

**Global and European Integration**

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**ACHIEVEMENTS AND CHALLENGES
OF UKRAINE'S EUROPEAN INTEGRATION****Abstract**

The issues of Ukraine's development within the framework of the European integration project and its transformation under the influence of the convergence processes of the EU economies, Brexit, and the search for a new «European identity» are studied. The influence of European integration on the dynamics of social and macroeconomic development of Ukraine after the signing of 2014 and the implementation of the Association Agreement with the EU is revealed. The main achievements of Ukraine's European integration are highlighted, which are mainly related to the improvement of its institutional environment, the formation of civil society, the growth of trade between Ukraine and the EU, increasing Ukraine's capacity to overcome internal crises, including those related to the ongoing armed conflict. Donbass and modernization of the national system of public administration. Emphasis is placed on the key challenges of

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Ukraine's European integration, which must be in the field of view of the national government in order to effectively overcome them through the tools of state regulation. It is established that the most serious challenges of Ukraine's European integration are related to the problems of economic growth, deindustrialization, structural and dynamic disparities in foreign trade, macro-financial stability, as well as the inhibition of convergence between Ukraine and the EU. The key institutional challenges related to the implementation of the Agreement and institutional crises in the development of the EU have been identified. It is substantiated that Ukraine needs the reconstruction of the national economy in accordance with the new architecture in Europe and the world, which provides, in particular, the restoration of Ukraine's own identity and economic subjectivity on the basis of social justice, which will ultimately contribute to its socio-economic convergence and full integration with the EU.

Key words:

macroeconomics; institutions; risks; divergence; convergence; European integration.

JEL: E02, F15, I39, O47, O52.

3 Figures, 1 Table, 36 References.

Introduction

The increased competition in the globalized world has strengthened the need for stable systems of production and marketing, trade, finance, information and digital and other interstate relations and contributed to the intensification of international integration processes in the socio-economic sphere. This intensification is also explained by the fact that regional or bloc integration provides a significant expansion and synergy of opportunities for a fuller realization of the economic interests of the member states of integration associations. In this context, a good example is the integration project of the European Union, launched

in 1957, which has been recognized as successful for several decades and maintains leadership positions in the world economic and geopolitical space.

The EU as an integration association is attractive to many European countries that have been working for years to meet fairly strict criteria for readiness to become full members. The signing of the Maastricht Treaty (1992), which for the first time enshrined the EU's multidimensional economic and political integration, became the institutional foundation for the large-scale expansion of the European project in 2004, as well as subsequent waves of European integration. External and internal crises continue to test this foundation for strength, and the unresolved institutional and socio-economic contradictions of the European Union reinforce the need to transform the current European integration model (Grytsenko et al., 2021).

The imperfection of this model is reflected in the significant intensification of Euroscepticism and disintegration in a united Europe, culminating in Brexit, the UK's exit from the EU, which officially ended in January 2020 after nearly half a century of membership. Undoubtedly, this step will have negative budgetary, financial and trade-economic consequences for the EU integration project, weakening it for a while and forcing it to look for compensatory instruments to overcome them (Aktoudianakis et al., 2020). In addition, there are a number of other serious challenges that the EU needs to address: population aging, climate change, digitalisation, and growing geopolitical and global economic competition.

Authoritative experts and policy makers agree that the most effective response to these challenges should be the resumption of the real convergence process in the European Union, in other words, the progressive convergence of economic and social parameters, reducing disparities between «strong» and «weak» member states (Mascherini, 2020). The World Bank has previously drawn attention to this question, calling the European Union successful socio-economic model a «convergence machine» in need of modernization now (Ri-dao-Cano & Bodewig, 2018).

Restoring and giving impetus to the convergence processes in the EU will also make it possible to find adequate answers to the social challenges facing European societies. Thus, the urgent challenge is the need to renovate the model of Social Europe, which is in high demand in European society (Rinaldi, 2016) and why the European Pillar of Social Rights adopted in 2017 should contribute, and also the Action Plan for its implementation until 2030 (adopted in 2021), aimed at building sustainable social security and social protection systems, modern education systems, and well-functioning labor markets. There are serious challenges to ensuring sustainable growth and social cohesion in the EU (Mursa et al., 2018). The EU has also faced significant challenges from the coronavirus pandemic (COVID-19), including the level of solidarity and cohesion, the resilience of national health and social protection systems, the post-crisis recovery of member economies, etc. (Greubel et al., 2020).

Despite everything mentioned above, the EU integration project is still very attractive for countries with the official status of «candidate countries» for accession to the European Union, especially the Western Balkans, as well as for other countries seeking to acquire such status, including Ukraine.

The Association Agreement between the European Union and Ukraine (hereinafter the Agreement) signed in 2014 can be considered as a detailed roadmap for the large-scale work that needs to be done by Ukraine to practically approximate the prospects for EU membership. Achieving the goals of the Agreement crucially depends on overcoming the existing trends of divergence and launching convergence processes between Ukraine and the European Union. The lack of real convergence between the EU member states and Ukraine, despite European integration Ukrainian' reforms and implementation of the Action Plan for the implementation of the Agreement (Resolution of the Cabinet of Ministers of Ukraine, 2017), indicates the significant shortcomings of the state regulatory system in Ukraine and the need to correct them based on scientific evidence.

