

THE INTEGRATION INTERESTS OF UKRAINE: THE EUROPEAN UNION OR CUSTOMS UNION

One of the main tendencies of the international economic relations development is an economic globalization nowadays. The stage has begun when economic, social, politic and other processes and events leave national boundaries. It is possible to assess social and economic politics of some countries through the globalization prism.

On the modern stage of Ukraine's economy development there is a question about integration interests of the country. The main question is: the European Union (EU) or the Commonwealth Independent States (CIS).

The position of Ukraine in its integration interests is ambivalent. On the one hand, it develops economic relations with many countries of the world and makes efforts of more active participation in forming international integration grouping. And on the other hand, its national economy continues to be the part of the post-Soviet economic system that has been forming during existence of single country. The place of Ukraine in international global processes is defined by these geo-economic priorities: wish for the integration to the EU and natural link to post-Soviet countries. It is important to use this duality for realization of current and perspective tasks of social and economic development of the country.

The study indicates that development of the largest economies within the post-Soviet area (Russia, Ukraine, Belarus, and Kazakhstan) is associated with structural changes. Potential for significant economic growth based on raw exports and outdated processing industries is nearing exhaustion. For this reason, the growth rates required by the population can be achieved only by modifying the overall structure of the economy, developing the manufacturing sector and service industries. For the first time in the last 20 years, the study formulates an inter-industry set of analytical forecasting models for the region's four leading countries. The merit of the work lies in the fact that it applies a single methodology to the inter-industry analysis. Taking such an approach has allowed the authors to model common economic dynamics and structural changes, as well as to obtain sound assessments of possible integration scenarios throughout the post-Soviet area.

The Institute for National Economic Forecasting (Russian Academy of Sciences), the Institute for Economy and Forecasting (National Academy of Sciences of Ukraine) and the EDB Center for Integration Studies

have carried out a joint study of the macroeconomic effects of various forms of economic integration of Ukraine with the member states of the Customs Union and the Common Economic Space.

The aim of the study was to define the macroeconomic effect created by the establishment of the Customs Union and the Common Economic Space between Russia, Belarus and Kazakhstan, to define the current situation and prospects for development of integration links between Ukraine and the member states of the Customs Union, and to identify the most efficient forms and directions for the development of integration processes between the four countries [1].

The baseline scenario for development of the Ukrainian economy assumes continuation of the key trends of economic development observed in recent years. The main problem encountered by Ukraine under implementation of the baseline scenario lies in the fact that under increasing energy-commodity prices, maintaining the necessary level of competitiveness only becomes possible under accelerated energy-intensity reduction. Radical energy-intensity reduction, in turn, requires major investments. Revenue losses against the backdrop of rising costs trigger the continuation of relatively low fixed capital accumulation rates. Simultaneously, production growth is tempered by the gradual retirement of "old" idle capital. Thus, the economy is confronted by an acute capital restriction problem. Nevertheless, the remaining potential to achieve growth based on of aging facilities enables the Ukrainian economy to post higher economic-growth rates than Belarus, which is experiencing tighter fixed-capital restrictions. It should be noted that the lack of significant changes to the structure of the economy results in a slowdown in economic growth rates, given the impossibility of achieving accelerated output growth in the export sectors. The Ukrainian GDP dynamic obtained under the baseline scenario drops over the long-term from 4.4% in 2010 – 2015 to 3.6% in 2025 – 2030 [2, p. 12].

So, it is needed to examine the international trade relations of Ukraine with the EU and CIS countries (fig. 1).

This figure shows the active international trade both with the CIS and the EU countries. And in both cases it is visualized the domination of imports above exports. The negative balance shows this tendency. It is necessary to conclude that both the CIS and the EU countries are very important Ukraine's trade partners.

