

Peterson Institute for International Economics

Ukraine's future in the European Union

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meetings@piie.com.

[00:00:02.25] - Nicolas Véron

Hello, good morning, good afternoon, good evening, wherever you are in the world. I'm Nicolas Véron at the Peterson Institute for International Economics, and this is What Now Europe? It's a new series at the Peterson Institute. Some of you, of course, are familiar with Financial Statements, a series that I had the honor of leading for 5 years. It ended at the beginning of this year, 2025, after a good 100 episodes. This is episode number 1 of What Now Europe? It's a different concept. We will be talking talking only about European issues or Europe-centric issues, but there will be a broader range of issues, not just about finance. And indeed, the theme of this first episode is absolutely not about finance. It's about Ukraine. It's about the future of the European Union. It is about Ukraine as a future member of the European Union, because this is very much the horizon we want to have today in this session with Oleksandra Azarkhina. We're not going to talk that much about the war, about how the war may end. We're going to talk about after the war ends, and of course it depends a lot on how it ends, but we will have that perspective after the war ends.

[00:01:12.15]

What is the path for the European Union to, uh, include Ukraine in its membership? What is the path for Ukraine to become a European Union member? And we couldn't have a better speaker for that than Oleksandra Azarkhina. Oleksandra studied at Taras Shevchenko National University in Kyiv. She graduated in 2013. She had a number of jobs in the communications advisory sector. And then in 2018, 2019, she joined the Ukrainian government. She worked at the Ministry of Environment in the Reform Support Unit. She works in the Highways Agency of Ukraine. She works in the Ministry of Infrastructure. But most importantly, she was very involved in the logistics and support to the military developments since the full-scale invasion in late February 2022. She was instrumental in setting up a logistics hub at the the border of Ukraine in setting up an international donors coordination cell in Stuttgart in Germany. She will maybe talk about that. Now, Oleksandra has two main affiliations. She has created with others an

independent think tank which is focused on the Ukrainian economic development and preparedness for the future issues that we will talk about today. It's called the We Build Ukraine Foundation. And at the same time, in her capacity as an independent advisor to the Ukrainian government, she's head of a Defense Industry Initiatives at the Economic Security Council of Ukraine.

[00:02:44.03]

Oleksandra, thank you so much again for being with us from Kyiv today.

[00:02:49.02] - Oleksandra Azarkhina

Thank you very much for having me, Nicolas.

[00:02:51.10] - Nicolas Véron

I mentioned the Economic Security Council of Ukraine as your role as an independent government advisor. Can you tell us more about what that is and what is your role there?

[00:03:03.28] - Oleksandra Azarkhina

Frankly speaking, Ukrainian civil society is quite a unique animal and which allows us actually to have influence on the things happening on the ground. While many of our European colleagues keep doing important things but connected more to the work with the children or with education facilities, we do reform. So Economic Security Council of Ukraine, it's also a civil society initiative, but very connected to the government, allowing us to provide an independent advisory. So our focus is on the resilience, and mainly I am working on the reforms necessary for Ukrainian defense industry.

[00:03:43.08] - Nicolas Véron

Tell us about WeBuildUkraine Foundation. How big is it? How has it developed? What vision do you have for it?

[00:03:50.21] - Oleksandra Azarkhina

Ukraine— WeBuildUkraine Foundation, it's an independent think tank which we co-founded with my former boss, Deputy Prime Minister of Ukraine's Recovery, Oleksandr Kubrakov, and several other deputies and former colleagues just after we left the government. So in my biography, there was this, you know, like 2 years from '22 to '24 when I was Deputy Minister of

Infrastructure, responsible on the military logistics, but also on the decentralization reform, on the digital tools for the transport recovery. That was quite a portfolio. And that wasn't, you know, like, probably we'll need a separate story on how exactly we left the government. But in spring 2024, after the government, we were thinking as a team, what can we do after the government, how to preserve our expertise. So we decided to organize our think tank. And As a basis of our work, we have an economic strategy developed together with one of the international consulting firms. But now we are working with Ukrainian and international businesses, checking the most important sectors of Ukrainian economy and trying to understand what is necessary to do from the point of view of the regulations, from the point of view of investments, and what can be done now, even during the war, and what is possible to do only after the— stop of the hostilities.

