

## **The Repercussions of the Donbass Crisis on Foreign Investment in Lugansk, Ukraine**

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### **Abstract:**

Luhansk region is one of the biggest industrial regions in Ukraine and has considerable economic potential, which attracts attention of foreign enterprises. Foreign economic activity of the region is realized both at the level of the region and at the level of individual enterprises. This work aims to shed light on the Donbas crisis and the reasons behind the recent disquieting developments. The research divided the beginning of the concept of the economic crisis and the repercussions of the Donbas, specifically the city of Luhansk, eastern Ukraine, before and after the crisis.

**Keywords:** Economic crisis, foreign investment, Lugansk, Ukraine

Jel Classification Codes : : F21, F43, C23, O47.

### **I. Introduction**

Economic problems have marked the recent history of eastern Ukraine. The region entered a phase of prolonged economic depression and structural problems in the early 1990s and was only just starting to recover from the fallout of the 2008 financial crisis when the armed conflict broke out in Spring 2014. Luhansk region had been one of the five most powerful industrial regions of Ukraine. Unfortunately, due to the partial annexation by the Russian Federation of Luhansk region, the traditional industrial relations have been broken down, and the regional investment climate has considerably deteriorated. However, powerful enterprises are continuing to manufacture competitive products in the Ukrainian government-controlled area. The regional authorities are putting significant efforts to support businesses: there are a programme for small and medium-sized enterprises, an ongoing dialogue with the management of large industrial enterprises, new approaches being applied to investment and image policies by the Regional State Administration, and the established Agricultural Producers' Association of Luhansk region. The priority investment directions for Luhansk region are to develop the agro-industrial complex, set up logistics centres and industrial parks, implement projects in the field of environmentally sound and energyefficient technologies, roll out alternative and renewable power generation as well as develop mining, chemical, pharmaceutical and machine-building industries.

### **The objective of the paper.**

The objective of this paper is to analyze foreign investment in Luhansk region Before and after the Donbas crisis as one of the most developed industrial regions in Ukraine.



### **Previous studies**

✓ **Cost of conflict: The consequences of war in Donbas, Ukraine (Artem Kochnev and Marica Valente,2021)**

War does not end with the last bullet unloaded or papers signed. Wars continue years after peace but in different ways: demining minefields, prosecuting criminals, fighting discrimination of minorities, and steering wartime narratives. Unfortunately, the longer a conflict goes on, the harder it is to achieve peace. Conflicts fragment societies by aggravating existing tensions among social groups and creating new ones. Understanding these harmful consequences is, therefore, a prerequisite for a realistic strategy of conflict resolution. This report provides an overview of the consequences (or ‘costs’) of the war in Donbas, Ukraine. It offers a concise overview of the key historical and economic developments surrounding the war. At times, the report sacrifices some depth of analysis, but only to achieve clarity of the main message, which has two points. First, the main costs in the region arise because of a policy driven humanitarian crisis. Despite being a highly militarized area, Donbas is no longer an area of active, large-scale military engagement. Donbas today is an area of a large-scale protracted humanitarian crisis affecting five million people. This crisis is, however, by far and large, a consequence of restrictive state policies imposed onto the separatist controlled areas. These policies, designed in the early days of the conflict to undermine pro-Russian sentiment in the region in the separatist-controlled areas, achieved little success but ruined economic connectivity of the region and forced involuntary pendulum migration of Ukrainian citizens from the separatist-controlled areas to mainland Ukraine, and back. Second, Ukrainian society is still polarized on critical issues. Prior to the war, the split was pronounced around the perspective of greater economic and political integration (EU or Russia). These days, however, the division line is most pronounced around a future peace deal: how should Ukraine restore Donbas, if at all?