Integration mechanisms in the CIS are perceived not unambiguously by many politicians and scientists because of many causes. A lot of documents and coordinating institutes in the CIS didn't lead to the development of integration processes. The instruments of international economic interaction are not effective and aren't worked through. The countries of a region are afraid to be in dependence from Russian economy and look for the new trade partners among distant foreign countries. The Russian Federation, at 67th place, drops one position since last year. A sharp improvement in the macroeconomic environment-up from 44th to 22nd position because of low government debt and a government budget that has moved into surplus-has not been enough to allow the country to compensate for the poorer assessment of its already weak public institutions (133rd) and the innovation capacity of the country (85th this year, down from 57th in the 2010 – 2011 edition of the GCI) [4].

At the same time today the conditions for the reintegration of the CIS not only didn't go down but

raised because of many factors. During 2008 – 2012 it is visualized the stable growth of both exports and imports of Ukraine (except for 2009 because of world economic crisis). But the trade balance shows the domination of imports from the CIS countries above exports to these countries. So in the exports structure in 2012 the CIS countries compose more than a third (nearly 37%). In other words it is observed the active foreign trade of Ukraine with these countries (table 1).

Even though today ten countries compose the CIS (without Ukraine) average part in exports of these countries) composes nearly 37% against 26% of the EU (fig. 2).

Then it is the goods structure of international trade of Ukraine (table 2).

This table shows 27% (18889,85 mn US dollar) of exports in 2012 base metals compose. As for imports, nearly 33% (27542,30 mn US dollar) mineral products compose (fig. 3).

95% of mineral products are oil and gas which are imported from the Russian Federation. In other

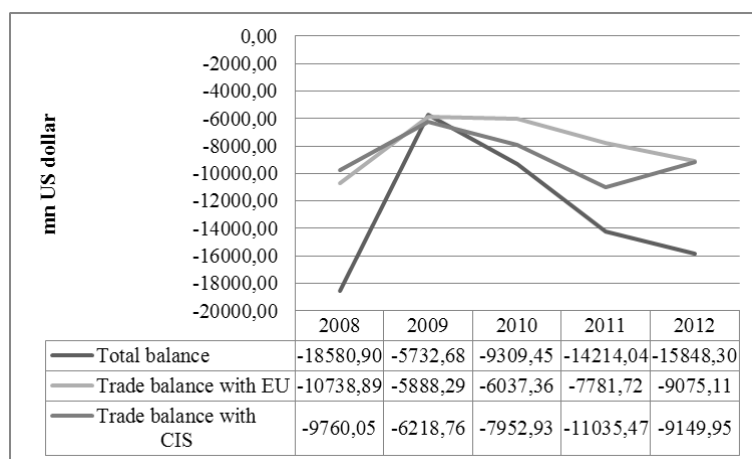


Fig. 1. Dynamic of international trade balance of Ukraine in 2008 – 2012, mn US dollar [3]

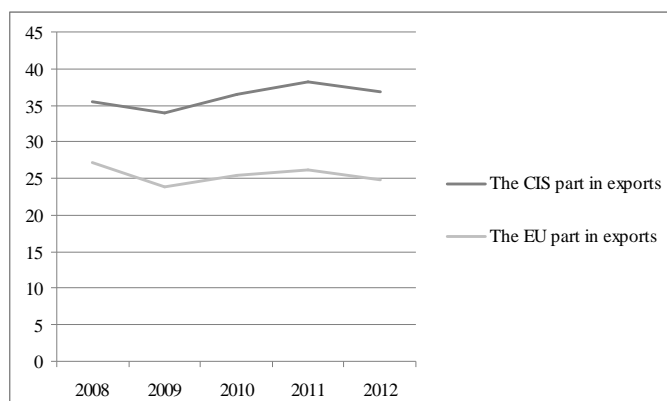


Fig. 2. Dynamic of the CIS and EU part in Ukraine's exports in 2008 – 2012, % [3]

Table 1

Dynamic of international trade of Ukraine with the CIS countries in 2008 – 2012, mn US dollar [3]