Literature Review and Problem Statement

Many fundamental scientific papers are devoted to the study of modern processes of international integration, and, in particular, European integration. The theoretical foundation for such scientific research was laid by such world-famous scientists as Jan Tinbergen (1954), who revealed the principles and essence of economic integration at the state-by-state basis. Ernst Haas (1958), who laid the foundations for a non-functional approach to regional integration by analysing the experience of European unification in 1950-1957, and Béla Balassa (1961), who developed the classical gradation of the process of bilateral regional integration, distinguishing the following five stages: free trade area → customs union → single market → economic union → complete economic integration.

A systematic review of basic and modern theories of European integration is presented in the scientific investigations of T. Diez and A. Wiener (2009), as well as J. Bergmann and A. Niemann (2015). The authors thoroughly revealed the content and empirical characteristics of all major theoretical approaches to European integration – federalism, neofunctionalism, intergovernmentalism, social constructivism, normative theory and critical political economy.

The theory and practice of European integration processes through the prism of socio-economic convergence of EU member states are considered in the works of Kolodko G.W. (2000), Gräbner C. et al. (2017), A. László (2019) etc.

Empirical studies of integration processes in the European region, in particular, in relation to post-socialist states, are of considerable interest. In particular, according to the forecast of the Vienna Institute for International Economic Studies (Gligorov et al., 2017), the socio-economic convergence of the CEE countries and the EU in general will take more than 30-35 years, if the start of this process is considered to be 1995. Assuming that the countries of Central and Eastern Europe within the EU will grow in terms of GDP per capita at an average of 2.8% annually, by 2026 none of these countries will be able to reach the average European GDP per capita. The results of the econometric modelling conducted by the institute show that in 2026 the GDP per capita of Bulgaria will barely exceed 60% of the level of the EU-28, Croatia and Romania – 70%, Slovakia, Slovenia. Estonia and Lithuania – 80%, and only the Czech Republic will exceed 90% of the European average. Poland and Hungary will be able to approach the level of 80% of GDP per capita in the EU-28 only in 2031.

In the work of F. Schimmelfennig (2018) it is described the transformation of modern theoretical approaches to understanding European integration taking into account crises faced by the EU. Including crises in the euro area, demographic and migration crises.

An analytical assessment of the impact on the processes of EU integration and disintegration of the crisis phenomena related to Brexit is given in the comprehensive studies of M. Markakis (2020) and researchers from the European Policy Centre (Aktoudianakis et al., 2020). Experts from the European Parliamentary Research Service highlighted the problems and structural risks for the European integration project caused by the consequences of the COVID-19 pandemic (European Parliamentary Research Service, 2020).

Ukrainian scientists V. Sidenko (2011) and O. Bilorus (2013) conducted thorough research on the conditions and specifics of European integration of Ukraine, in particular, in the context of globalization and achieving the goals of sustainable development. D. Lukyanenko and V. Chuzhikov et al. (2010), and also Y. Savelyev *et al.* (2021) revealed the specifics of Ukraine's European integration in context of ensuring its socio-economic convergence with the EU and certain groups of member states. Existing economic challenges, new opportunities, as well as institutional and macrofinancial risks associated with the implementation of the Association Agreement between the EU and Ukraine, are comprehensively studied by experts from the Institute for Economics and Forecasting of NAS of Ukraine, the National Institute for Strategic Studies, and others.

Given the above, the **aim of the article** is to reveal the achievements and identify key challenges to European integration of Ukraine in present-day conditions.

Methodology

This study was conducted using the following general and special methods and scientific approaches:

- *method of ascending from the abstract to the concrete* (to identify the essence and concretization of contradictions accumulated in the institutional architecture of the EU);
- *logical-historical approach* (to understand in the logic of historical development the need to reconstruct a united Europe in order to restore its own identity and the Self to be);
- *statistical and graphical methods of analysis* (for the study of time series of indicators that characterize the European integration process);
- *method of comparative analysis* (to assess the processes of European integration of individual EU member states and Ukraine).

The survey used data from the State Statistics Service of Ukraine and Eurostat; reports of the European Commission and the Government Office for Coordination of European and Euro-Atlantic Integration of Ukraine; forecast models and estimates by the Institute of Economics and Forecasting of the National Academy of Sciences of Ukraine; regulations and legislation of Ukraine and the EU.

The authors' research is based on several economic theories and approaches. *First*, the study is based on the postulates of *Neoclassical Economic Theory*, within which economic growth is described by the Cobb-Douglas production function. Depending on the influence of these growth factors, scientists are exploring ways to achieve economic convergence of countries. Among those considered in the most famous works, we could identify the following main convergence paths: (1) the growth of the level of capital armament of labor; (2) technological catching-up; (3) accumulation of human capital; (4) structural transformations; (5) institutional transformation; (6) taking advantage of trade; (7) financial integration. These ways of convergence play an important role in ensuring the full integration of countries into international integration projects.

