to foreign aid, and this will be explored later in the paper. If this assessment is correct, Ukraine could see its wealth fall precipitously as it moves towards accession.

Trade Openness

Since the European Union is a free trade zone, we can also look at how open the countries are to trade, measured in terms of total imports plus total exports as a percentage of GDP. The more open a country is to trade, the more likely that country is to be "used to" being in a free trade zone. This is a highly imperfect measure because it tends to favor smaller nations over larger nations with large domestic consumption bases, but it remains of interest to European policymakers. On this measure, the only country that scores worse than Ukraine is Turkey. But arguably this is an unfair comparison because with over 85 million people, Turkey is more than twice as large as Ukraine, which has just under 38 million people based on the latest estimates.

Corruption Perceptions Index

European policymakers also insist that countries joining the EU are not too corrupt. Corruption can undermine the goals of the EU in multiple ways, from promoting unfair competition to creating black markets within the free trade zone. As we can see from the table, Ukraine scores lower than half the other countries. There are also reasons to distrust the data on because it appears to show that the country has become less corrupt since 2021, despite being at war and having an enormous amount of cash flowing through its society. In 2021, before the war, Ukraine scored 32 on the Corruption Perceptions Index (CPI). Today, it scores 35.

THE UKRAINIAN ECONOMIC TIME BOMB

The measures that we have looked at, however, look backwards and are unlikely to capture the fact that Ukraine is a country that has been devastated by war, and this devastation means that the country has very poor prospects moving forward. Here we will briefly examine why there are strong indications that Ukraine might be an economic time bomb waiting to blow up.

The following chart shows Ukraine's population over time. As we can see, there has been a sharp drop in Ukraine's population due to both casualties and people fleeing the country during the war. Since 2021, the Ukrainian population has fallen nearly 15 percent. Other metrics show that Ukraine's demographics are not likely to get any better in the coming years. Ukraine currently has the fifteenth oldest population according to the CIA World Factbook—older than the population of South Korea,

a country famous for its demographic problems. Before the war, Ukraine's fertility rate was already low at 1.15 in 2021, but it has fallen to just one percent since then, a decline of around 13 percent.

POPULATION OF UKRAINE

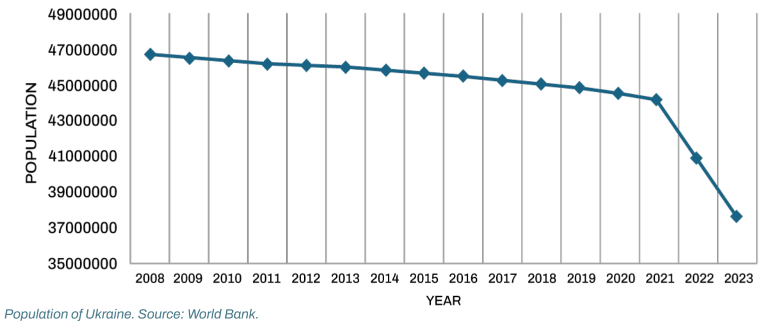

Figure 1. Population of Ukraine. Source: World Bank.

These figures mean that it is unlikely that there will be much dynamism in the Ukrainian economy in the future. In fact, it seems likely that if Ukraine joined the European Union, a significant portion of its remaining working population would migrate to wealthier countries. This could mean that membership could end up being a net negative for Ukraine.

What leads us to question the viability of the Ukrainian economy moving forward is when we look at the country's overall wealth over time. Since we are not comparing Ukraine to another country, here we will use a simple per capita GDP measure using inflation-adjusted GDP. While Ukraine's per capita GDP has declined since the start of the war, it has only fallen around 12 percent. It seems highly unlikely that a country could see an enormous exodus of its population via migration, a significant amount of its population sent to the frontline, and its economy put on a war footing and only have its living standards fall by 12 percent.

PER CAPITA GDP OF UKRAINE

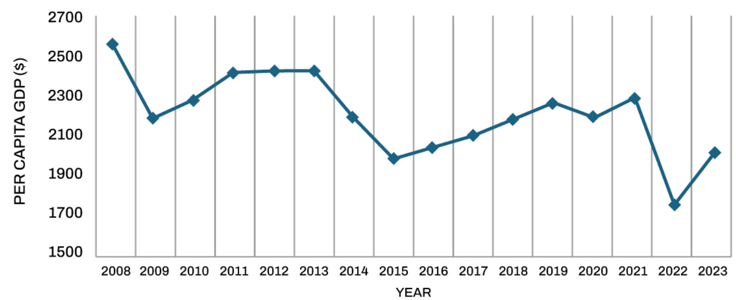

Figure 2. Per Capita GDP of Ukraine. Source: World Bank.