№	The CIS countries	2008			2009			2010			2011			2012		
		Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
	Total	6695,43	85535,36	-18580,9	39702,88	45435,56	-5732,68	51430,52	60739,97	9309,45	82608,24	-14214	68889,81	84658,06	-15848,3	
	Total (the CIS countries)	23809,37	33569,42	-9760,05	13473,89	19692,65	-6218,76	18744,50	26697,43	-7952,93	37212,44	-11035,47	25302,62	34452,57	-9149,95	
1	Azerbaijan	910,52	75,69	834,83	546,64	282,79	263,85	610,84	951,19	-340,35	708,32	643,30	766,64	79,74	686,90	
2	the Republic of Belarus	2105,57	2809,65	-704,08	1258,94	1692,83	-433,89	1899,20	2567,59	-668,39	1922,33	4211,75	2251,12	5068,57	-2817,45	
3	Armenia	263,61	25,46	238,15	165,63	28,22	137,41	201,34	17,95	183,39	227,56	18,49	179,22	22,95	156,27	
4	Georgia	655,99	191,58	464,41	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
5	Kazakhstan	1832,59	3118,85	-1286,26	1418,43	2083,94	-615,51	1300,50	766,22	534,28	1857,55	1675,95	2459,25	1494,88	964,37	
6	Kyrgyzstan	83,65	9,12	74,53	83,84	4,01	79,83	75,04	6,18	68,86	111,28	7,49	127,05	6,52	120,53	
7	Moldova	1171,99	169,57	1002,42	693,62	52,06	641,56	713,53	73,64	639,89	874,40	130,36	822,69	122,02	700,67	
8	Russian Federation	15735,57	19414,21	-3678,64	8495,07	13235,77	-4740,70	13431,88	22198,01	-8766,13	19819,62	29132,20	17631,75	27418,3	-9786,55	
9	Tadjikistan	77,67	5,36	72,31	80,38	3,97	76,41	74,74	3,49	71,25	60,25	13,03	100,81	7,2	93,61	
10	Turkmenistan	376,94	5631,67	-5254,73	325,17	718,29	-393,12	208,95	31,43	177,52	241,90	736,00	528,16	123,43	404,73	
11	Uzbekistan	595,27	2118,26	-1522,99	406,17	1640,77	-1234,60	228,48	81,73	146,75	353,76	643,87	435,93	108,96	326,97	

words dependence of Ukraine from importing resources is seen.

As to experts, they say that the integration of Ukraine to the Customs Union allows to save from 3 to 6 billion US dollar for Russian oil and gas annually. The most dependent branches from prices on resources – metallurgy, machinery and chemistry will get a new impulse of development under preferential prices. Besides

contacts widening with post-Soviet partners will open new opportunities to Ukrainian business. As a result of this the increase of new jobsites quantity will be.

Next it is seen the goods structure of Ukraine's exports to the Russian Federation (table 3).

As it is seen from this table 85% (5963,47 mn US dollar) of exports to the Russian Federation machines, equipment and mechanisms compose. Big parts of exports

Table 2

Goods structure of international trade of Ukraine in 2008 – 2012, mn US dollar [5]