[00:05:14.26] - Nicolas Véron

You mentioned, of course, the fact that you left government last year. The media reported that to some extent both Mr. Kubrakov and yourself were described as having not tolerated risks of corruption in the Ukrainian government. So here's my question. Given this context, which looks quite challenging, how is the government still willing to listen to you? Can you give us more of a sense of this interaction between independence between a civil society which you very much represent here and a government that has challenges of governance that are well documented but still looks like they're willing to listen. Give us a bit of a color of how that works in Kyiv.

[00:05:59.14] - Oleksandra Azarkhina

I think it's, you know, even during the martial law, Ukrainian society and even political society is quite open and very sensible to open discussions and public critique and the work of the journalists. So that's why even with the such a level of the concentration of the political power, which is rather natural during the war, we still have a lot of possibilities to influence the political realities. We just need to be data-driven and very public. Of course, there are several groups inside the government which are not fans of our work, and I do understand them. No one likes critiques, and for sure, with the shadow of the predecessors, it's hard to show the good results as well. But at the same time, the level of the cooperation between the civil society and the government in different bodies, in different ministers, is on a good level. And there is a way it's happened, and it's happening also because we have a strong support from EU side on that, because all those reforms, they're connected to the EU obligations, the necessary things which are embedded in Ukraine facility. So with this this type of the combination, Ukrainian civil society gets quite unique legitimacy.

[00:07:18.03]

And even when you are out, you're still gonna be heard. And with the network of the connections, with the network of the international support, but also the business support, you can actually be vocal. And luckily, if the analysis is good, you can push the right decisions.

[00:07:38.10] - Nicolas Véron

You know this political theory about the resource curse, right? Countries that are heavily dependent on revenue from exporting a natural resource, typically oil exporters or others, have a decay of their political systems that drift into authoritarianism, even when they start from a democratic starting point because of the incentive. So basically, the group that controls the resource controls power and has no checks on their authority. There are people who say that Ukraine being increasingly dependent on Western money and especially EU money, there is a bit of that resource curse, that the group that controls the inflow of EU money essentially controls the country and will increasingly not tolerate dissent. How do you look at that?

[00:08:29.19] - Oleksandra Azarkhina

When you started to mention that, I thought you're gonna turn the angle into the agrarian export, which is actually the core of our economy. So from this point of view, it's rather Ukrainian export, which are our curse, of course, it's like, again, sources of the opportunities, but also just the base of the economy, which is not allowing us to develop many others, you know, like sectors with better added value. And then when you turn into the, you know, like a dependency of the Western money, of course, that's true, but not 100% true, because just of the structure of our economy. For sure, the external aid is essential, first of all, in keeping the state alive. Because since the full-scale invasion, with the generous macro-financial aid, the loans we're getting from IMF— because many of this money are just loans, let's be honest about that as well, so we will need to pay back— we have functional state, we have all the social services in place, we have operational healthcare system, we have operational education services. And yes, it's challenging, and yes, people live in the country, but still We are surviving and somehow we're at the same time in the war and at the same time we just keep working as a, you know, just a country with all the things happening and related to the population.

[00:09:51.15]

So that's why I do not think that we already have this curse. But me personally, from the point of view of the reforms needed, I can say that I would love to have even better presence of our partners first of all, from the EU side, pushing the right reforms which are needed because they're also influencing the core, including the agriculture sector or other sectors like a defense industry where I'm working on.

[00:10:21.08] - Nicolas Véron

So when you say presence of the EU, for example, do you mean presence on the ground? I was in Kyiv last year and I was struck by the fact that the EU staff in Kyiv is extremely small in size. Is that right? Should they expand their presence in order to be better able to control how the money is spent, or is it better actually to empower the Ukrainian authorities and limit the presence so as not to be a kind of parallel government? How do you look at this trade-off?