Second, our paper uses the results of calculations for Ukraine based on the *concept of convergence*, grounded in the econometric models outlined in the fundamental work of Barro R. and X. Sala-i-Martin (1992). In particular, our results concerned the process of σ -convergence, which is observed in cases where the gap in real income levels in the economies of different countries is constantly narrowing.

In the econometric sense, the convergence of economies that meets the criterion of σ -convergence should mean a reduction in the variance of the per capita output of different countries or regions during the convergence period. Importantly, the σ -convergence parameter characterizes the presence of a trend in reducing the gap between «leading countries» and «outsider countries».

Third, in our study, modern processes of European integration are considered from the standpoint of the *Neofunctionalism* theory. In a general definition, Neofunctionalism represents integration as a political process that requires the reconciliation of social contradictions and the balance of interests within the society.

Fourth, within the framework of institutional theory, the approach of separately-joint labor developed by Ukrainian theorists in particular, Academician of the NAS of Ukraine A. A. Grytsenko, was applied. The approach developed by him assumes that that separately-joint labor was the initial form of socio-economic relations, from which a person and society, all forms of their existence, developed. From it, develop in interconnection and interpenetration, on the one hand, relations of separation and isolation, on the other, cooperation and socialization, which finds its expression from the side of separation in the formation of a market economy, and from the side of compatibility – in the emergence and development of states. The generalized modern form of realizing the contradiction of separately-joint labor is the contradiction between globalization, which develops from the side of compatibility and is realized, first of all, through information technology and financial and economic mechanisms, and localization, which develops from the side of separation and is realized through spatial and territorial forms. localization of material and labor resources, unable to move in space at the speed of financial flows and electronic payments. In essence, this is the main contradiction of the modern era.

Research Results

Institutional and macroeconomic achievements of European integration of Ukraine.

Historical retrospective shows that for a long time Ukraine could not boast of stability and predictability of foreign policy, balancing between two vectors of integration «Eastern» (Eurasian) and «Western» (European) and trying to combine them. Finally, in 2014 Ukraine made the final choice in favour of the «Western» vector, which confirmed its consolidation in the Constitution in 2019 (Law of Ukraine, 2019).

In the institutional context of global development, such fluctuations in foreign policy are largely explained by the specifics of the processes of democracy

in post-Soviet societies. Experts rightly point out that democratization in the post-Soviet Eastern European and Eurasian semi-peripheral segment of the globalized space is unique, leading to the emergence of oligarchic democracies in most societies in these areas, such as inefficient, externally dependent, based on the extremely unequal distribution of social resources (Kononenko, 2010, p. 71). Political elites in Ukraine, operating within the model of oligarchic democracy, have traditionally been guided by their own economic rather than national interests, declaring one or another integration course of the state.

The ratification by the Ukrainian Parliament in September 2014 of the Association Agreement with the European Union was the start of a rapid acceleration of European integration processes in Ukraine. At the same time, its work was intensified within the framework of special EU integration initiatives, first of all, Eastern Partnership, Trans-European Transport Network (TEN-T), Horizon 2020, Euratom Program, Erasmus+, Creative Europe, House of Europe in Ukraine, etc. (Zygierewicz, 2020).

According to the European Commission, during 2014-2020, the total financial (credit and grant) support of the European Union in support of the stabilization and reform process in Ukraine amounted to 16.5 billion euros (European Commission, 2020).

Today, Ukrainian-European cooperation is effective and has good prospects. Thus, in Joint statement following the 22nd EU-Ukraine Summit held on October 6, 2020, the European Union noted Ukraine's readiness to join the future EU Research and Innovation Framework Program «Horizon Europe» and the EU4Health Program, which will be an important factor for Green Deal and digital recovery after the COVID-19 pandemic. The EU also welcomed the Agreement on gas transit to the EU after 2019, which consolidated Ukraine's role as a strategic energy transit country, and reaffirmed its commitment to conclude a Common Aviation Area Agreement with Ukraine in the near future (Official Website of the President of Ukraine, 2020).

It should be noted that several years of implementation of the Agreement (one of the most important components of this process is the harmonization of Ukraine's legislation with the *acquis communautaire*), opening in January 2016. The Deep and Comprehensive Free Trade Area between Ukraine and the European Union, granting Ukrainian citizens the right to visa-free entry to member states since June 2017, as well as significant financial and credit assistance from the EU have had a significant positive effect on the Ukrainian state. But today its scale does not meet both the macroeconomic potential of Ukraine and its expectations, formed on the basis of successful European integration experience of the Baltic States and the Visegrad Group.

In our opinion, in order to objectively assess the situation, it is necessary to note, on the one hand, the achieved advantages of European integration, and the serious challenges that hinder this process, on the other hand. An effective re-

response to these challenges is one of the necessary conditions for ensuring Ukraine-EU convergence and should be an integral part of domestic public policy.

