

Diplomat's Notes

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**THE EU ENLARGEMENT IMPACTS
ON THE UKRAINIAN ECONOMY:
CORRELATION OF NEGATIVE
AND POSITIVE FACTORS**

Abstract

The paper is about a comparative analysis between positive and negative effects of the EU enlargement on the economy of Ukraine. Several studies conducted by Ukrainian economists highlight a negative impact of the EU enlargement process on the Ukrainian economy in the short run. The current situation in Ukraine and contemporary studies on the structure of the EU – Ukraine trade, and the system of foreign trade management within the EU are made author to conclude that the EU enlargement would positively affect Ukraine economy development in mid – term and long – term outlook.

Since Copenhagen Declaration in 1993, various Ukrainian researches have studied the impact of the EU enlargement on the Ukraine economy.

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V. Stepanenko, A. Filipenko, V. Chaliy, A. Chukhno, T. Shemet, O. Shnyrkov, V. Yushchenko and others study this issue focusing their attention on impact of the EU integration process. They also analyze the EU new members entering the European Community pointing out that the EU had passed a few stages. Each of these stages differs by its level of integration development, its results and area of expansion [1: 35].

The EU member-countries succeeded in their economic and social development mainly due to economic tools and progressive forms of relationships. The EU went through multiple expansion and at present consists of 25 European countries. The main requirements for the EU membership are following: democratic and pluralistic management system in the country and market based economy. There is a need to study an impact of the EU enlargement on the economy of Ukraine because the Ukrainian foreign policy is being oriented at integration into the EU in a medium-term perspective.

There are two research aspects of great importance for the entry of Ukraine into the European Union or its acquisition of the EU associate member status as a priority of foreign policy. Firstly, it is a study and an application of the EU new members' experience with specific focus on the convergence criteria to be reached in a medium-term prospect. Thereto, to study a possible negative impact of the mentioned criteria on the economy of certain countries. Second, it is a comparative analysis of possible advantages and disadvantages of the Ukraine economy from the EU enlargement process at the current stage. The effectiveness of the Ukraine economic security depends on; the proper comparative analysis, what kind of contradictory points it reveals, how far the foreign experience meets the economic development process in Ukraine within the boundaries of globalization and current market situation. Also, what is the estimation of the results of decreased trade regime between Ukraine and other EU members.

Until today only the Ministry of Economy and the European Integration of Ukraine, and also the Ukrainian O. Razumkov Center for Economic and Political Studies have made comprehensive analysis and forecast regarding a possible results of the EU enlargement 2004 on the Ukrainian economy.

According to the researches the EU enlargement would have a big impact on economic and trade relationships between Ukraine and the EU member states. The enlarged European Union would become a major sales market for Ukrainian goods and as source for import.

The importance of cooperation between Ukraine, the EU and its new Member States for the last four years is acceleration in the rates of mutual trade, when annual growth of the goods turnover was more than 16–18%. During 2003, these tendencies increased. Thus, a positive dynamics reached to 34 % with the EU-15, and with the EU-10 even more reaching to 47.5%. This factor is related to liberalization of the trade regime in Ukraine, which is based on WTO principles and the European standards [3].

Ukraine's share in the EU trade remains insignificant and makes 0.4% of total EU foreign trade. Bilateral trade of Ukraine with EU is concentrated with few EU countries (Federal Republic of Germany, Italy, and the Great Britain). This is one of the negative aspects of trade dynamics between Ukraine and the EU. The EU enlargement can cause a diversification of geographical pattern of the Ukrainian export with the EU. This process can happen due to decrease in trade relationships with the new EU members and due to the adaptation of the latter to the EU trade pattern.

Another negative aspect of economic and trade relationships between Ukraine and the EU are lack of assortment in the bilateral trade between EU-Ukraine. So, in 2000–2002 considerable share of Ukrainian export to the EU countries included: metallurgy products (26.7%), minerals (16.3%), agriculture and food industry products (12.3%), and light industry (15.1%). During last three years low technological industry products made over 70% of total Ukrainian export to the EU [5].

The main challenge of the EU enlargement for Ukraine is to find a new model for collaboration with the enlarged European Union. It should include activities directed at reducing the undesirable consequences of the EU enlargement. This model should consider internal measures and counter steps that both parties have to take. Its realization can be fulfilled by a number of tools proposed to Ukraine by the EU concept «The Enlarged Europe – The Neighborhood», and also number of agreements attained on Yalta (2003) and Ukraine–EU preliminary summits.

Currently experts from Ukraine and EU are developing «Action Plan» for establishment of the basis for future collaboration.

Ukraine has to update and implement «Action Plan», which will lead to integration of Ukraine in the EU internal market. Implementation of the plan would result in «four liberties» of the EU to be incorporated in the Ukraine-EU economic relations, viz. free flows of capital, goods, services, and labor force. Moreover, it would help Ukraine to participate in the certain EU programs. This Action plan would result in new thrust to bilateral economic relations between Ukraine and EU. This model of economic co-operation would be the best answer to the challenges of the EU enlargement [6].

EU is following the policy of regional trade and regional integration with regard to the Mediterranean countries. This policy is rather related to positive consequences of political and economic stability in the region, resulting in the expansion of the Mediterranean market. EU has signed agreements on a free trade zone with the South Mediterranean countries, which conforms to the framework of Barcelona Declaration. In accordance with that the scopes of agreements, later it may be expanded to include a greater range of goods and services.

According to the EU directives regional integration can also be carried out by an intensive discussion and implementation of the agreements on a free

trade zone between Mediterranean partner countries, and also with Turkey, which is the EU customs union partner. Although some of the agreements about co-operation with the EU are yet to be ratified, however the Mediterranean partner countries are suggesting EU to have various legislation to be incorporated in the agreement, allowing them greater access to internal market of the EU countries.