[00:10:49.29] - Oleksandra Azarkhina

Frankly speaking, when I was saying present, I meant more, um, more direct pressure on our government on the reforms. It is difficult, but it's needed. And I think many things related to the corruption prevention and the things which are necessary to stabilize the country and to keep our democratic path, they need to be, you know, properly pushed by the Western allies. Otherwise, it will be just harder to maintain this level of the democracy and a rule of law in the country, which we are keeping even during the war. So that's what I meant by the presence. At the same time, since the last year, EU managed to get more of their employees here on the ground. But just recently, several weeks ago, we had a terrible attack in Kyiv aiming part of the city where actually EU delegation sits. And for now, their decision is still the same. They're here, they're working here. I just had a meeting with one of the EU delegation representatives who works in— also on the defense projects we're doing together. But I'm afraid that if Russians will keep attacking the embassies, that can create challenges to us. Because their recent attacks, they are focused on the economic resilience of the country, just the production sites, not military at all.

[00:12:16.02]

And this, you know, like a diplomatic presence as well, that what worries me a lot.

[00:12:20.25] - Nicolas Véron

So you mentioned the anti-corruption effort. There was this episode a few— when was that? A few weeks ago, a few months ago about the anti-corruption agencies, anti-corruption prosecutors. There was some back and forth, of course, with a new bill adopted by Parliament and then reversed in short order. What were— how did you assess that episode? What did it reveal for you? What are the lessons and the takeaways from that sequence?

[00:12:52.23] - Oleksandra Azarkhina

I think it was a very important moment, and it gave a lot of hope, frankly speaking, because again, Ukraine now in such a situation when we are already on the fourth year of the full-scale invasion and we are trying to do at the same time defense ourselves, reform, keep economy growing, and keep the democratic institutions working. It's challenging, but all those things connected. And I'm very angry when some people thinking that during the war it's better to, you know, like, uh, cede some of the democratic institutions, saying that it's better for their war efforts. Maybe somewhere else, but not in Ukraine. Ukraine by nature is a very decentralized country and also a very demanding country. And the reason why we keep standing since day one of the full-scale invasion, or how we call it here, big war, because we are empowered and we know that it's not the job of army only, of the government only to keep this fight, but it's actually the fight of the whole nation. And that's possible only when the citizens are empowered. And when this protest happened, that was also a moment of the empowerment, because the war efforts, the institutions, it's not only about the personalities of the president, prime minister, those figures, you know, they are political and they 'Changing.' And yes, they're a bit stuck with us because of the martial law, but still, they are temporarily.

[00:14:29.08]

But the people of Ukraine, that's a constant. So I think it was from the even emotional point of view, it was very important. And that was quite impressive to talk with many people on the frontline. They were also very happy that it's happening because there are things they're fighting for. In the same time, Of course, it was a good result that, you know, like, the president reacted and, you know, the laws were aborted. But it doesn't mean that all the challenges cease to exist. There are still, you know, like, hidden games between the anti-corruption parties, Ukrainian SBU security services. So there is, you know, like, this type of the competition and tension now. That's why, like, civil society and the international partners need to be vigilant. But again, what is good about Ukraine? The fight is happening. As you know, like, as we always say in here, yes, we do understand that corruption exists, but the main thing that we are fighting it, we are building institutions to fight it, and we are committed to that. And I think it's very important.

[00:15:31.15] - Nicolas Véron

To speak a little bit about the freedom of the media, um, how do you look at Ukraine in comparative perspective, right? I mean, you compare it with other countries in the neighborhood, with, you know, Romania, Hungary, Poland, uh, Turkey, uh, you compare it to Western European countries. I come from a country, uh, France, where ownership of the media is very concentrated, uh, among economic interests, whether we call them oligarchs or not. So there's a little bit of that phenomenon. You look at the US. How do you see Ukraine in comparative perspective?