The obvious advantages achieved during the period of 2014-2020 during the European integration of Ukraine are related to its institutional development and the formation of civil society. During this period, Ukraine has significantly strengthened its position (in fact, the country has made a «jump») in international rankings, in particular, the indicators of Democracy Index, World Press Freedom Index, Corruption Perception Index, Doing Business Index and Global Competitiveness Index and others (see the table).

Table 1

The dynamics of Ukraine's positions in international rankings, 2014-2019 (2020)

№	Rating indicator	Main areas of evaluation	2014 year	2019 year
1	Democracy Index, calculated by the «Economist Intelligence Unit»	<ul style="list-style-type: none"> - electoral process and pluralism; - political participation; - civil liberties; - political culture; - functioning of government. 	5,42 score (at the highest index score 10)	5,81 score (at the highest index score 10)
2	Corruption Perception Index, calculated by the INGO «Transparency International»	<ul style="list-style-type: none"> - level of corruption in the public administration system. - risks that people/companies will face bribery or other corrupt business practices in the country. 	142-nd place out of 175 countries worldwide	117-th place out of 179 countries worldwide
3	World Press Freedom Index, calculated by INGO «Reporters Without Borders»	<ul style="list-style-type: none"> - legal framework governing the activities of the media, - presence of direct attacks and indirect sources of pressure on journalists and the media, - dependence of the media on political influence, - level of self-censorship of journalists. 	127-th place out of 180 countries worldwide	96-th place out of 180 countries worldwide

No	Rating indicator	Main areas of evaluation	2014 year	2019 year
4	Doing Business Index, calculated by The World Bank Group	- level of favourable conditions created by the state for doing business in the national economy.	87-th place out of 189 countries worldwide	64-th place out of 190 countries worldwide
5	Global Competitiveness Index, calculated by the World Economic Forum	Factors of national competitiveness: - quality of institutions, - state of infrastructure, - macroeconomic stability, - innovation activity, - labour productivity and employment, - level of education, - human capital.	(2013-2014 yy.) 84-th place out of 148 countries worldwide	83-rd place out of 141 countries worldwide
6	Legatum Prosperity Index, calculated by the Legatum Institute	Functioning of the state in the following areas: management; economy; entrepreneurship; education; Health Care; security; personal freedoms; social capital; state of the environment.	63-rd place out of 142 countries worldwide	92-nd place out of 167 countries worldwide
7	Human Development Index, calculated by UNDP	- income of the population (GDP per capita, according to PPP); - education of the population (literacy rate among children and youth); - life expectancy.	83-rd place out of 187 countries worldwide	74-th place out of 189 countries worldwide
8	Gross National Happiness Index, calculated by UN Project «Sustainable Development Solutions Network»	- results of surveys of residents on how happy they feel, - GDP per capita, - life expectancy, - existence of civil liberties, - sense of security and confidence in the future, - employment guarantees, - level of trust in society.	87-th place out of 156 countries worldwide	123-th place out of 149 countries worldwide

Source: Zygierewicz (2020, p. 9-10), Center for Humanitarian Technologies. (n.d.).

According to the data in the above table, during 2014-2020, Ukraine significantly deteriorated its position in the Legatum Prosperity Index, the Human Development Index and the National Happiness Index. The reasons for this are the crisis in the social sphere of Ukraine and the formation of a threatening trend of its social divergence with the European Union (Borzenko *et al.*, 2020). We can find confirmation of this thesis in the Resolution of the European Parliament of February 11, 2021, dedicated to the implementation of the Association Agreement between Ukraine and the EU (AA / DCFTA) (European Parliament, 2021). In particular, the Resolution notes that «... whereas the AA / DCFTA pursued the goal of approximating the national law of Ukraine and its national standards to those of the EU, including in the social area; whereas, despite these commitments, the implementation of the AA / DCFTA in the social sphere remains dissatisfactory; whereas Ukraine has ratified the main international instruments, but continues to fail to implement them».

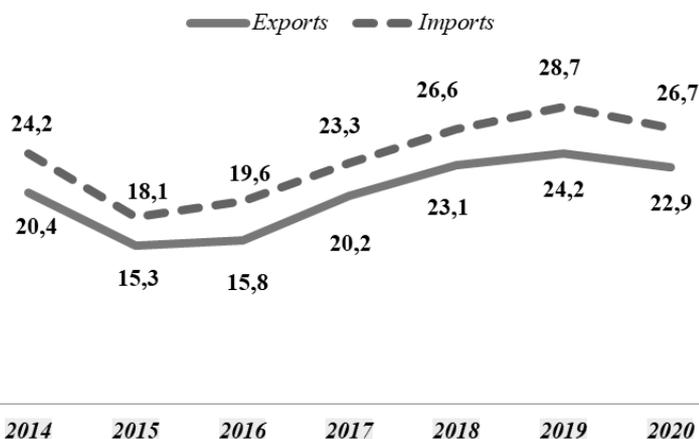
In the foreign economic sphere, Ukraine has gained obvious advantages due to European integration, in other words, due to the growth of trade with the European Union. First of all, it testifies to the effectiveness of the Deep and Comprehensive Free Trade Area, which since its opening on January 1, 2016 has contributed to an increase in Ukraine-EU trade turnover by more than 1,5 times and the transformation of EU into Ukraine's largest trading partner. The share of the EU-28 in Ukraine's exports of goods and services increased from 31,8% in 2016 to 37,8% in 2020, and imports – respectively, from 39,8% to 43,9% (State Statistics Service of Ukraine, n.d.).

