PROBLEMS AND PROSPECTS OF ECONOMIC INTEGRATION OF UKRAINE AND EUROPEAN UNION

ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ ЕКОНОМІЧНОЇ ІНТЕГРАЦІЇ УКРАЇНИ І ЄВРОПЕЙСЬКОГО СОЮЗУ

УДК 334.D12.82:339.922(477):061.1ЄС

Korinnyi S.O.
Ph.D. in Economics, Lecturer
Chair of International Economics, Natural Resources and Economics on International Tourism
Zaporizhzhia National University
Yarkov S.O.
Student
Zaporizhzhia National University

The article describes current stage of economic integration of Ukraine and European Union. It analyses the general trend of further development of economic relationships. There are studied critical problems that impede general integration of Ukraine and EU. Also there are defined prospects of forcing economic integration of Ukraine and EU. The article offers the ways of activation of such integration.
Key words: *integration, economic integration, competition, barriers, economic and political factors of integration.*

У статті визначено сучасний стан економічної інтеграції України та Європейського Союзу. Проаналізовано загальний тренд подальшого розвитку економічних взаємовідносин. Розглянуто критичні проблеми, що перешкоджають загальній інтеграції України та ЄС. Визначено перспективи форсування економічної інтеграції України та країн ЄС. Запропоновано шляхи активізації такої інтеграції.
Ключові слова: *інтеграція, економічна інтеграція, конкуренція, бар'єри, економіко-політичні чинники інтеграції.*

В статье определено современное состояние экономической интеграции Украины и Европейского Союза. Проанализирован общий тренд дальнейшего развития экономических взаимоотношений. Рассмотрены критические проблемы, препятствующие общей интеграции Украины и ЕС. Определены перспективы форсирования экономической интеграции Украины и стран ЕС. Предложены пути активизации такой интеграции.
Ключевые слова: *интеграция, экономическая интеграция, конкуренция, барьеры, экономико-политические факторы интеграции.*

Target setting. Activation of integration processes in the world and particularly in Europe is a feature of current world development of countries. Even those countries that are not included into integration associations feel their considerable influence. After the last enlargement of EU Ukraine became the direct neighbour of European Union. It discovers new opportunities for strengthening cooperation between Ukraine and EU.

European integration for Ukraine is the way to modernize economy, create new workplaces, deal with technological underdevelopment, low level of energy efficiency, involve foreign investments, create innovative technologies, increase competitiveness of domestic producers and conquer world markets, especially the European one. As a part of Europe Ukraine is oriented to the current in leading European countries model of modernization and development.

According to the forecasts of economists, our country will not become a member of EU earlier than in 2020. Accession of Ukraine to this integration association is impossible by the reason that there will join a country that will need great compensation due to disappearing of a number of industrial sectors. Another problem of integration of Ukraine to EU is that Ukrainian laws don't meet the requirements of European standards. Ukrainian legislation should be adapted to the European one, and it should be performed as reforming of Ukrainian legislation system and gradually making it meeting the European standards.

Actual scientific researches and issues analysis. The problems of international economic integration that are directly or indirectly related to Ukraine are described in the works of many scientists such as M. Alle, P. Bakli, B. Balass, B. Heyts, Y. Danylyshyn, D. Lukyanenko, R. Soland, Y. Timbergen, E. Haas, A. Cherep.

Objective of research. The research aim is to analyse perspectives of integration of Ukraine to EU, define the role of Ukraine in trading with EU countries and dealing with problems in the process of economic integration.

Results. The notion 'international economic integration' is traditionally defined either from economic or political point of view. There is no theory that would sum up the findings of different schools. The common disadvantage of international economic integration analysis is its understanding in the light of institutions and the role of state in the process in general [4].

Despite a great number of concepts and theories of international economic integration development, the science still has not created a common approach to its definition. In our opinion, now it is not enough to perceive international integration only from economic or political point of view.

Systematisation of international economic integration theories allowed to find out that the representatives of market and institutional school describe the process of international economic integration in the best way.