✓ **An Assessment of the Donbas Region of Ukraine Strategic and Operational Recommendations for USAID’s Country Development Cooperation Strategy 2017-2022 (Ray Salvatore Jennings, Benjamin Long, Jacob Morrin, Oksana Grechko,2017)**

The purpose of this assessment is to explore the opportunities and constraints to early recovery and development assistance in the Donbas region of Ukraine. In the context of this analysis, the “Donbas” is defined as the entire territory of Donetsk and Luhansk oblasts, inclusive of Government-controlled and separatist-held areas. As part of USAID’s Country Development Cooperation Strategy (CDCS) for Ukraine 2017-2022, the mission seeks to understand the recovery and development needs in this region, beyond present commitments of humanitarian assistance. Moreover, the assessment will examine USAID’s comparative advantage in addressing the future needs of the region. The assessment team focused on answering two fundamental questions:

- Are there distinguishing features of the Donbas that require specialized and targeted programming; or can uniform national-level programming adequately address conditions in the region?

- How should USAID approach the transition between humanitarian assistance in the Donbas and longer-term development efforts and what are the critical recovery and development challenges in the fields of economic revitalization, governance, social cohesion, access to information, and infrastructure?

## **2. Theoretical and analytical framework for the assessment of ukraine's investment policy rame work: an over view**

The demise of the Soviet Union and the emergence of Ukraine as an independent state in late 1991 resulted in a dramatic transformation of Ukraine's foreign investment climate. Like most of the former USSR republics, Ukraine is now engaged in an ongoing transition from a centrally planned state to an open society and market economy. Faced with the task of establishing a comprehensive new legal, political, and economic system, Ukraine began this transition by making sweeping changes to its legislation: a new relatively liberal foreign investment law is now in force, a vast privatization program has been set in place, and a host of new commercial laws, in such areas as banking, trade, and tax, have been passed. Foreign investors may now invest, on the basis of these new laws, in numerous areas of the Ukrainian economy and may do so through a variety of forms including wholly owned subsidiaries, joint stock companies, and partnerships. In the authors' experience, however, the rules on the books in Ukraine are not always applied in practice as might be expected. Ukraine's transition to a market economy has to date been marked by significant declines in production levels, rampant inflation, and mixed support from the Ukrainian people on the direction

and pace of market reform. a. Liberalization of Scope of Foreign Investments Foreign investors may carry out a wide range of foreign investments: they may acquire all or part of the shares or interest in an existing Ukrainian enterprise; create new jointly owned or wholly foreign-owned enterprises; open a branch or representative office; acquire property; enter into production or cooperation arrangements; acquire limited rights in natural resources; and, more generally, make investments in any other forms of investment not prohibited by Ukrainian law. 9

### **2.1 The Legal Regime**

Since the beginning of 1991, and particularly since it became an independent state,( Ukraine declared its independence, 1991,) Ukraine has enacted a wide range of laws that either directly regulate or are relevant to foreign investment projects and commercial transactions. Although Ukraine continues to rely in certain limited cases on laws of the former USSR,( wo laws were adopted on, 1991), most relevant laws today are Ukrainian.

#### **2.1.1 The Ukrainian Foreign Investment Law**

The Ukrainian law "On Foreign Investments" (the Foreign Investment Law), promulgated on March 11, 1992, (Ukraine Law on Foreign Investments,1992), sets forth the general principles of the legal regime applicable to foreign investments, provides a number of significant tax incentives, streamlines the registration process, and codifies a number of standard principles of international law. The Foreign Investment Law applies to foreign investors and enterprises with foreign investment. Foreign investors are defined as foreign legal entities, nonresident physical persons, foreign states, and international organizations. An

enterprise with foreign investment is defined as an enterprise where a foreign investor owns at least 20 percent of the authorized capital or a share averaging at least \$100,000 in U.S. dollars throughout a calendar year.

