

Pavlikha N. V.

Doctor of Economic Sciences, Professor,

Kytsyuk I. V.

Ph.D. in Economics,

Faculty of International Relations, International Economic Relations and Project Management
Department,

Lesya Ukrainka Eastern European National University (Lutsk, Ukraine)

THE PROBLEMS AND PROSPECTS OF THE UKRAINE'S ECONOMY DEVELOPMENT IN THE CONTEXT OF EUROPEAN INTEGRATION

The current trends, and also problems and prospects of the Ukraine's economy development in terms of European integration processes are considered in the article. Particular attention is paid to the European integration in the economic sphere. The integration of Ukraine into the EU will provide its entry to the world's most powerful regional association, which significantly affects the overall dynamics, structural changes, the level of technology and the format of the regulation of the global economy.

Key words: national economy, European integration, competitiveness, reform, economy development, Ukraine, the European Union.

Current conditions of Ukraine's economic development require thorough and comprehensive evaluation of possibilities of integration into the European space. The prospects of such integration are largely dependent on the country's place and its role in the global economic environment, that, in turn, are determined by the current competitive positions of the national economy and, more importantly, country's ability to provide the conditions for the long-term competitiveness of the national economy.

Ukraine declared its European integration aspirations for the first time in the Resolution of the Verkhovna Rada of Ukraine from the 2nd of July 1993 «On the Key Directions of the Foreign Policy of Ukraine». The document indicated that «the priority of Ukrainian foreign policy is Ukrainian membership in the European Communities, as long as it does not harm its national interests. In order to maintain stable relations with the EU, Ukraine shall conclude an Partnership and Cooperation Agreement, the implementation of which shall become the first step towards its association and, later, full membership in this organization» [1].

The political part of the Association Agreement between the European Union (EU) and Ukraine was signed on 21 March, 2014. The economic part of the Agreement was signed on 27 June, 2014 by Heads of State or Government of the European Union (European Council President Herman Van Rompuy, European Commission President Jose Manuel Barroso) and the President of Ukraine Petro Poroshenko in Brussels. The Association Agreement was ratified by both the Verkhovna Rada of Ukraine and the European Parliament on 16 September, 2014.

The Association Agreement is an innovative document and the first agreement based on political association between the EU and any of the Eastern Partnership member countries. Also, this Agreement is unprecedented in terms of its amount (number of spheres that it covers) and depth (commitments and time limits for their implementation in detail).

The main part of Agreement is dedicated to key reforms, economic recovery and growth, and also governance and sectoral cooperation in the spheres of energy, transport, environment protection, industry, social development and social protection, equal rights, consumer protection, education, youth and culture.

The Agreement also focuses on the values and principles: democracy and the rule of law, respect for human rights and fundamental freedoms, good governance, market economy and balanced development. The document provides the strengthening of cooperation in foreign and security policy, including in the energy sector. In addition, issues of justice, freedom and security, and also provision of mobility will be reflected in the Agreement.

The provisions of the Deep and Comprehensive Free Trade Area (DCFTA), that contained in the Agreement go significantly further than classical free trade agreements. They predict mutual

opening of markets and stimulation of competitiveness as well and other steps necessary to achieving conformity with EU standards and trade in EU markets [2].

Accordingly, coming into force of these provisions, will significantly impact on the Ukrainian economy, in particular - on foreign trade relations between Ukraine and the EU and with its trading partners, which are not EU members. This is primarily countries of the Customs Union, and first of all it is Russia.

Participation in the process of European integration by the content is not simply international cooperation of economies of Ukraine and the EU, but first of all the process of deep penetration of the EU institutions (legislation, norms and rules of business doing, best practices, etc.) in the Ukrainian economy. In such quality, the EU acts primarily as a factor of influence on internal processes. However, the development of relations with the EU as the global power, an active subject of international economic relations and a member of influential international organizations means that the choice in favor of the EU is also the choice of own place within the world economy in general and in the process of formation and realization of key decisions about global economy development. In this context a crucial role is played by the following factors: the process of trade liberalization, investment flows and labor force migration; convergence of economic regulation norms; participation in programs of development and activities of integration community's institutions; specific factors of influence over the main sectors of economy [3, p. 27].

The domestic economy during 2014 has functioned under the influence of extremely negative external economic factors, which hindered the development of basic economic activities.

Internal risks of Ukraine's economy development are mainly related to:

- military operations in Donbass, which are led to production reduction in the region, deterioration of terms of external financing attraction and growth of budget expenditures to finance War Department and rebuild of destroyed infrastructure;

- increasing of debt burden on the budget because of the need to finance the deficit and debt of NJSC «Naftogaz» that have been formed in previous years;

- International reserves depletion complicates usage by the National Bank of Ukraine (NBU) of interventions as instruments to restrain the increase of demand for foreign currency, which is caused by panic and speculative attacks.