International economic integration should be understood as a political and economic process of rapprochement and association of countries with intersection of their economic systems, with common economic policy and supranational political administration.

Integration is impeded by objective and subjective obstacles. The objective ones contain natural resources; difference in levels of social and economic development; different economic potentials and available production capacities, international factors etc. The subjective include cultural differences; multifaceted domestic and foreign interests; different levels of society development, geopolitical and geoeconomic indeterminacy etc. [1]

Both objective and subjective obstacles create barriers for integration processes. Barriers are any limitations or circumstances that impede new economic agents to enter a sector or a product market as agents.

Country that starts a trade war aims to reduce competition on its own market; increase the volume of GDP; increase employment population; make goods of national producers competitive; increase effective demand; stabilize macroeconomic environment.

Using trade wars some countries try to apply political pressure in order to get desired outcomes of these wars or make political decisions in economic area; cause deterioration of competitive positions of some ‘enemy’ country in the world, discreditation of authorities of a competitor country; limit mutual trade with a competitor country to make its economic and trade indexes lower; prevent strengthening of military power of a competitor country and as a way of reaching military advantages.

This way political and economic barriers in the process of integration can be determined as objective or subjective factors that arise due to some differences in political and economic systems, difference in economic development, political disagreements, noncompliance of economic interests and geoeconomic uncertainty and block the process of international economic integration making it more difficult or slower.

Analysing the key approaches to definition of essence of international economic integration barriers it should be mentioned that the researchers consider both state and individuals as agents that set limitations.

Political and economic barriers are supposed to be understood as objective or subjective factors that arise on the ground of certain differences in political and economic systems, difference in economic development, political disagreements, noncompliance of economic interests and geoeconomic uncertainty and impede the process of international economic integration making it more difficult or slower.

Dividing political and economic barriers into significant, insignificant and neutral, we can distinguish them as subjective, objective and the ones that do not depend on the will of state.

The subjective significant ones include tariff measures, customs duties and fees, taxes related to international trade, quantitative restrictions, quotas, voluntary limits, technical barriers, corruption, licensing.

The subjective insignificant ones include processes of applying antidumping/compensation legislation, subsidies.

The subjective neutral barriers are state procurements, macroeconomic policy, investment measures related to trade.

Among the objective barriers of international economic integration are trade wars, military operations, and discriminatory international agreements. The insignificant ones include political pressure. The neutral ones are physical barriers. [3].

Current economic theory and practice prove that open economy grows faster than closed economy due to liberal foreign trade, attraction of foreign investment, technological improvements and knowledge exchange [2]. In some researches it is proved that higher quality of institutions may cause growth in a country and strengthen positive effects of international economic integration [5]. D. Rodic says that external shocks of integration of a country into the world economy have long-term negative effects on growth of countries with poor institutions [4]. D. Dollar and A. Kray dispute about the role of trade and institutions in long-term and short-term outlook.

Based on these fundamental researches we add to our analysis of international economic integration political and economic factors influence also institutional factors and set a task to find out institutional indicators that have a direct impact on growth of economy of post-socialist economies. Using the indicator of institutions quality like Index of Economic Freedom (Heritage Foundation) we study the following its components: property rights freedom, trade freedom, absence of corruption and investment freedom. We suppose that institutions in the area of foreign trade freedom and decrease of corruption will have greater impact on economies of these countries.

To evaluate the impact of political and economic factors of international economic integration there is also used the index of international trade taxation as an indicator of tariff barriers in trade, as well as the way to evaluate the role of international aid programs of foreign funders and European institutes in economic growth of the studied countries.

At the same time to explore the impact of political and economic factors of international economic integration on economic growth, it is necessary to take into account assets and labour force as basic production factors according to the Cobb–Douglas production function.