### **1. Liberalization of Scope of Foreign Investments Foreign investors may carry out a wide range of foreign Investment :**

They may acquire all or part of the shares or interest in an existing Ukrainian enterprise; create new jointly owned or wholly foreign-owned enterprises; open a branch or representative office; acquire property; enter into production or cooperation arrangements; acquire limited rights in natural resources; and, more generally, make investments in any other forms of investment not prohibited by Ukrainian law . The Foreign Investment Law also establishes a number of special privileges, rules, and guarantees applicable to foreign investments, as discussed below. Foreign investors are also expressly permitted to provide for arbitration outside of Ukraine to resolve investment disputes with their Ukrainian counterparts. In addition, the Foreign Investment Law contemplates the creation of additional privileges in "priority branches of the national economy and social sphere pursuant to state programs for encouragement of foreign investments." Foreign investors considering projects in key sectors (such as agriculture, transportation, medicine, or defense conversion) should seek prior governmental approval of advantageous tax and other favorable terms for their projects.

### **2. Incentives for Creation of Enterprises**

with Foreign Investment the Foreign Investment Law contains the following incentives for enterprises with foreign investment:

#### **▪ Customs Rules**

Among the incentives provided are the following: property imported into Ukraine as a contribution of a foreign investor to the authorized fund of an enterprise with foreign investment is exempt from customs duties and import taxes (if imported within the time limits prescribed under the Laws on Business Partnerships). Enterprises with foreign investment are also entitled, license-free, to export their own production (goods and services), as well as to import products (goods and services) for their own needs.

#### **▪ Tax Benefits**

The Foreign Investment Law grants significant tax benefits to new and existing enterprises with foreign investment. An important distinction is made between wholly foreign-owned subsidiaries and enterprises with Ukrainian capital. Enterprises with foreign investment with participation of Ukrainian capital enjoy the greatest advantages. These rules are summarized as follows.

#### **1. Enterprises with Foreign Investment and Participation of Ukrainian Capital**

- If not in wholesale or retail trade, or intermediary activities, these enterprises are exempt from Ukrainian taxes for five years following the first receipt of profits and must pay only 50 percent of subsequent taxes.
- If in wholesale and retail trade, these enterprises are exempt from taxation for three years, while enterprises engaged in intermediary activity are exempt for two years. " Enterprises

in these categories must pay 70 percent of taxes imposed after their periods of exemption expire.

- Such enterprises that were created prior to March 12, 1992, also enjoy the above tax holidays.<sup>7</sup>
- All such enterprises are exempt from the Value Added Tax (VAT) (currently 28 percent on most items) for a period of five years following their registration.
- 2. Such enterprises operating in "top-priority branches of the national economy" or covered by legislation on "special (free) economic zones" may be granted additional tax privileges.<sup>1</sup>
- 3. **Enterprises with Foreign Investment and No Ukrainian Capital**

Such enterprises (wholly foreign-owned subsidiaries) do not enjoy the above tax holidays. They are, however, entitled to deduct from taxable income the total value of paid-in contributions to the enterprise's authorized capital, which are "converted to the currency effective" in Ukraine. A carryover into future years of this deduction is also permitted. Wholly foreign-owned subsidiaries, however, do not enjoy an exemption from the VAT.

#### **All Enterprises with Foreign Investment**

Certain tax rules apply to all enterprises with foreign investment (with or without Ukrainian capital). For all such enterprises, a 15 percent withholding tax is deducted on profits repatriated abroad, unless reduced under a bilateral tax treaty. 22 All such enterprises are also entitled to a tax deduction for reinvestment in a business in Ukraine.

#### ▪ **Foreign Investment Guarantees**

The Foreign Investment law also contains several "guarantees," intended to provide some degree of comfort to foreign investors. The law provides that:

1. rules in effect at the time of registration may be relied upon by the foreign investor for a period of ten years;
2. foreign investments are exempt from nationalization, except in emergency cases and only if there is "prompt, adequate, and effective" compensation, and foreign investors may repatriate profits, or reinvest them in Ukraine and earnings in foreign currency made by enterprises with foreign investment from the export of their products (goods and services) remain at the "complete disposal" of the enterprise. It is important