№	Goods group under the IAGUC	2008		2009		2010		2011		2012	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1	2	3	4	5	6	7	8	9	10	11	12
	Total	66954,40	85535,40	39702,90	45435,60	51430,50	60740,00	68394,20	82608,20	68809,80	84658,10
1	Live animals and livestock products	783,40	1702,02	595,97	1267,56	771,39	1241,69	936,61	1035,37	961,32	1718,37
2	Plant products	5577,38	1462,48	5034,89	1259,95	3976,33	1563,71	5531,41	1815,94	9213,90	2429,66
3	Animal or plant fats and oils	1945,75	612,87	1796,02	374,27	2617,31	451,55	3396,41	468,67	4211,46	406,25
4	Finished food industry products	2518,16	2679,18	2088,05	2034,28	2571,07	2504,93	2939,14	3026,73	3493,92	2965,37
5	Mineral products	7046,09	25441,28	3900,09	15695,09	6731,33	21127,92	10259,70	30029,57	7650,42	27542,30
6	Products of chemical and allied industries	5045,33	6959,12	2515,15	5319,27	3479,17	6441,66	5390,33	8020,85	5058,92	8586,39
7	Polymeric materials	997,67	4476,61	563,32	2663,83	685,28	3661,44	937,69	4498,36	999,58	4467,13
8	Raw leather and curry leather	359,52	232,46	178,10	124,20	173,82	177,29	168,45	199,78	135,63	247,21
9	Wood and articles of wood	801,16	545,76	669,97	271,78	828,20	341,53	1078,33	393,02	1060,61	369,57
10	Paper balk of wood	874,40	1835,25	806,97	1373,33	940,52	1658,31	1105,32	1836,68	1132,08	1812,62
11	Textiles materials	984,59	2099,24	712,95	1416,92	735,84	1974,82	863,84	1989,86	783,84	2563,72
12	Footwear, hats, umbrellas	178,10	531,11	144,51	286,49	174,76	490,30	208,84	361,52	175,91	793,68
13	Products from stone	454,82	1276,48	285,23	635,23	399,48	889,67	549,24	1156,09	582,78	1106,95
14	Pearls, precious stones	146,88	1032,04	84,20	159,75	74,23	302,69	100,75	743,45	139,78	493,43
15	Base metals	27593,97	6390,07	12816,76	2676,56	17332,55	4127,97	22101,00	5697,09	18889,85	5238,91
16	Machines, equipment and mechanisms	6341,14	13379,84	5014,32	6257,04	5670,42	8166,97	6759,00	12795,10	7026,67	13178,67
17	Ground, oil and water transport facilities	321,34	12091,41	1596,43	2163,83	3262,44	3664,29	4854,76	6204,22	5963,47	8067,05
18	Optical apparatus	242,73	1222,61	278,71	670,77	252,31	886,37	281,48	1047,48	296,46	1218,89
19	Different industrial products	438,91	1011,00	310,60	500,10	416,63	681,98	556,23	847,04	609,04	1015,03
20	Art articles	0,72	4,11	0,69	1,00	0,24	2,08	1,14	24,30	0,35	54,32
21	Other	4302,34	550,46	309,97	284,35	337,18	382,83	374,53	417,08	423,81	382,58

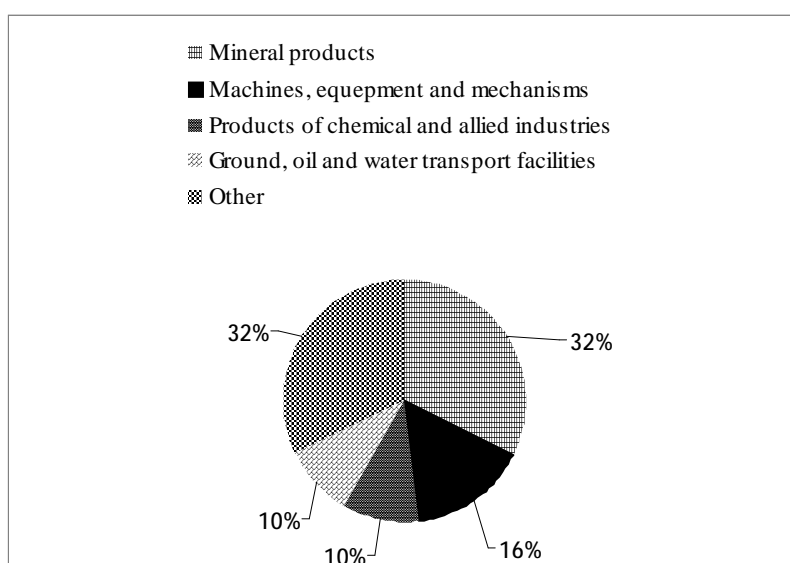


Fig. 3. Goods structure of imports of Ukraine in 2012, % [5]

to the Russian Federation belong to the live animals and livestock products goods group (599,55 mn US dollar or 62%), polymeric materials (507,54 mn US dollar or 51%), wood and article of wood (85,22 mn US dollar or 63%), paper balk of wood (810,33 mn US dollar or 72%), products from stone (330,16 mn US dollar or 57%) and ground, oil and water transport facilities (3339,27 mn US dollar or 56%).