The Partnership and Co-operation Agreement (PCA) signed between the EU and Russia, Ukraine and Moldova, does not envisage either granting commercial privileges, or definite scheme for approaching normative-legal base, unlike the relationships with other EU neighboring countries. Taking into account these «start terms» and purposes, it is obvious that the new EU policy can not be universal for all the countries. Different stages of reform realization and different levels of economic development may result in different advancement rate during next decade in the neighboring countries [7].

Formation on the borders of Ukraine of powerful integration union i.e. EU, with unified trade rules, tariff, administration norms and procedures, is favorable for Ukraine. It simplifies business with European companies and improves environment for trade and investments. First of all, after enlargement the general level of tariff protection would decrease in the market of new member states. On the other side, a common border of Ukraine with the EU member states increases possibilities of border-line economic development and investment cooperation, which now has not a clear legislative base and is rather of a sporadic character [6].

In addition, ten new member states will automatically join the EU General System of Preferences that will respectively decrease the customs' tariffs by 3.5% for Ukrainian goods export to the markets of these states. Consequently, this will lead to considerable reduction of tariff protection in new member states, that in turn will make Ukrainian export quite competitive.

Another positive aspects of the EU enlargement for the Ukrainian trade relation relates to higher standards of legislation practice being adopted in new members' states. The EU enlargement and new member states' implementation of the EU Directives on the rights of intellectual property would benefit Ukrainian companies in protection of their rights within the territory of new EU members.

Thus, it is important that EU incorporate the principle of «four liberties» over trade and economic relationships and the Partnership and Cooperation Agreement with Ukraine.

Looking from short-term perspective (2004 – 2005) the EU enlargement would result in limited access of Ukrainian goods and services to the markets of the new Member States.

According to estimation from the Ministry of Economy and the European Integration of Ukraine, economic losses for Ukraine in the first few years after enlargement may constitute 250–350 million US dollars [6].

Cancellation of free trade agreements with Baltic States would result in a loss of 14.8 million US dollars. Metallurgy product exports to new EU Member States would come under anti-dumping measures, resulting in a loss of 52 million USD. Moreover, issues on Ukrainian exports of certain steel products remain unsettled with the EU. Delay in formulation of agreements, may lead to the loss of the steel products' markets in the new Member States, estimated loss from this would be around 173.3 to 260 million US dollars [8].

Another negative consequence will be related to anti-dumping measures, which the European Union applies to import of eight types of Ukrainian metallurgical and chemical products. Thus, the Ukrainian producers-exporters are likely to lose annually from 34 to 45 million US dollars that makes more than 10% of total export of certain types of products.

The single EU agrarian policy for Central and Eastern Europe will have a dual negative effect for Ukraine. From one side, modernization of agro-industrial complexes of these countries funded by the EU and subsidies to agricultural producers from structural funds, can increase inflow of low quality goods to the Ukrainian market. Such situation will inflict losses to the Ukrainian producers. From the other side, strict single EU agrarian policy resulting from application of complicated and expensive tools and import control process, as well as use of non-tariff instruments of market maintenance (quotas), would shrink opportunities of Ukrainian agricultural export to the countries of Central and Eastern Europe. This situation can make the Ukraine exports noncompetitive.

There is an unsettled question of final evaluation of how the Ukrainian economy meets the market criteria within the EU anti-dumping legislation. It is non-market status of Ukraine that causes high rates of anti-dumping duties, which in some cases exceed 50%.

Lacking the status of market economy Ukraine is vulnerable to the EU anti-dumping measures. Thus, 3% initiated by the EU accounts for Ukraine against other countries of anti-dumping investigations, and 5% of introduced EU anti-dumping measures, which is rather high if to take into account Ukraine's share of 0.4% in trade with the European Union. Loss of traditional markets for metallurgy and chemical products in the new Member States, as a result of the EU anti-dumping measures to them with regards to Ukraine, is estimated as 50 million US dollars [9].

In 2003, the European Commission introduced new tariffs on cereals, in particular high tariffs on certain types of products, like wheat of average and low quality, and barley. These are the products, which Ukraine is able to export to the EU market. This fact along with restrictions on some types of agrarian import will affect trade in the given sector. An estimated loss from non-access to the traditional markets of agricultural products in the new EU Member States due to introduction of the European standards as per technical, sanitary, phyto-sanitary and veterinary control would range within 60 million US dollars.

In this context, Ukraine industry and agriculture sector is trying to reach the European standards and technical requirements.

Joint statement released by Ukrainian and European Union leaders during the Yalta summit notes that «both parties agreed that one of the most effective way for Ukraine to use the possibilities of present EU enlargement is by adopting its legislation, norms and standards to the corresponding ones in the EU. The European Union confirmed its co-operation and support in the process of Ukraine's adaptation process of legislation. The national program on adaptation of Ukraine legislation and collaborative work over schedule for adaptation is a good ground for subsequent progress in carrying out this important task. The EU has taken into account Ukraine proposal concerning the subsequent process of adaptation» [4: 82].

The EU enlargement objectively brought broader possibilities for cooperation between Ukraine and the enlarged EU. Nevertheless, this process would inevitably be accompanied by the substantial changes in a structure and mechanism of the EU activities that will greatly effect both the world economies on the whole, and the neighboring states of the European Union, including Ukraine.

In a short-term perspective, the EU enlargement will have a negative influence on Ukraine because of restriction on Ukrainian exporters to access certain segments of the EU market. One of the areas that will be affected is export of Ukrainian steel products to candidate countries joining EU. However, taking into consideration the analysis done in this paper, there is a positive impact for Ukraine from the EU enlargement in the mid-term and long-term run.

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