#### **2.2 What is an economic crisis? Definition and examples**

An economic crisis is a situation in which a country's economy deteriorates significantly. We also call it a real economic crisis. In most cases, a financial crisis is the cause of an economic crisis. During the crisis, GDP is typically declining, liquidity dries up, and property and stock market prices plummet. It is an economic downturn that gets worse and worse. GDP stands for Gross Domestic Product. GDP is the sum of everything a country produces over a specific period. Economic downturn refers to slowing GDP growth or GDP contraction. During a downturn, property prices fall, joblessness rises, borrowing falls, and companies invest less. When an economic crisis is devastating, there is a depression. When it is serious, but not as devastating, it is a recession. Recessions and depressions are similar. In both cases, the economy declines, and unemployment rises. However, a depression is more severe and usually longer-lasting. "A situation in which the economy of a country



experiences a sudden downturn brought on by a financial crisis.” “An economy facing an economic crisis will most likely experience a falling GDP, a drying up of liquidity and rising/falling prices due to inflation/deflation.” Economists say that a recession is a normal phase of the business cycle. If we can manage the downturn properly, however, we can prevent it from becoming an economic crisis or depression.

### **2.2.1 Economic crisis vs. financial crisis**

We often see the terms economic crisis and financial crisis in history books, newspapers, and business journals. Although the two terms have similar meanings, they are not the same. (businessDictionary.com)

#### **1. Financial crisis**

A financial crisis typically involves problems in the banking and finance sector. Banks, financial institutions, the currency market, and the capital markets, for example, are part of the banking and finance sector. If a country's major bank collapses, this is a financial crisis, especially if other banks also start crashing. It is also a financial crisis if a significant number of borrowers default on their debts (fail to pay back what they borrowed). If these problems continue, the problem will start influencing macroeconomic conditions. Macroeconomics refers to things that span the whole economy, such as GDP growth, unemployment, and inflation. A significant rise in interest rates is also a macroeconomic issue. A global financial crisis is a financial crisis that affects several countries simultaneously. During global financial crises, financial institutions lose faith. Subsequently, they stop lending to each other and traders stop purchasing financial instruments. Most lending eventually dries up, and businesses suffer considerably. The last global financial crisis occurred in 2007/8. We call it the 2008 Global Financial Crisis or 2008 Financial Crisis. (BusinessDictionary.com)

#### **2. Economic crisis**

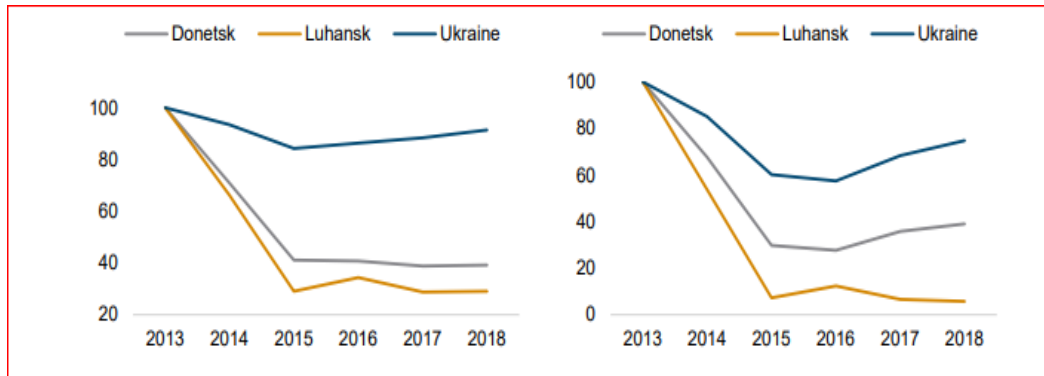
As mentioned above, if the financial crisis worsens and spreads, it will eventually affect macroeconomic conditions. When this happens, the financial crisis starts turning into an economic crisis. Unlike a financial crisis, which is limited to one sector, an economic crisis affects the whole economy. Unemployment rises, GDP stops growing or shrinks, and many other things go wrong. Put simply; if the authorities and those responsible do not address a financial crisis properly, it can turn into an economic crisis. (BusinessDictionary.com)