To define relationship between a range of political and economic factors of international integration, institutions and basic production factors and economic growth was formed a selection of 18 post-socialist countries, 10 of which are Central and Eastern Europe countries (CEE) that are already members of EU, and 8 other countries of CEE and CIS are not a part of EU, including Ukraine. The time period of the research is twenty-five years, starting from 1991, the year when Ukraine became independent, to 2016, the last year when there was published statistical data for countries of the chosen group. The research is based on econometric analysis of panel data using the least squares method with transforming using the method of fixed methods. It allows to avoid heterogeneity by countries.

The analysis of specific institutions role in economic growth of countries shows that absence of corruption trade freedom indexes are statistically and economically significant mainly for CEE and CIS countries that are not members of EU. These countries should concentrate on improvement of institutions in trade area and overcoming corruption.

At the same time international trade is essential for GDP growth for both groups of studied countries (those that are included into the integration association and for those that aim to be integrated), and for CEE and CIS countries that are not members of EU their export activity becomes especially important. In addition, countries that are not members of EU benefit much more from international programs of help from international funders and European institutions than countries that are new members of EU. The barrier of getting EU membership by Ukraine is the problem of Ukraine's territorial integrity. Ukraine should meet the requirements of p.31 of Copenhagen criteria related to foreign and safety policy. To fulfil this demand Ukraine should harmonize its policy in sectors with political declarations and agreements of EU.

Except for institutions and trade economic growth of post-socialist countries is influenced by political and economic factors of international economic integration like direct foreign investment, international intellectual property rights exchange, international aid programs of funders and European institutions, as well as incomes from taxation of foreign trade. The impact of these factors on growth is mainly positive, but in some specifications of the model values of these indicators lose their statistical significance.

The results of institutions and other political and economic factors of international economic integration interaction are also positive, especially with volumes of import, export, direct foreign investment and international aid programs of funders and European institutions. This way we may suppose that there are some synergy effects of complex reforming of institutions, foreign trade, attraction of foreign investment and international aid and cooperation programs. The following studies in this area will help describe this problem in more details.

Institutions together with basic growth factors, i.e. assets and labour force, are key determinants of economic growth for post-socialist countries. Not every component of institutional improvement influences economic growth of CEE and CSI post-socialist countries in the same way. Trade freedom and absence of corruption have a significant impact on economic growth, especially for a subgroup of CEE and CIS countries that are not EU members. It is obvious that countries of this subgroup have relatively poorer institutions, and that is why it is expedient to focus economic policy on improving the quality of related institutions' components, that may become a driving force for their economic growth in turn. It is proved by the researches that poor institutions are the main barriers of economy growth in terms of integration into international economy.

GDP growth indexes beside institutions also depend on indicators of foreign trade. In his case the role of export in economies of CEE and CIS countries that are not EU members is more crucial than on economies of countries that are new members of EU. It is explained by export orientation of CIS countries with relatively poor development of national market. At the same time, import has a positive impact on economic growth of countries of both groups, because import brings them new products, equipment, raw materials, technologies and knowledge. This finding corresponds to the results of other recent empirical studies.

Improving of trade terms with EU provides benefits for national producers, decreases dependence on RF and trade conflicts with it, increases competitiveness of Ukrainian goods. Ukrainian industry sector is characterized by high energy intensity due to dominating in its structure products of heavy industry material and technical base of which is old-fashioned. That is why new terms of trade within free trade area will provide relative reduction of price for manufacturing lines and equipment that are provided by EU producers and will have positive impact on renewing of material and technical base of those industry sectors equipment for which is not produced in Ukraine [3].

Based on the results of the analysis there are formed recommendations for improvement of ways for Ukraine to be integrated to EU, defining its basic tasks:

– to outline clearly national geopolitical priorities;

– to stabilize constant GDP accession rates;

– to increase competitiveness of Ukrainian products and services on EU markets;

– to reduce production cost of exported goods;

– to reach the European level of standards and technical regulations;

– to increase funding of integration process implementation.