As to goods structure of Ukraine's import (table 2), it shows the Ukraine's dependence from importing machinery which compose 25% of imports (machines, equipment and mechanisms, ground, oil and water transport facilities).

Judging from these data it is necessary to set the imports quota on these goods groups:

$$Q(i) = (I / GDP) * 100\% = (21245,72 / 176111,13) * 100\% = 12\%, \text{ where} \quad (1)$$

$Q(i)$ – imports quota;

I – imports;

GDP – gross domestic product [6].

For the benefit of domestic machinery producers it is necessary to decrease the imports to 12% from the State statistics service of Ukraine figure. So, it is supposed that the free trade area creating with the EU will cause imports quoting impossibility and will increase it in many times what will have the negative effect on Ukraine's machinery.

As to the goods structure of exports, 40% or 26540,27 mn US dollar in 2012 mineral products and base metals compose. It is supposed that under the free trade area creating with the EU some "packing" of Ukrainian high-tech branches will happen. In other words Ukraine's economy development will return to the stage of factor-driven economy my World Bank methodology.

Following a protracted economic crisis, Ukraine bounces back to 73rd position in this year's GCI. The country's competitiveness benefits notably from a healthier macroeconomic environment than in previous years. The budget deficit was cut to 2,7% of GDP in 2011, the debt-to-GDP ratio fell somewhat, and inflation was reduced, although it still remains fairly high at almost 8%. Overall, Ukraine maintains its competitive strengths; these result from its large market size (38th) and a solid educational system that provides easy access to all levels of education (ranked 47th on higher education and training and 54th on primary education). The good educational outcomes provide a basis for further developing the innovation capacity of the country (71st). Putting economic growth on a more stable footing in future will require Ukraine to address important challenges. Arguably, the country's most important challenge is the needed overhaul of its institutional framework, which cannot be relied on because it suffers from red tape, lack of transparency, and favoritism. Ukraine could realize further efficiency gains from instilling more competition into the goods and services markets (117th) and continuing the reform of the financial and banking sector (114th) [4].

As to free trade area creating with the EU after five years of intense negotiations, the EU and Ukraine finally started initialing their Association Agreement in Brussels, on March, 30 2012. Every single one of the 160 pages of the political document needed to be signed, before the economic chapter on the free trade area DCFTA (Deep and Comprehensive Free Trade Area) – comprising 1100 pages – was initialized on July, 19 2012.

It covers the following fields of cooperation:

The approximation of the European Union and

The goods structure of Ukraine's exports to the Russian Federation in 2012, mn US dollar [5]

№	Goods group under the IAGUC	Exports in 2012, mn US dollar		
		Total	to the Russian Federation	The part in total exports, %
1	Live animals and livestock products	961,32	599,55	62
2	Plant products	9213,90	115,98	1
3	Animal or plant fats and oils	4211,46	110,37	3
4	Finished food industry products	3493,92	1157,54	33
5	Mineral products	7650,42	1332,29	17
6	Products of chemical and allied industries	5058,92	1242,45	25
7	Polymeric materials	999,58	507,54	51
8	Raw leather and curried leather	135,63	4,64	3
9	Wood and articles of wood	1060,61	85,22	8
10	Paper bales of wood	1132,08	810,33	72
11	Textiles materials	783,84	149,98	19
12	Footwear, hats, umbrellas	175,91	40,29	23
13	Products from stone	582,78	330,16	57
14	Pearls, precious stones	139,78	10,09	7
15	Base metals	18889,85	3737,82	20
16	Machines, equipment and mechanisms	7026,67	5963,47	85
17	Ground, oil and water transport facilities	5963,47	3339,27	56
18	Optical apparatus	296,46	140,89	48
19	Different industrial products	609,04	254,15	42
20	Art articles	0,35	0,026	7

Ukraine on the grounds of common values and an increased participation of Ukraine in EU programs;

A cross-border cooperation in the field of external and security policy, inter alia in conflict prevention and military cooperation;

Helping Ukraine to achieve European standards in the policy areas of justice and home affairs by promoting the rule of law, democracy and human rights in Ukraine, as well as providing support in the combat of corruption, in the improvement of the judiciary's efficiency and data security;

An enhanced economic cooperation by establishing a deepened and strengthened free trade area between the EU and Ukraine. Moreover, specific sectorial cooperation in over 30 areas, for example in the fields of agriculture, industry, energy supply and consumer protection;

Launching new ways of cooperation, providing funds and building up a platform for a civil society [7].