### **3. Donbass crisis on foreign investment in Lugansk, Ukraine**

#### **3.1 Impact Donbass crisis to growth of economics in Ukraine**

The armed conflict in Donbas has had a significant impact on the economy of the Ukraine. In 2014 and 2015, the Ukrainian economy contracted by 6.6% and 9.8%, respectively, with Donbas region undergoing even more severe economic decline. According to official statistics, in 2014 industrial production dropped by more than 40% in Luhansk, accounting for most of the 10% decline in Ukraine as a whole. Coal mining and the metals industry – both heavily concentrated in war-torn areas – were particularly hard hit: those industries dropped by 30% and 15%, respectively, while machine-building, whose main export market was Russia, also reported a strong decline (-20%). (State Statistics Service of Ukraine)

**Figure 2** Index of GDP growth, 2013=100 **Figure3** Index of goods exports, 2013=100



**Source:** State Statistics Service of Ukraine.

Exports to Russia, which used to account for a quarter of Ukraine's exports, plummeted by 35% in US dollar terms in 2014. Exports to the European Union increased by 12%, but that could not offset the decline in exports to Russia and the rest of the world. In 2015, the exports decrease continued, and over 2014-2015 the value of Ukraine's merchandise exports decreased cumulatively by about 40%. Yet export dynamics turned positive from 2017, as some exporters gradually reoriented themselves to different markets( State Statistics Service of Ukraine) .

### 3.2 Foreign investment in Lugansk

Luhansk, formerly Voroshilovgrad, Ukrainian Voroshilovhrad city, eastern Ukraine. It lies along the Luhan (Lugan) River at the latter's confluence with the Vilkhivka (Olkhovaya) River. The city dates from 1795, when a state iron foundry was established there to supply ordnance to the Black Sea fleet. Luhansk grew with the development of the Donets Coal Basin in the 1890s. The major branch of industry has been heavy engineering, dominated by a huge diesel-locomotive works. Steel tubes, coal-mining equipment, spare parts for motor vehicles, and precision instruments also have been made; coal has been mined in the city. There also have been food and timberworking industries. Luhansk has teacher-training, medical, agricultural, and machine-building institutes.( <https://www.britannica.com/>). Luhansk region has a sufficiently advanced industrial complex and potential for development of attractive proposals for investors. Priority areas for investment:

1. Development of agribusiness. Projects on processing of agricultural products and food production
2. Creation of logistics centres
3. Projects in the field of environmentally friendly and energy efficient technologies
4. Existent need to create enterprises to generate energy from alternative sources
5. Development of up-to-date technologies for extraction, processing and transportation of energy and other resources
6. Development of sectors such as extractive, chemical industry, machine-building, pharmacy and others

Before the military conflict, the region had been among the 5 most powerful industrial and economic regions of Ukraine, and its economy had been oriented towards the Russian Federation and the domestic demand of other industries. Luhansk region has preserved its



industrial capacity, in spite of some industrial facilities being located at the temporarily occupied territory. In the Ukrainian government-controlled area of Luhansk region, there are operational 489 industrial enterprises, comprising 48% of the total number of industrial enterprises before the hostilities. The main industrial enterprises are concentrated in the cities of Severodonetsk, Rubizhne, Lysychansk and Kreminna, constituting about half of the industrial production of the whole region. The industrial products are predominantly sold on the domestic market(europa.ua,2018).

### **3.3 The Foreign investment in Lugansk, Eastern Ukraine, Before The Donbas Crisis**

Luhansk region is one of the biggest industrial regions in Ukraine and has considerable economic potential, which attracts attention of foreign enterprises. Foreign economic activity of the region is realized both at the level of the region and at the level of individual enterprises. In the first case foreign economic activity of the region is directed towards establishment of the grounds of collaboration with the regions of other countries, creation of legal, trade and political mechanisms, which stimulate development and increase of efficiency of foreign economic connections of individual enterprises. For example, from the moment of proclamation of independence of Ukraine, Luhansk region authorities have signed 30 bilateral interregional agreements on trade-economic and cultural collaboration with different countries of the world (Transgranichnoye sotrudnichestvo Luhanskoy oblasti). This indicates the interest of foreign partners in social and economic development of Luhansk region enterprises. The rational foreign economic policy of Luhansk region authorities will contribute to the acceleration of scientific and technical progress, increase of concentration of production and efficiency of capital investments, increase of growth rates of individual enterprises' profit, which will influence the welfare of the society.