In general, during 2014-2020, Ukraine increased exports of goods and services to the EU by 2.5 billion USD (from 20.4 to 22.9 billion USD), and imports – by 2.5 billion USD (from 24.2 to 26.7 billion USD) (see Fig. 1). These trade dynamics could have been even better if it had not been affected by the socio-economic crisis in Ukraine in 2014-2016 and the spread of the COVID-19 pandemic from March 2020.

Paying tribute to the positive changes provided by European integration in the Ukrainian economy and society, it is very important to adequately take into account the existing challenges and threats that may slow down the integration process and require state intervention through appropriate regulatory instruments.

Figure 1

Foreign trade of Ukraine with EU-28 in goods and services, 2014-2020 periods, bln. USD



Note: The data collection for 2014-2020 is entered without taking into account the temporarily uncontrolled AR of Crimea and also part of the territories in Donetsk and Luhansk regions.

Source: State Statistics Service of Ukraine (n.d.).

Key challenges of Ukraine's European integration.

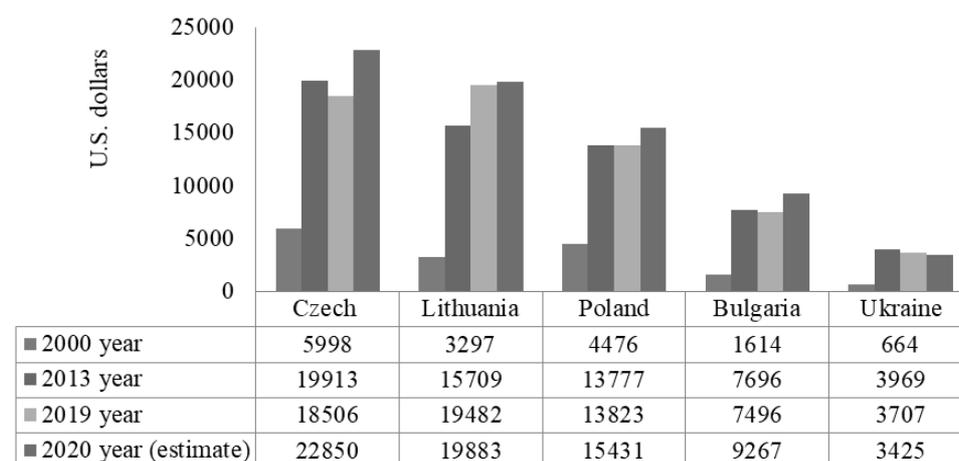
Challenges of economic growth. At the present stage, one of the main challenges of Ukraine's European integration is to ensure the country's entry into the trajectory of sustainable economic growth (after overcoming the crisis caused by the COVID-19 pandemic) and overcoming existing macroeconomic imbalances that limit the sustainability of public finances and international competitiveness of Ukraine.

Due to a number of reasons, such as the ongoing military conflict in the Donbass region, the slowdown in reforms and degradation of the state economic management system, Ukraine has seen declining dynamics of a key macroeconomic indicator – GDP per capita. This indicator in Ukraine increased one and a half times during 1991–2016, and having reached a maximum in 2013 (3969 U.S. dollars), then decreased significantly and may return to these positions only in a few decades – and this forecast was provided by the IMF even before the negative impact of COVID-19. According to the IMF forecast, Ukraine's GDP per capita in 2022 will be 3967 U.S. dollars, and by the end of 2023 will reach 4312 U.S. dollars (International Monetary Fund, 2020).

The comparative assessment shows that in 2019 the volume of GDP per capita of Ukraine was 5.3 times less than that of Lithuania, the Czech Republic – 5 times, Poland – 3.7 times, Bulgaria – twice. According to the IMF estimate, in 2020 Ukraine's gap with these EU countries in terms of welfare will become even more significant: the gap between Ukraine and the Czech Republic will reach 6.7 times, Lithuania – 5.9 times, Poland – 4.5 times, Bulgaria – 2.7 times (see Fig. 2). This trend, especially taking into account the growing negative impact of the COVID-19 pandemic due to its «wave-like» nature, points to the threat of divergence between the economies of Ukraine and the EU, which requires the Ukrainian Government to develop an appropriate response strategy.