[00:16:07.10] - Oleksandra Azarkhina

Frankly speaking, I would love to have some numbers from independent researchers now in my hands. I do not have them, so my apologies. But, uh, what I can tell you So from one hand, there are tendencies for the centralized media environment coming from the presidential office through the so-called Telemarataphone. So it's a unified type of news production which started with the full-scale invasion just to coordinate and to make it, you know, national communication strategy more coherent. That's not probably the best way to do it, especially on where we are now from the point of view of the war. But that's not a monopoly. We do have a Suspilne TV channel, so Ukrainian public-owned TV broadcaster, which quit the telemarathon, so the presidential administration-led initiative, and they are reporting whatever they want, and their reporting is rather independent. We do have another public broadcaster which is not state-owned like Suspilne, but Hromadske, which is also like mostly funded by the partners and also through the fundraising. And of course, everywhere, a lot of the YouTube channels, a lot of the different initiatives connected to the online media, and sometimes online media which derive from the traditional newspapers now are the most influential, even like TV products published on YouTube or whatever.

[00:17:45.02]

So I cannot say that there is a real monopoly. I can say there is a lot of diversity. I can say that it's very hard to have it in one system when you have the desire from the state to be protective, you have desire from different actors to express freedom of speech, and at the same time, we are under constant attack from Russia, and Russia is pushing different narratives in our, you know, independent media, in our dependent media, and it isn't helpful at all. But at least I do believe that Ukrainian society is better prepared than many other societies in this regard, because we know about the possibility of this, you know, like disinformation, information campaigns on us. And with this understanding We are more cautious, even like on the level of the part of the society which would never think that they can be manipulated through the media. So that's, you know, like I see it as a good signal. But basically, when USAID crash happened, one of the messages I was keep saying to all the partners, I was saying like, have a line—

[00:18:53.24] - Nicolas Véron

Australia terminated USAID, right?

[00:18:57.00] - Oleksandra Azarkhina

USAID, yeah, because like USAID was helping a lot to Ukrainian independent media on local. It's better on the centralized level, but on the local and regional level, it's more challenging because there are less economic foundations for proper reporting. And that's where I see the risks because all the politicians in the core are local. And that's where I see those challenges. But in general, things in Ukraine sometimes seem even easier or better than in the US, which used to be the reference for for all of us. And now it's rather frightening to see what tendencies they have there, because from our point of view, that will have a long-term influence on the countries like Ukraine. Because while we had US still as an example of the freedom of speech, of the, you know, like a respect to the human rights, like a data-driven approaches and everything, that was the moment when we could rely on the strongest as a past. Now it's challenging and it feels like we should be on our own in all the directions.

[00:20:09.18] - Nicolas Véron

Compare Ukraine with, say, Hungary or Romania or other neighboring countries. How do you feel the difference in this issue of freedom of speech and independence of the media?

[00:20:22.06] - Oleksandra Azarkhina

Frankly speaking, I'm not an expert in that. I know people who are the experts in that. I could say that the things which we've seen in Romania in the last elections, they were quite frightening from the point of view how easily can we be manipulated through the openness of our societies. That's like super frightening. I know I'm talking to my friends in Hungary and they persuading me that situation with the media and freedom of speech in Ukraine is way better than in Hungary, and I do believe them. It's hard to judge on what is happening now in Poland, for example, With all my respect and love to this country, there are a lot of challenges in there now, and we see how toxic the media environment in there now as well. So there are challenges like in each of the countries, and I think we need to be as critical to that as possible and start to think about the solutions, how the democracies can protect the freedom of speech and not to be influenced. Infrastructure by the enemy.

[00:21:31.00] - Nicolas Véron

Looking at all these infrastructures, so let's move on to the justice system. Obviously, the justice system in Ukraine has been initially inherited from a Soviet infrastructure which was entirely politicized. Can you give us a sense of where it is on the path to reform, how close Ukraine is to, you know, kind of the standards that are implied by the EU membership negotiations in terms of the rule of law, how also how you compare to neighboring countries again?