Secondary effects from domestic political and economic shocks, the annexation of the Crimea and the military actions in Donbass have extended on the most sectors of the domestic economy. In a result the existing imbalances are becoming more profound, decline in GDP, reduction the volume of industrial production, of construction works, of foreign trade, reduction the volume of capital investments familiarization, etc. are being accelerated [4].

At the same time, some kinds of economic activities continue to show relatively high growth rates. Thus, in January-April 2014 the volume of agricultural production substantially increased by 5 %, the volume of retail trade turnover increased by 5,6 %. The wages increased by 2,3 % in January-April 2014 compared to the same period in 2013 (in real calculation).

In the rating of "Doing Business 2014» Ukraine has improved its position by 28 points (up to 112 seat among 189 countries) and has joined the list of 10 countries that improved their performance greatly compared to the previous year [5].

The further development of trade-economic and investment cooperation with the EU is one of the priorities of foreign economic activity of Ukraine.

Prospects for trade and economic cooperation between Ukraine and the EU will increase significantly with the creation of the Deep and Comprehensive Free Trade Area between Ukraine and the EU in the framework of the Association Agreement.

The EU is one of the main trade partners of Ukraine. According to statistical data, the share of the EU in total volume of trade in goods and services of Ukraine in the first quarter of 2014 amounted to 35,37 % and increased by 4,4 % compared to the same period in 2013.

The foreign trade turnover (excluding the cost of services for alteration of customer's raw materials) in the first quarter of 2014 amounted to 11,46 billion dollars US, export to the EU-countries

amounted to 5,8 billion dollars US, import to the EU-countries amounted to 5,66 billion dollars US, active balance amounted to 0,14 billion dollars US.

International trade balance increased by 1,31 billion dollars US in the first quarter of 2014 compared to the same period in 2013. The volume of trade in goods in the first quarter of 2014 amounted to 9,95 billion US dollars , including export - 4,95 billion US dollars, import - 5 billion US dollars, passive balance - 0,05 billion US dollars. The volume of trade in services in the first quarter of 2014 amounted to 1,65 billion US dollars, including export - 0,99 billion US dollars, import - 0,66 billion US dollars, active balance - 0.33 billion US dollars [5].

On 12 March, 2014 The European Commission submitted to the Council of Ministers and the European Parliament inspections a draft of EU regulation on the application of the autonomous preferential trade regime for the Ukraine, which provides the reduction or elimination of customs duties on goods originating in Ukraine. The parameters of this regime correspond to the provisions of the Ukraine-European Union Association Agreement in the part of Deep and Comprehensive Free Trade Area creation [6].

23 April, 2014 unilaterally, the EU has opened its market for Ukraine. And all the trade preferences provided for by the Association Agreement, unilaterally, have been practically applied. Therefore, the EU has set rates of import duty and tariff quota for Ukrainian products at a level that will act in the first year after the introduction of a free trade area between Ukraine and the EU. The autonomous trade preferences (ATP) will be applied until 1 November 2014 and later they must be replaced by the provisions on the Free Trade Area (FTA) [5].

Article 4 of the Association Agreement which establishes a Deep and Comprehensive Free Trade Area is planned to enter into force on 31 December, 2015.

The norms and principles of DCFTA Ukraine-EU provide liberalization of trade in both goods and services, liberalization of the flow of capital and to some extent - the labor force flow. The distinctive feature of the Ukraine-EU FTA is a comprehensive adaptation program of regulation norms in sectors connected with trade, to the relevant EU standards. This will allow to mostly eliminate non-tariff (technical) barriers to trade between Ukraine and the EU and to provide the enhanced access to the EU internal market for Ukrainian exporters and simultaneously European exporters to the Ukrainian market.

Thus, the implementation by Ukraine of the Association Agreement between Ukraine and the EU principles in the part of a DCFTA will allow significantly expand access of Ukrainian exporters to the EU market, removing non-tariff trade barriers in the form of different standards and requirements, will assist to improve the business and investment climate in our country on the base of EU norms and standards, will be an effective mechanism for the gradual integration of Ukraine into the EU internal market.

Deep and Comprehensive Free Trade Area is a part of the Association Agreement between Ukraine and the European Union and one of the most ambitious bilateral agreements concluded by the EU. Ukraine DCFTA will provide possibilities for Ukraine to upgrade its trade relations and economic development. The instruments for this are: the opening of markets through the gradual abolition of customs tariffs, providing duty-free access within the quota, and large-scale harmonization of Ukrainian legislation, norms and standards with those which act in the EU in various sectors directly or indirectly connected to the trade. This will create the conditions for Ukraine and the EU standards harmonization in key areas. The final document of a Deep and Comprehensive Free Trade Area consists of 15 Chapters, 25 annexes and 2 protocols [6].

The major achievements of Agreement can be generally identified, as following [2]:

1) the improvement of conditions of exports of Ukrainian products to the EU primarily due to the elimination of import duty and reduction of non-tariff barriers to trade in agricultural products.