Figure 2

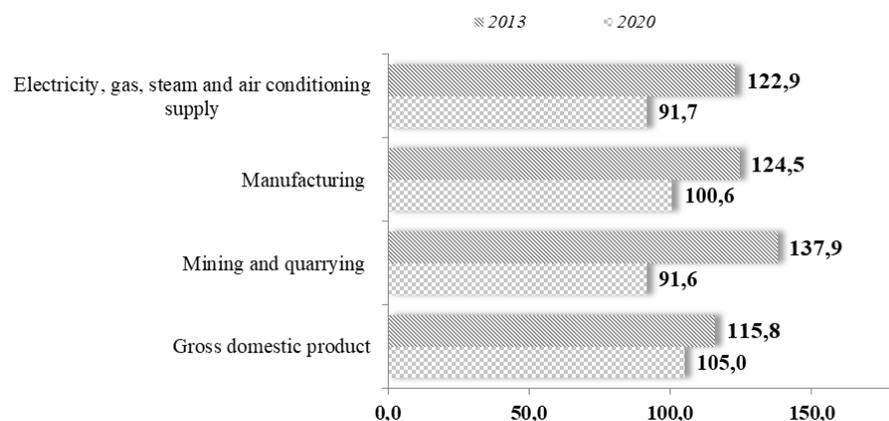
GDP per capita, current prices, 2000-2020 periods, U.S. dollars



Source: International Monetary Fund. (2020).

Challenges of deindustrialization. Significant obstacles to Ukraine's full integration into a united Europe may arise as a result of the processes of deindustrialization of the Ukrainian economy that have intensified since 2014. According to official statistics, the index of physical volume of gross value added (based on the level of 2016) in the Ukrainian mining and quarrying decreased from 137.9 in 2013 to 91.6 in 2020; in the manufacturing industry from 124.5 to 100.6; in the field of electricity, gas, steam and air conditioning supply from 122.9 to 91.7 (see Fig. 3).

Figure 3

Volume indices of gross domestic product and gross value added by types of economic activity in Ukraine, percent; 2016=100

Note: The data collection for 2013 is entered without taking into account the AR of Crimea and for 2020 – also without part of the temporarily uncontrolled territories in Donetsk and Luhansk regions.

Source: State Statistics Service of Ukraine (2010-2021).

Compared to the industrialized countries of the EU, Ukraine is significantly losing in industrial development, risking becoming a small, raw material and low-tech economy. The clear trend of deindustrialization of Ukraine formed in recent years is a direct path to the «club» of technologically and economically underdeveloped countries with low competitiveness, which leads in the opposite direction from developed Europe, which lives by the values of the Fourth Industrial Revolution and systematically implements the concept of «Industry 4.0». Obviously, the problem lies in the guidelines and approaches of the state economic policy of Ukraine, which lead to its divergence in industrial development with the EU.

Ukrainian researchers rightly point to the futility of Ukraine's passive position on the development of its own industrial production, and the fallacy of the currently dominant approach to the development of the domestic economy only on the basis of using the country's current competitive advantages – cheap natural, land and labor resources. This position has largely led to deep deindustrialization, agrarianization and strengthening the raw material slope of Ukraine's economy, while for sustainable development it requires the formation of promis-

ing competitive advantages based on innovation and high technology, and ultimately – inclusive industrialization (Kindzersky, 2021, pp. 21-23).

However, the course of events gives rise to new evidence of the risks of further deindustrialization and consolidation of «raw material specialization» of Ukraine. One such evidence is the signing in July 2021 of a Memorandum of Understanding between the European Union and Ukraine on a Strategic Partnership on Raw Materials, which sets out the framework for cooperation in long-term supply of critical raw materials (including non-ferrous and rare metals) from Ukraine to the EU and provides, in particular, for the involvement of European companies in the privatization of Ukrainian mining and processing enterprises. Developing such cooperation, it is expedient for Ukraine to strengthen its position in order to make progress in the creation of modern high-tech industries with the support of the EU.

Foreign trade challenges. The increase in annual exports of Ukrainian goods to the EU during pre-pandemic period 2014-2019 does not cover the loss from the catastrophic decline in annual trade in goods with the Commonwealth of Independent States (CIS) over the same period. Thus, according to the State Statistics Service of Ukraine (n.d.), Ukraine's merchandise exports to the EU increased by 3.8 billion dollars U.S. from 17.0 billion dollars U.S. in 2014 to 20.8 billion dollars U.S. in 2019. At the same time, the reduction in exports of Ukrainian goods to the CIS countries reached 8.2 billion dollars U.S. from 14.9 billion dollars U.S. in 2014 to 6.7 billion dollars U.S. in 2019. Thus, the «net loss» of geographical reorientation of Ukraine's exports for this period amounted to 4.4 billion dollars U.S.

In addition, the structure of Ukraine's trade with the European Union is dominated by raw materials and goods with low added value. Thus, in 2019, in the structure of Ukrainian exports of goods to the EU, grain crops accounted for 12,7%, seeds and oilseeds – 7,4%, fats and oils of vegetable or animal origin – 7,4%, ores, slag and ash – 8,5%, ferrous metals – 15,2% (State Statistics Service of Ukraine, n.d.). These structural and dynamic imbalances cause long-term challenges for Ukraine's foreign trade and balance of payments.

Macro-financial challenges. The insufficiently stable state of the Ukrainian monetary and financial system has a negative impact on the maintenance of integration and convergence processes between Ukraine and the EU. It is largely related to the incompleteness of financial sector reforms and the low level of development of financial services markets in Ukraine; low efficiency of the country's financial integration into the European and global space; the vulnerability of the national monetary and financial system to the external impact of crisis phenomena (Borzenko et al., 2020, p. 16).