[00:22:00.11] - Oleksandra Azarkhina

The jurisdiction?

[00:22:02.06] - Nicolas Véron

Legal system, courts, the justice system in general, and I'm bringing here together a bit of all of the above. So it includes civil justice, criminal justice, anti-corruption. I'm putting a lot of things together here, but you may disaggregate for us.

[00:22:19.23] - Oleksandra Azarkhina

So the research prepared by our colleagues from the Eurids Independent Analytical Center and Center Antac, it's also an independent NGO but mostly focusing on the anti-corruption, says that courts are still one of the last reformed sectors of Ukraine because even with a lot of the changes on the legal level, on the sub-law level, with the new institutions established, on digitalization of many procedures, courts are still in many places are the bottlenecks and many of the things and the solutions can be stopped for ports. And this reform is one of the most challenging. There are a lot of obligations we have under the EU integration process. So I hope we will keep moving in this direction. But generally, the question is, the system is still very fragile. And there is a way, you know, to make the system less dependent on the political elites and movements, etc. But there is also the challenge of just capacity and challenge of the professionals which we need to prepare because even in our anti-corruption system, somehow we managed to get new resources by reeducating people who were part of the law enforcement. Some were just newly recruited people from the universities, etc.

[00:23:45.19]

With the judges, it's way more difficult just from the cycle of the education and the experience background they have. But still, I do believe that our overall commitment of Ukraine to the transparency helps even in this sector because you have all the solutions online, you have all the procedures online. It's very easy to find the cases which aren't good looking. And with the, again, a bit of the public pressure, sometimes a bit of attention of other bodies, those things sometimes can be, you know, like directed in the, in, in a better direction. But yeah, in generally a lot of things to do in that. And again, I think more more efforts will be needed after the war, because during the war there are still, you know, like a readiness to wait for those changes. After the war, I feel that the society will be requiring a lot of changes in this direction as well.

[00:24:41.27] - Nicolas Véron

We have a number of people who are connected live to this event, and indeed we have it in both a podcast and a live event format. So I encourage people who are connected live to use the Q&A tool, and they can ask questions through the Q&A box. I will relay those questions as we used to do in Financial Statements, the previous series. But in the meantime, I will continue asking my own questions, of course. Let's move on to the— you mentioned the fact that Ukraine is a very decentralized country. This gives the Ukrainian democracy a lot of resilience because the central power in doesn't control everything. It also creates, of course, opportunities for lack of transparency, corruption. You alluded to that when you spoke about the media. Can you give us a sense of whether the war is making Ukraine more centralized? How do you see this kind of structure of the country and of its political and civil life evolving through the war, and how you look at it also beyond the horizon of the war?

[00:25:47.00] - Oleksandra Azarkhina

So first of all, when we're talking about the decentralization in Ukraine, we are trying to talk about the way the power structure, the way the responsibilities are divided between the central government, the regional government, and the self-local authorities. Because like the independency of the local authorities, it's quite a thing which became reality after the Euromaidan Revolution. It was also one of the conditions for Ukrainian visa-free regime and processes into European integration processes. And I do believe—

[00:26:23.28] - Nicolas Véron

It was a revolution of 2014, right?

[00:26:26.15] - Oleksandra Azarkhina

Yes, exactly. And frankly speaking, I do believe if we could have the decentralization reform, which essentially provided more finances on the local level, just gave it to the local authorities to manage them, I think the terrible things which Russia did in Crimea, where I'm from, in Donbas and Luhansk region wouldn't happen. Because decentralization gives this necessary resources for the local level, but also responsibilities which connects people to the places where they live. So it's very important that we had the successful examples of the decentralization. And many people says that even after the full-scale invasion, the possibility of the local authorities to have resources in their hands allowed them to react very fast, allow them to educate population, to at the same time to attract the people from the temporarily occupied territories into the new communities in Ukrainian hromadas. So there's, you know, like a— there is a lot of complexity in these processes. There are things which are still necessary to implement under the decentralization reform. So the main things happened actually in 2014, '15, '16. Seen. But now

there are things which need to be fixed and connected to the supervision of the local authorities, like a proper way to divide who's responsible for what.