Foreign economic activity of an individual enterprise is a sphere of its economic activity, which is connected to the international production integration and co-operation, export and import of goods and services, foreign market entry, realization and receipt of foreign investments. Foreign economic activity is constituent of considerable quantity of Luhansk region enterprises. Luhansk region enterprises carry out import and export operations with partners from 117 countries of the world (Transgranichnoye sotrudnichestvo Luhanskoy oblasti) . Thus, in 2008 the export volume of Luhansk region enterprises was equal almost to 6361 million USD, and the import volume – 4462 million USD, which attests to the trade surplus.

The goods were exported by more than 220 enterprises in Luhansk region. The biggest export delivery volumes were carried out to Russian Federation - 26,4%, the United States of America - 10,5%, Turkey - 7,1%, Poland - 5,3%, Cyprus - 4,5%, Hungary - 4,1%, Italy - 3,9%, Virgin and British Island - 3,6%, United Arab Emirates - for 2,3%, and India - 2,3% [1]. The biggest import arrivals came from Russian Federation - 86,7%, United States of America - 2,2%, Germany - 1,5%, United Kingdom - 1,4%, China - 1,1% (Transgranichnoye sotrudnichestvo Luhanskoy oblasti) .To stimulate export by Luhansk region enterprises the Administration of Foreign Relations and Foreign Economic Activity of Regional State Administration developed the Plan of measures to stimulate export of the Luhansk region enterprises for 2009-2011 at the end of 2008 (Plan zahodiv shchodo stymulyuvannia eksportu



pidpryyemstvamy Luhanskoyi oblasti,2008). In particular, this Plan foresees creation and accompaniment of informative portal, which deals with export capacities of regional enterprises and questions related to realization of foreign economic activity, assistance of making an agreement on collaboration of enterprises-exporters and finance-credit establishments in the region, holding of information and consultation work in realization of export activity by enterprises of the region (including development and publication of information methodical materials regarding the conduct of foreign trade operations), organization of seminars dedicated to foreign economic activity, creation of information database on promotion of region's goods and services to the foreign markets, initiation of the development of a mechanism allowing to receive help from foreign, state and public organizations of Ukraine concerning defense of enterprises-exporters, etc ( Plan zahodiv shchodo stymulyuvannia eksportu pidpryyemstvamy Luhanskoyi oblasti,2008).

Besides the volumes of export and import of products, one of the indexes, which characterize foreign economic activity of enterprises, is index of volumes of foreign investments into the region and from the region. The volume of direct foreign investments of Luhansk region enterprises is presented in table 1.

**Table 1** Volume of direct foreign investments of Luhansk region enterprises (running total at the beginning of the year)

Year	Running total investments volume at the beginning of the year, million USD	
	Direct foreign investments into the region	Direct foreign investments from the region
1995	19,1	0,1
1996	22,9	0,6
1997	24,7	3
1998	27,9	4,5
1999	28,2	2,6
2000	28,3	2,4
2001	31,4	2,1
2002	39,3	2
2003	51,6	2,1
2004	57,5	2,3
2005	146,3	2,6
2006	268,7	2,5
2007	284,3	1,6
2008	309,1	1,7

**Source :** Transgranichnoye sotrudnichestvo Luhanskoy oblasti

According to the table 1, it is possible to draw the conclusion, that the volume of direct foreign investments into Luhansk region is increasing with every year, which indicates the growth of foreign capital volume in Luhansk region. In particular, the Russian investors invested 5 million 501 thousand USD to the economy of Luhansk region. Among them