This leads us to assume that Ukrainian living standards are likely being propped up somehow. In the case of Ukraine, a glance at the newspaper headlines often discussing Ukraine's allies sending aid points us in the direction of what might be happening. Ukrainian living standards are likely being propped up by the allocation of foreign aid and easy terms for foreign borrowing. Figure 3 is taken from Ukraine's balance of payments accounts and provides strong evidence that this is the case.

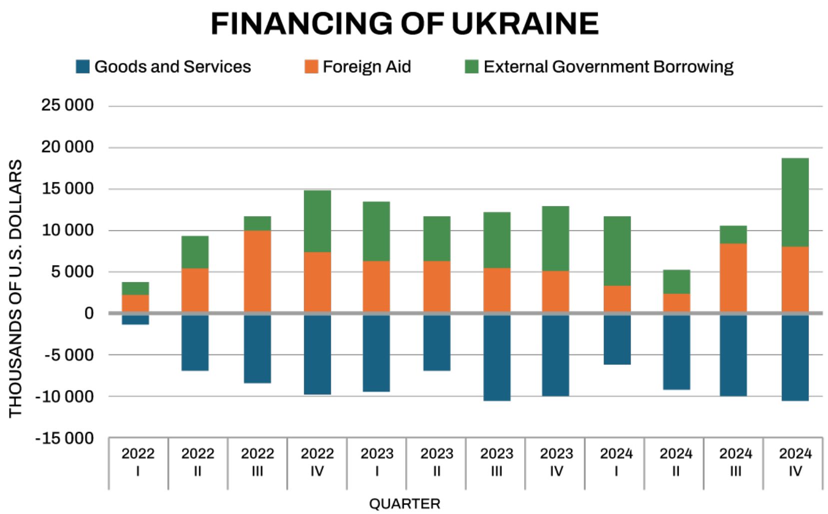

Figure 3. Financing of Ukraine. Source: National Bank of Ukraine.

In blue, we see Ukraine's trade with the rest of the world for goods and services. The impact of the war is clear. In the first quarter of 2022, before the war broke out, the country had a modest trade deficit of around $1.5 million. In the second quarter, this deficit increased to $6.8 million. Since then, deficits up to seven times the size of the pre-war deficit have not been unusual. This means that, since the outbreak of the war, Ukraine has needed funds from the rest of the world to finance its ability to consume far more than it produces. Above the line, we see how they have financed this. Ukraine has seen an explosion of foreign aid and government debt issued to foreigners.

The problem is that once this foreign borrowing dries up, Ukrainian living standards will crater. This will likely manifest as a significant drop in the value of the Ukrainian currency, the hryvnia, and a bout of extremely high inflation. In the worst-case scenario, the inflation could become hyperinflation. This leaves the European Union two options to deal with Ukraine as a member state: European leaders either eventually remove the financing from Ukraine and allow a member to slip into an economic crisis the likes of which the EU has never seen before or continue to finance Ukraine indefinitely. The latter option would effectively mean direct transfer payments from the

rest of the member states to Ukraine to prop up living standards.

We have seen that Ukraine already has terrible demographic prospects, add to this an addition to foreign aid and it is hard to see how Ukraine's economy would ever experience any dynamism. This means that Ukraine would become a permanent recipient of European welfare payments. Not only would this become a massive political liability for European leaders, but it would also fundamentally change the nature of the EU from a system that promotes economic development to one that promotes conflict and then uses the resources of the entire European Union to finance the costs of that conflict. A union of this type would not last long. Member states would soon realize that membership is an economic albatross around their necks and leave.

By fast-tracking Ukraine's accession, the European Union is not only jeopardizing its economic and legal norms but also redefining its very identity—from a peace-building alliance to a mechanism for managing and financing conflict. The study has shown that Ukraine fails to meet both the EU's traditional economic criteria and the social and institutional conditions that are prerequisites for membership. Its demographic decline, structural economic weaknesses, and dependence on external resources would institutionalize economic instability within the Union over the long term. Therefore, for the EU, this is not merely a moral issue but also a strategic one: preserve its founding values or abandon them for a geopolitical objective? Based on the current trajectory, the answer is clear: Ukraine's accession does not advance continental integration but rather prepares the ground for disintegration.