[00:27:53.20]

Those things which are quite boring but very important for the local authorities to understand, actually. Okay, those are the funds which I'm responsible for, from this to that. At the same time, of course, there are tendencies to centralize the governmental decisions, and it's understandable from one hand, especially if we're talking about the, you know, like defense-related topics. From the other hand, like, with the support of EU, local authorities still keep quite a lot of their independence. And politically, they are trying to be, let's say, as cooperative as possible— probably that's the right word. But at the same time, if some of the mayors would have a quarrel with the administration level, yeah, there can be, you know, like political scandals, etc. But still, they They can't talk, they can't express their misunderstandings or so on. So I cannot say that they are suffering too much from that. But after the war, that's one of the directions of being vigilant and to make sure that the things are restored and the proper independencies or local authorities in the place. But what I do believe might be interesting for the listeners as well, so one thing is decentralization from point of view of the local, regional, central government responsibilities.

[00:29:13.16]

But the decentralization in other sectors of Ukrainian society, it's quite unique. For example, our frontline and the way the brigades are organized is also very decentralized. And that was quite a trouble for Russians with their hierarchical structures. It allowed us to organize the things. Imagine our brigades can purchase their own equipment, they can develop their own R&D basically, so they can produce some things on their ground and really to have a unique approach on their level of the responsibilities. Sometimes it's hard to scale up some of the solutions they're developing, but it's really giving them this necessary granularity, you know, with the different ways of solving problems. And that's why each kilometer of Ukrainian frontline is a bit different. You cannot, you know, find the same way of fighting, or like even from one city to another city. And this decentralization is always supported by the funds. And it's not only funds which are given, let's say, directly to the brigades or to the communities, like, yeah, the analogy. There are also important participation of the private businesses, volunteers' communities, fundraising, and that gives A, empowerment again, B, more complex and more resilient social structures, and C, a lot of troubles to Russians.

[00:30:46.13] - Nicolas Véron

I have to mention, and I think it's obvious to our audience, that you know what you're talking about when you talk about the brigades. You've been on the front lines time and again. You've organized that effort of logistics for the military effort since the beginning of the war, and you're still involved in many of those initiatives in your new civil society professional identity. So this is not secondhand knowledge in my understanding.

[00:31:12.00] - Oleksandra Azarkhina

And we analyze a lot of the structures, like I'm quite often reporting on the lessons learned from Ukrainian frontline, first of all, from the point of view how it's organized institutionally, how different, you know, like a civil body, civil society are organizing the efforts from the logistics around the support of the brigades, how decisions are taken, how it became, you know, part of the R&D. And Yes, in my governmental time and after that, I've dedicated a lot of time to that. That's not the sector which I could imagine myself being an expert, if not the war. But war made us, you know, like, focused on that, unfortunately.

[00:31:55.07] - Nicolas Véron

I want to turn to the EU. You are interacting, you have interacted, you're still interacting with the EU. There is an accession process What is your assessment of how the EU has been handling the Ukraine relationship? What big mistakes are they making? What is it that they should work on? Maybe what is it that they're doing well? Can you give us a sense of the EU as a partner, as a counterpart, from your Ukrainian perspective? I think you're frozen out for me, but probably the connection will come back.

[00:32:35.21] - Oleksandra Azarkhina

Government, but also civil society.

[00:32:38.09] - Nicolas Véron

Luckily, Alexandra, you were frozen out for a few minutes. So if you can start over.