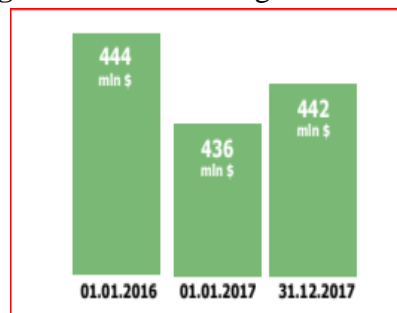
38,1% were invested to Rubizhne, 26,4% - to Pervomaysk, 16,7% - to Luhansk. Among other cities, the enterprises of which received investments, can be named the following: Alchevsk, Lisichansk, Severodoneck, and also Anratsyt and Novopskovsk districts (Tendentsii rozvytku investytsiinyh procesiv (in Ukrainian)) . The total volume of direct foreign investments, received by the region by January 1 2008, was 309,2 million USD, which makes 129,3 USD per capita ( Tendentsii rozvytku investytsiinyh procesiv). At the same time the volume of direct foreign investments from Luhansk region decreases which attests to the drawing of the fund of Luhansk enterprises out of foreign countries and the decline in their foreign economic activity.

One of the most important problems of realization of foreign economic activity by Luhansk region enterprises is not only the poor information awareness of foreign market demand and possibility to make international contracts, and absence of steady connections with foreign enterprises, but, first of all, uncompetitive products which are produced, and lack of funds to increase its competitiveness. Often enterprises lack own investment resources for production rearrangement and introduction of new technologies which can provide the production of high-quality goods and their access to the foreign markets. However in connection with economic and political instability in the country foreign investors are not in a hurry to invest funds into industrial enterprises of Ukraine, in particular, Luhansk region. Thus, the policy, performed on the level of public authorities, concerning the increase of investment attractiveness of Luhansk region enterprises and stimulation of their export, has to be not just declarative, but foresee the measures, which promote activation of foreign economic activity of industrial enterprises.

### **3.4 The Foreign investment in Lugansk, eastern Ukraine, after the Donbas crisis**

after the Donbas crisis The enterprises of Luhansk region carry out foreign trade operations with partners from 77 countries worldwide. The export structure is deregulated by product family and by country, In 2017, there was a reduction of 14.3 billion USD or 38.5% of industrial product turnover. The negative dynamics is due to the conservation of gas deposits located in the noncontrolled area and reduction of coal extraction.the volume of foreign trade in goods decreased due to the reduced demand for ferrous metals and mineral products, shutdown of individual enterprises, as well as restrictions on trade with the Russian Federation. Instead, the volume of exports of agricultural products, paper and cardboard, chemical products, polymer materials and textiles, optical and photographic devices and instruments, food products, construction materials is increasing

**Figure 2** Direct Foreign Investments



Source : ua.undp.org,2018

The most important countries to invest in Lugansk were - SPAIN \$ 9.2 bn, Industry, construction and real estate, hotels and restaurants , POLAND \$ 9.2 bn, Agribusiness, industry and trade , CYPRUS \$ 367.4 bn , Industry, agribusiness, construction, transport, services and trade , UNITED KINGDOM , \$ 23.4 bn, Industry, agribusiness, construction, OTHERS \$ 36.2 bn. (UA.UNDP,2018)

### **Conclusions.**

The significance of Luhansk region as a great industrial and agricultural location, increase in the financial capacity of local communities as well as the need to recover the damaged infrastructure are the main factors for investments to get increased in the regional economy. The effects of combat and partition have decimated the Donbas region's economy on both sides of the front line, weakened Ukraine's and siphoned funds out of Russia's. Although illegal and semi-legal trade, together with Ukrainian and Russian subsidies, have helped residents make ends meet, they have produced few genuine economic winners. The result is a stalemate. Kyiv has increased the war's cost to Moscow by placing Donbas's upkeep on its shoulders, but Moscow has complicated Kyiv's task of eventually reintegrating the region, by both posing as its patron and allowing the corrosion of what remained of its industries..

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adopted after that date. The same applies to USSR international treaties, to which Ukraine is the legal successor unless such treaties contradict the Ukrainian constitution or are otherwise contrary to the interests of Ukraine.

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