Ukraine's Western partners have repeatedly drawn attention to the need to overcome the existing challenges of its post-crisis development. Thus, in July 2019 the IMF member noted that Ukraine, if it wants to catch up with the world in

economic development, needs a new business model, which «should supply goods, not people to Europe», and the implementation of this model is impossible due to the continuation of large-scale corruption and inadequacy of institutions (Ukrinform, 2019, July 2). This remark obviously concerns the problem of large-scale labour migration of Ukrainian citizens. In 2018, the Ministry of Social Policy of Ukraine estimated seasonal labour migration from Ukraine at 9 million people, and permanent migration at 3 million people. At the same time, experts believe that today between 4.5 and 10 million Ukrainian citizens work abroad, which is 26%–58% of the economically active population of working age.

The arguments mentioned above give us reason to believe that the challenges that currently arise in the process of Ukraine's European integration are not fleeting. They have a deep institutional nature and affect the very model of its macroeconomic development, encouraging its effective transformation. According to the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine, at the current stage Ukraine needs not modernization, but reconstruction of the economy according to the new financial architecture in Europe and the world. This involves the formation of a new paradigm of economic thinking and development, namely reconstructive economic development, which is a combination of radical restructuring of the supporting structures of the socio-economic system with the restoration of Ukrainian identity and economic subjectivity on the basis of social justice (Hrytsenko et al., 2016).

Challenges of slowing down convergence and deepening social divergence between Ukraine and the EU. Researchers of the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine based on econometric methods estimated the dynamics of the GDP per capita indicator, which shows the formation since 2014 the trends of socio-economic divergence of Ukraine and the EU and its strengthening in recent years. To avoid a negative scenario for the long-term deepening of socio-economic divergence between Ukraine and the EU, it is necessary for Ukraine to adapt a relevant European experience in overcoming divergence (see, for example: László, 2019) to its own realities.

The main ways of such adaptation for Ukraine today are as follows: settlement of the conflict in Donbass, restoration and reintegration of the occupied and affected by the conflict territories; the implementation of an effective anti-crisis policy to overcome the consequences of the COVID-19 pandemic; carrying out effective institutional transformations, in particular, reducing the level of corruption; recovery of the industrial profile of the state; acceleration of innovation and investment modernization and structural and technological renewal of production; overcoming the debt dependence of the state; strengthening social protection and improving the quality of life; refracting the negative demographic trend and the trend of rapid labour migration abroad of Ukraine. None of these paths is easy for Ukraine due to the lack of political will, highly professional managers and the necessary resources can make overcoming the socio-economic divergence of Ukraine-EU a task for the next decades (Borzenko et al., 2020, p. 16-17).

Institutional Challenges: the EU – Ukraine Association Agreement. As already mentioned, over the past few years in Ukraine there has been a trend of deindustrialization, structural degradation of the economy and foreign trade, steady growth of debt dependence on foreign lending, large-scale outflow of labour abroad. These reasons have largely prompted Ukrainian officials to initiate a revision of the Association Agreement with the European Union in late 2019 (it is only a revision of the annexes to the Association Agreement, as amendments to its text will require ratification of the updated version by all 27 EU member states). which is politically difficult and require long time).

Therefore, the parties agreed that the renewal in the specified format of the Association Agreement between Ukraine and the European Union will take place in 2021. At the same time, in 2020 work began on a systematic update of the annexes to the Association Agreement, and the priority areas of cooperation between Ukraine and the European Union are signing the Common Aviation Area Agreement, starting negotiations on «industrial visa-free regime», deepening cooperation in digitalization, as well as cooperation within the framework of the European Green Deal.

The Joint Statement following the 22nd EU–Ukraine Summit in October 2020 noted progress in updating the Annexes to the Agreement on telecommunication, environment, climate and financial cooperation (Official Website of the President of Ukraine, 2020). In fact, the Summit agreed in principle to launch bilateral work on a broad revision of the Annexes to the Agreement. This was the start of the meeting of the EU-Ukraine Association Council in February 2021, following which the parties agreed to «continue strengthening Ukraine's economic integration and regulatory rapprochement with the EU in areas such as the digital economy, trade facilitation, customs cooperation, justice and home affairs under the Association Agreements» (Communications Department of the Secretariat of the Cabinet of Ministers of Ukraine, 2021).

It is obvious that the negotiations on the renewal of the Agreement with the EU will be difficult – taking into account the real interests of the Ukrainian and European parties. Thus, Ukrainian officials note that in working on the renewal of the Association Agreement with the European Union, the Ukrainian side is interested in three major thematic blocks (Ukrinform, 2019, Nov 20):

I. the revision of trade tariffs, as the current tariffs were developed as a result of negotiations with the EU in 2006-2007;

II. updating the provisions on non-tariff trade barriers, which concerns both the introduction of the so-called «industrial visa-free regime» between Ukraine and the EU (mutual recognition of conformity and acceptability of industrial products) and clarification of certain articles and terminology in the Agreement that no longer corresponds to modern economic realities;

III. the adaptation of the Agreement provisions to the changes in the legislation of the European Union in the field of energy, digital and other markets that have taken place in recent years.