[00:32:46.18] - Oleksandra Azarkhina

Yeah, can you hear me now? Good. I'm sorry. So I was saying that EU is a good partner both for Ukrainian government, but also for Ukrainian civil society. And imagine how it was when, again, US stepped out from this role, because USAID and the way America was building its policies before, it wasn't just about money, it was just by setting the right, you know, like an example, the right policies. And always we had this luxury, which we understand now that it was

the luxury, to have someone to talk about and to say like, that's how it should work, that's what rule of law means, that's what, you know, democratic values means. So, and luckily EU stepped into the process even when America took, let's say, this isolationist pose. And I can say that EU presence in all the directions of the like economic development, but also civil society development, reforms is quite, you know, you can feel it. Of course, I would love to have even more partner nations present here because there are several nations which do have their missions here. They have their trade missions and many other things which are important. But I would love to have more of them because it should be really not just a fairy tale.

[00:34:15.08]

We keep telling others that Ukraine is fighting for Europe. It is a reality, but sometimes it's hard to deliver this message if people do not understand what Ukraine is, if people do not understand that we are fighting not for the territories, but for our joint future. And that's, frankly speaking, what I would love to see even in a better partnership.

[00:34:36.27] - Nicolas Véron

I have to say, speaking for myself, that traveling to Kyiv, which I had the privilege of doing last year, thanks to the Central Bank, also the Polish Central Bank was a co-organizer, very much made that effect on me. So I, I couldn't agree more. Let's talk about Ukrainian politics. Of course, the electoral system is frozen right now because of the martial law and the state of war, but it will be unfrozen, hopefully, after the war ends. And obviously, we've seen political transitions being very difficult in a number of European countries, with backlashes in a number of cases, and not only in Central and Eastern Europe. Europe, we're seeing, you know, anti-system parties, anti-EU parties gaining momentum everywhere. I would like to have a bit of your intuition of how Ukrainian politics may develop post-war, even so at this point we know it's science fiction. So let's indulge in some science fiction. And how you see the political dynamics, are they going to be different from what we see in the rest of Europe How will the war experience impact the trajectory? And ultimately, how do you see the risks and opportunities in terms of Ukrainian democracy?

[00:35:58.08] - Oleksandra Azarkhina

For our listeners who still do have elections in their countries, value elections. I do miss elections a lot. Elections are good, even when they are stressing and causing lots of problems to us. But in our realities, so first of all, we need to make sure that after, um, the cease of the hostilities and the possibility to have elections organized in Ukraine, that we will not come back to the previous experience when we had those, um, type of elections which are not connected

to the party systems but connected to those how you call it, like a major electoral bodies. So like it's, um, it's a system where people are representing their, you know, like a part of the land. But it's in Ukrainian case, it was always causing worse politics because it's easier to control from the central government those type of the politicians which are, you know, representing the district. So this, uh, thing was changed after Zelensky came into the power, and I hope that this legislation will stay in power. That's like a small thing, and again, it's already in the law, so hopefully it will not cease to exist. But it's important, it's not a small thing.

[00:37:22.13]

And generally, if we're talking about the electoral mapping of Ukraine, of course, it's very challenging to judge from where we are now during the war, but obviously there are going to be a lot of challenges in overcoming them misunderstandings between different verses of the society, those who were present in the country during the war, those who were, um, who flee because of the act of Russian aggression. So there are going to be challenges between the different social groups, and of course the military will play a very active role. And like, people who do know the market, they're saying that most likely it's going to be different political groups groups, sorry, buying different militaries and trying to build political agenda based on their stories. It will happen. And that's when we need to be ready and to have our legislation on the party building updated. So we already have quite good regulations on the transparency of the policies and the financial transparency and accountability. So those things are quite good. Even during the war, there's like nice things happening. But what is really lacking is this, you know, party-building and even better transparency in understanding who is funding who.