Conclusion. Summarising results of the research concerning integration processes of Ukraine in terms of this study we should understand that for Ukraine European integration is the way to improve and renovate economy, attract foreign investment and new technologies, increase competitiveness of national producers, it means free movement of skilled labour force, goods, services, production factors within integration association, as well as entering the common market. Cooperation of Ukraine and EU will contribute to making our country closer to high European standards, increasing living standards and human wellbeing.

REFERENCES:

1. Alkhovitska O. (2008) Tsentr ta peryferiia v ekonomitsi Yevropeiskoho Soiuzu na suchasnomu etapi rozshyrennia [Centre and frontier area in economy of European Union at the present stage of expansion]. Journal of European Economy, vol. 7, no. 3, pp. 318-325.
2. Belozubenko V. S. (2005) Ontolohiia intehratsiinykh protsesiv na rivni rehioniv svitu [Ontology of integration processes at the level of world regions]. Scientific works of DonNTU, no. 91, pp. 79-86.
3. Prykhodko I. V. (2014) Teoretychni zasady doslidzhennia polityko-ekonomichnykh barieriv mizhnarodnoi ekonomichnoi intehratsii [Theoretical base of studying political and economic barriers of international economic integration]. Visnyk of the Lviv University. Series International Relations, no. 36, pp. 101-109.
5. Sardarian L. S. (2010) Evoliutsiia modelei mizhnarodnoi ekonomichnoi intehratsii [Evolution of international economic integration models]. Scientific Notes of “KROK” University: Foreign Trade. Economic Security, no 2, pp. 72-81.
6. Predstavnytstvo Ukrainy pry Yevropeiskomu Soiuzi ta Yevropeiskomu Spivtovarystvi z atomnoi enerhii (2017) Torhovelno-ekonomichne spivrobitnytstvo Ukraina-YeS [Trade and economic cooperation of Ukraine and EU], Kyiv: Predstavnytstvo Ukrainy pry Yevropeiskomu Soiuzi ta Yevropeiskomu Spivtovarystvi z atomnoi enerhii

Korinnyi S.O.
Ph.D. in Economics, lecturer
Chair of International Economics, Natural Resources and Economics on International Tourism
Zaporizhzhia National University
Yarkov S.O.
Student
Zaporizhzhia National University

PROBLEMS AND PROSPECTS OF ECONOMIC INTEGRATION OF UKRAINE AND EUROPEAN UNION

Activation of integration processes in the world and particularly in Europe is a feature of current world development of countries. Even those countries that are not included into integration associations feel their considerable influence. After the last enlargement of EU Ukraine became the direct neighbour of European Union. It discovers new opportunities for strengthening cooperation between Ukraine and EU.

European integration for Ukraine is the way to modernize economy, deal with technological underdevelopment, low level of energy efficiency involve financial resources and create innovative technologies.

Objective and subjective factors impede economic integration of Ukraine and EU. The objective factors contain natural resources; difference in levels of social and economic development; different economic potentials and available production capacities, international factors etc. The subjective factors include cultural differences; multifaceted domestic and foreign interests; different levels of society development, geopolitical and geoeconomic indeterminacy etc.

Both types of obstacles create barriers for integration processes. Barriers are any limitations or circumstances that impede new economic agents to enter a sector or a product market as agents.

Country that starts a trade war aims to reduce competition on its own market; increase the volume of GDP; increase employment population; make goods of national producers competitive; increase effective demand; stabilize macroeconomic environment.

Using trade wars some countries try to apply political pressure in order to get desired outcomes of these wars or drastically make political decisions in economic area.

Based on the results of the analysis there are formed recommendations for improvement of ways for Ukraine to be integrated to EU, defining its basic tasks: to outline clearly national geopolitical priorities; to stabilize constant GDP accession rates; to increase competitiveness of Ukrainian products and services on EU markets; to reduce production cost of exported goods; to reach the European level of standards and technical regulations; to increase funding of integration process implementation etc.

Summarising results of the research concerning integration processes of Ukraine in terms of this study we should understand that for Ukraine European integration is the way to aspire high European standards, increasing living standards and human wellbeing.