In recent years, the share of the EU market comprises on average 33 % of total exports of goods in Ukraine. The share of imports from EU countries-members was on average 35,6 %. Thus the EU market has a significantly higher tariff protection, primarily for agricultural goods and products (current average arithmetic rate of importable duty in the EU only on customs tariff is 7,6

%, Ukraine – 5,0 %, and for goods of groups Nomenclature 01-24 (agriculture) – 19,8 % and 9,2 % respectively. Meanwhile, rates of import duty from the EU side for individual tariff lines are 1,5–14 times higher than rates of import duty of Ukraine.).

The establishment of a Free Trade Area will provide additional benefits to domestic exporters in the market with high sufficiently protection. According to the reached agreements the liberalization covers more than 97 % of tariff lines (or more than 95 % of bilateral trade between the Parties). Thus, the abolishment of EU import duty on most goods will take place during the first year of the enforcement of the agreement (with 99 % of tariff lines).

Besides, the Ukrainian exporters will have an additional advantage for goods on which the EU offered to introduce tariff quotas. First of all it is about pork, chicken, sugar, etc. These products are sensitive to the EU and are usually excluded from the FTAs and are covered by the general customs tax regime. However, as a result of negotiations, Ukraine got the opportunity to export to EU the fixed volumes of above mentioned goods under zero import duties. This is not about restriction of imports, but it means only that the import of these goods that will be above the fixed volumes falls within the scope of the general import regime applied to Ukraine today.

The specified above will facilitate the growth of exports of goods and services (exports of agricultural products and food products, including confectionery may increase most notably in particular - exports of textile and leather industry, metallurgy and metal processing, chemical manufacturing, transportation services and services for legal entities).

Meanwhile, a slight increase in imports of goods and services will be observed (the largest increase is being expected in imports of chemical products and machinery; significant growth - in food production and agriculture, production of non-metallic mineral products, textile and leather industry, other types of manufacturing, transport and financial mediation).

According to the World Bank preliminary estimates based on General Equilibrium Model, an establishment of Free Trade Area with the EU, compared with presently existing high tariff protection of EU agriculture could significantly expand production of the agricultural sector in Ukraine and render Ukrainian exports with a general economic effect of 200 million dollars US per year, or 0,4 % of the GDP.

2) acceleration of economic growth. The additional growth is expected mainly due to economic activities such as agriculture and food processing, textile and leather industry, metallurgy and metal processing, transportation services, services for legal entities;

3) increase in the number of employees in economic activity: the growth relative to baseline is expected mainly due to economic activities such as agriculture and food industry, trade and repair, transportation. Meanwhile the slight decrease in the number of employees in the chemical industry, production of machinery and equipment is expected;

4) expansion of the state budget revenues. Taking into consideration the international experience of FTA functioning, short-term loss of revenue due to tariff liberalization will be offset by an increase in other items of revenue by means of domestic taxes;

5) encouragement of foreign direct investments in Ukraine: the establishment of “FTA +” with the EU will become a powerful additional argument in favor of foreign direct investment in the production of goods or services targeted on export to the EU countries using the existing competitive advantages of the Ukrainian economy;

6) improving the business and investment climate for domestic business operators: the process of legal adaptation of “FTA +” and enhancing the quality of its implementation will result in improvement of the business environment in Ukraine in general;

7) benefits for the Ukrainian consumers: the gradual elimination of existing tariff and regulatory barriers to increase the variety and quality of products and services available to consumers. In addition, competitive pressures, stemming from liberalization of market access, encourage specialization, thus stimulating innovation and reducing costs of production;

8) the EU rejection to use export subsidies in trade with Ukraine [7].

Thus, the plan of economic reforms that should be realized in Ukraine has to proceed from EU integration aims, to foresee comprehensive preparation of Ukrainian economy, society and the state for the implementation of the Association Agreement with the EU.

Real economy reforming should be oriented on a comprehensive modernization that includes: development of production capacities for deep processing and producing of high quality final products; gradual decrease of share of obsolete resource-intensive low-tech productions; reduction of energy intensity on the base of widespread introduction of energy efficient technologies and usage of potential of renewable energy sources; gradual harmonization of national production standards with EU standards.

The main lever for achieving the modernization aims is creation of favorable business and investment climate in the country [8].

The integration of Ukraine into the EU will provide its entry to the world's most powerful regional association, which significantly affects the overall dynamics, structural changes, the level of technology and the format of the regulation of the global economy.

Ukraine unconditionally shares the basic principles of the European Union which are pointed out in the Copenhagen criteria of EU in particular democracy, respect for human rights and fundamental freedoms, rule of law, competitive market economy. Ukraine maintains European policy of Eastern Partnership and expects for the support from European Union and the member-states of EU. The way of Ukraine to the European Union determines fundamental principles of foreign and internal policy of Ukraine.

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