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Again, in some of the Western countries, we already had those challenges with the cryptocurrency, which are not allowing to understand who is funding who. And that's, you know, more mess for all of us. And of course, it's going to be challenge for Ukrainians as well. But I hope that we will manage to create better tools for that. We don't want Russians to pick up new political parties with Ukrainian military faces on it, because it's possible. Russians are very good at that, and we know how it can work, but that's something we need to track properly. And luckily, with all the resources available now on the, you know, like HUMINT, OSINT, where we track again the influences on us from the propaganda and many other directions, I think we will be able to tackle this challenge as well. Of course, as all European countries, we're going to have these challenges. I do worry how exactly this new right, I don't know, right mode in Europe will work out. We see how much risks we have in most developed democracies even now, like the biggest supporters of Ukraine with the new popularity of the conservative politics. Politics backed up by Trump in the future, possibly.

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That's a challenge. I don't know how it will work out in Ukraine, which is rather, you know, very centralized and liberal. But even again, our military, there are groups which are more conservative, more liberal, etc. So that's going to be the new reality.

[00:40:13.02] - Nicolas Véron

I want to shift to what Ukraine can bring to Europe in terms of defense, because that's an issue now, but it's also an issue beyond the horizon of the war.— and you've worked a lot on this. Can you tell us a bit of your vision of how the Ukrainian know-how in terms of defense industry, defense procurement can benefit the EU? You've proposed a defense agency based outside of Ukraine, integrating different models that can help, you know, for the vision of a European Defense Industry Union. We've got a few minutes left. Can you elaborate on this? Because I think it's so, you know, in a way exciting prospects for the Ukrainian contribution to the EU buildup?

[00:40:57.20] - Oleksandra Azarkhina

Thank you very much for asking that. It's really the topic. So first of all, the International Defense Procurement Agency for Ukrainian defense needs, it's the tool which is necessary, especially if we're gonna have a proper way to use some of the Russian frozen One of the ideas which are now circulated in the expert and political circles is this reparation loan, so the new way to see the Russian frozen assets, which could allow us not to touch the body, but use them again as a future promise of Russia to pay Ukraine their reparations. So like, it's—

[00:41:43.23] - Nicolas Véron

of course, guaranteed collectively, as Mrs. von der Leyen has put it.

[00:41:48.16] - Oleksandra Azarkhina

Yeah. I think it's smart. And we need to be candid in those questions again. Of course, Russians will try to go into cards even against this idea. But I think we need to go there because there are huge lack of the finances to Ukrainian defense. And as Ukrainian, I don't want only European taxpayers to pay for our efforts, even if we know that it's for our joint protection. But to use Russian assets, that would be the best way. But then you need to use them properly. And that's where I do believe we need to create this International Defense Procurement Agency, which will solve the challenges connected to the trust and capacity of Ukrainian system

only. But most importantly, that could allow us to coordinate better, because now we have this problem: different nations proposing different solutions for Ukrainian frontline, different models, different purchasing bodies, etc. Which is understandable, and the nations are trying to do two things: support Ukraine and support its own defense industry. But it's not frontline-driven. The focus is lacking. That's why we need to create an agency which will be understandable for each nation trying to support Ukraine, but also to support the industries to participate in the bidding.

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And that can be the step number one for the future defense infrastructure of Europe as well, because that will make us learn how to spend and plan money together. That's our chance for the overcoming of the fragmentation of the defense industry we have now, and it's just the training moment before we go into defense industry union, because that's something I do believe we need to start on. That's not a competitor to NATO, not at all, but that's about the capacity of the European continent to arm itself. And just by quoting the General Donahue, who is responsible for US Army in Europe, Europe needs to build its own system and to be ready to defend itself.

[00:44:02.12] - Nicolas Véron

It means that the solution to the challenge of European defense procurement and rearmament could come from Ukraine itself. Oleksandra Zachyna, thank you so much for giving us a real, real-time view from Kyiv. We know what that means in the current circumstances. I'm enormously grateful that you accepted to be the first speaker in the new series of the Peterson Institute for International Economics, What Now Europe? And we will try to continue on that. Thank you again and see you again soon.

[00:44:37.00] - Oleksandra Azarkhina

Thank you very much. Have a nice day.