Based on the general rules of interpreting international treaties, the meaning of the "association" concept should be expanded through interpretation of the totality of the Agreement's provisions. However, practice of the recent decades proves that application and interpretation of each Association Agreement is focused on the EU acquires regarding association relations with third countries. Thus, the Ukrainian side should be prepared for that the Association Agreement will establish specific features of association relations with Ukraine based on rooted principles and traditions.

Since it was Ukraine that insisted that the "new enhanced agreement" were an association agreement, the EU rightly expects that the Ukrainian side fully understands the meaning of the "association relations" concept and is ready to follow it. Above all – those association agreements are the most advanced type of international treaties that

the EU may conclude with third countries – the countries with which the EU is ready to develop strong long-term alliance relations based on mutual trust and respect for common values [7].

It is necessary to note on the possibility of associating membership of Ukraine in the EU. In the basic European Commission documents there is no definition such as “associating membership”. There are some variants of agreement about association with the EU. The first – is the agreement about stabilization and association which has been subscribed with several west-Balkan countries. Another variant of agreement that gives the prospect of the EU membership is the European agreements which have been subscribed between Brussels and Central and Eastern Europe countries which later became the EU members. Other agreements don't give the prospect of the EU membership. In any case using the “associating membership” isn't correct. These countries are the participants of some process but they aren't the members of the EU.

Only Ukraine among the post-Soviet countries negotiates with the EU about the association agreement. But as say the European Commission experts this future agreement doesn't give the prospect of the EU membership.

Conclusion. The geographic and goods structure of foreign trade of Ukraine is analyzed and such conclusion was made.

The integration of Ukraine to the Customs Union allows to save fund on importing resources and put in order cooperating relations with the CIS countries which were lost after the USSR reintegration.

The free trade area creating with the EU is going to have such consequences:

- returning Ukrainian economic system to the stage of factor-driven economy;
- “packing” of native machinery;
- active using of Ukrainian mining branches of industry.

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Лимар В. В. Інтеграційні інтереси України: Європейський Союз чи Митний союз

У статті розглянуто проблеми та перспективи розвитку економіки України в результаті створення зони вільної торгівлі з ЄС та інтеграції до Митного союзу. Проаналізовано товарну та географічну структуру зовнішньої торгівлі України та зроблено висновок щодо стратегічної важливості для економіки України ринку країн пострадянського простору.

Ключові слова: економічна глобалізація, інтеграційні інтереси, зона вільної торгівлі, Митний союз, структура зовнішньої торгівлі, імпортна квота.

Лимарь В. В. Интеграционные интересы Украины: Европейский Союз или Таможенный Союз

В статье рассмотрены проблемы и перспективы развития экономики Украины в результате создания зоны свободной торговли с ЕС и интеграции Украины в Таможенный союз. Проанализированы товарная и географическая структуры внешней торговли Украины и сделан вывод относительно стратегической важности для экономики Украины рынка стран постсоветского пространства.

Ключевые слова: экономическая глобализация, интеграционные интересы, зона свободной торговли, Таможенный союз, структура внешней торговли, импортная квота.

Lymar V. V. The Integration Interests of Ukraine: the European Union or Customs Union

The article is devoted to the problems and prospects of Ukrainian economy development as a result of free trade area creating with the EU and integration to the Customs Union. The geographic and goods structure of the international trade are analyzed and it is made the conclusion about the strategic importance of post-Soviet area market for the Ukrainian economy.

Key words: economic globalization, integration interests, free trade area, customs union, international Trade structure, imports quota.

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