Experience shows that in order to effectively defend its own national interests, Ukraine must be sufficiently ambitious in the negotiation process.

Institutional challenges: The European Union in the context of overcoming internal crises. In recent years, the architecture and unity of the European Union has been tested under the influence of a number of internal crises, including the debt, migration, and the Eurozone crisis. Perhaps the deepest of these challenges is the institutional crisis.

Over more than six decades of the EU functioning, many contradictions have been accumulated and continuing to improve its current architecture will not be able to resolve them. The reconstruction of a united Europe is necessary in order to restore its own Identity and the Self to be. The identity for Europe is not what it has officially approved (include conservative values that hinder development), but what corresponds to its historical development. The welfare state, humanistic values, human rights, political correctness should be considered not as abstract values, but according to its historical development. This approach involves looking at Europe in the context of global development and finding a solution to its contradictions.

Integration, as one of the forms of resolving the contradiction between production globalization and localization, is intended to connect spatially localized structures with global financial flows and information flow. It must take into account the levels of development, mobility, resilience, speed of resources, information and money flows, and find adequate mechanisms for agreeing on the parameters of the system. The construction of the European Union did not take sufficient account of the dialectics of this process. The latest wave of EU enlargement has to some extent ignored too wide gaps in the development levels of the participating countries and the Maastricht criteria, which inevitably led to the accumulation of these contradictions (Gritsenko, 2016).

We can only welcome the attempts of the current EU leadership to overcome the existing contradictions and crises in the development of the European Union. In particular, in early 2020, the President of the European Commission announced the implementation of fundamental reforms on the basis of the new Initiative «Next Generation EU». However, despite the existence of a strong economic and financial justification, this Initiative of the European Commission does not pay attention to the fundamental issue – to overcome the identity crisis, which hinders the full integration of member states within the European Union. Therefore, it is absolutely reasonable to think that the «Next Generation EU» should not only be aimed at ensuring a Green Deal or digital breakthrough of a united Europe, but should also ensure the renewal of the concept of European identity (Hoeksma, 2020, September 29).

One of the progressive mechanisms for responding to the existential challenges facing the European Union today – pandemics, irreversible climate change, limited resources in the face of growing demographic challenges and deepening inequalities between countries and between people, – can be the upward convergence of member states. According to the experts of the Foundation for European Progressive Studies, presented in the publication «Our European Future» in May 2021 (Rodrigues, 2021), cohesion, convergence and social justice should be among the main priorities of the recent EU internal policy to implement the principle of Global Sustainable Development «leaving no one behind».

Practical implementation

Some results of this study were presented at the 15th Prof. Vladas Gronskas International Scientific Conference, held by the Vilnius University Kaunas Faculty (Kaunas, Lithuania) in December 2020 (Grytsenko *et al.*, June 2021). The main results of the study on the challenges of European integration, during 2019-2021 in the form of scientific and analytical notes were provided to the legislative and central executive bodies of Ukraine.

Conclusions

The Association Agreement between the EU and Ukraine, signed in 2014, outlines the large-scale work that Ukraine needs to do to bring the prospects of EU membership closer. Achieving the goals of the Agreement crucially depends on overcoming the existing trends of divergence and launching convergence processes between Ukraine and the European Union.

Currently, Ukrainian-European cooperation is effective and has good prospects, which is confirmed in the Joint Statement following the 22nd EU-Ukraine Summit (October 6, 2020) and the Joint Statement on the results of the 7th Meeting of the Association Council between Ukraine and the EU (February 12, 2021). However, it is necessary to take into account not only the existing achievements of Ukraine's European integration, but also the serious challenges that hinder this process and should be the focus of the national Government.

The advantages achieved during the period 2014-2020 during the European integration of Ukraine are related to its institutional development and the formation of civil society. Another significant achievement is the considerable increase in trade with the European Union. First of all, it is evidenced by the effects of the Deep and Comprehensive Free Trade Area, which was applied since 1 January 2016.

The most serious challenges to European integration are related to the problems of economic growth, deindustrialization, structural and dynamic disparities in foreign trade, macro-financial stability, as well as slowing convergence and, therefore, deepening Ukraine–EU social divergence. Challenges precipitated by the institutional development of Ukraine and the EU have a significant impact on the integration process.

At the current stage, Ukraine needs to reconstruct its economy according to the new financial architecture in Europe and the world. It seems expedient for the State to move along the path of reconstructive economic development, in other words, it requires a radical restructuring of the supporting structures of the socio-economic system with the restoration of its own identity and economic subjectivity of Ukraine on the basis of social justice. This will help to strengthen its competitiveness and ensure socio-economic convergence and full integration with the European Union.

At the same time, Ukraine should make appropriate efforts to develop integration cooperation with the EU (and with its support) to make progress in creating modern high-tech industries and avoid risks of further deindustrialization and consolidation of «raw material specialization» of its own economy.

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Received: June 18, 2021.

Reviewed: August 5, 2021.

Accepted: August 20, 2021.